



DAC Bond®

\$75,065,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HUDSON VALLEY HOSPITAL CENTER
FHA – INSURED MORTGAGE HOSPITAL REVENUE BONDS,
SERIES 2007

Dated: Date of Delivery

Due: as shown on the inside cover

Payment and Security: The Series 2007 Bonds will be special obligations of the Dormitory Authority of the State of New York (the “Authority”) payable solely from, and secured by a pledge of payments to be made by the Hudson Valley Hospital Center (“HVHC”, the “Hospital Center” or the “Institution”) under a Note (the “Note”) insured by the United States Secretary of Housing and Urban Development, acting by and through the Federal Housing Commissioner (“FHA”) and as provided in the Hudson Valley Hospital Center FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted by the Authority on July 25, 2007 (the “HVHC Resolution”) and in the Hudson Valley Hospital Center Series Resolution Authorizing up to \$85,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007, adopted by the Authority on July 25, 2007 (the “Series 2007 Resolution” and, together with the HVHC Resolution, the “Resolution”).

The Series 2007 Bonds will be secured by: (i) certain revenues received on behalf of the Authority from payments to be made by the Institution under the Note and, in the event of a default by the Institution thereunder, from the FHA Mortgage Insurance Benefits (as defined herein), and (ii) certain other moneys and funds (including investment income) held under the Resolution and as may be available pursuant to a Loan Agreement, dated as of July 25, 2007, by and between the Institution and the Authority (the “Loan Agreement”).

The Series 2007 Bonds will not be a debt of the State of New York (the “State”) nor will the State be liable thereon. The Authority has no taxing power. The Series 2007 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2007 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development (“HUD”) or FHA.

Bond Insurance: The scheduled payment of principal of and interest on the Series 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by FINANCIAL SECURITY ASSURANCE INC. See “PART 3 — THE SERIES 2007 BONDS — Bond Insurance.”



Description: The Series 2007 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2007 Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”). Individual purchases of beneficial interests in the Series 2007 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2007 Bonds, payments of the principal and Redemption Price of and interest on such Series 2007 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See “PART 3 — THE SERIES 2007 BONDS — Book-Entry Only System” herein. Interest on the Series 2007 Bonds will be payable on each February 15 and August 15 beginning on February 15, 2008. The trustee for the Series 2007 Bonds will be The Bank of New York (the “Trustee”).

Redemption and Purchase in Lieu of Redemption: The Series 2007 Bonds are subject to redemption prior to maturity and purchase in lieu of redemption, as more fully described in this Official Statement. All redemptions and purchases in lieu of redemption shall include accrued interest to the respective dates of such redemptions or purchases in lieu of redemption.

Tax Matters: In the opinion of Bond Counsel to the Authority, under existing law and assuming compliance with certain tax covenants described herein, interest on the Series 2007 Bonds is not includable in the gross income of the owners of the Series 2007 Bonds for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Series 2007 Bonds may be included in the calculation of certain taxes, including the alternative minimum tax imposed on corporations by the Code. Also, in the opinion of Bond Counsel, under existing law, interest on the Series 2007 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. See “PART 17 — TAX MATTERS” herein for further information.

The Series 2007 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2007 Bonds may be subject to prior sale, or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality of the Series 2007 Bonds by Sidley Austin LLP, New York, New York, Bond Counsel to the Authority, and to certain other conditions. Certain legal matters will be passed upon for Tyll & LaVigne Inc., the Mortgage Servicer, by its counsel, Krooth & Altman LLP, Washington, D.C.; for the Underwriters by their counsel, Clifford Chance US LLP, New York, New York; and for the Institution by its counsel, Dennett Law Offices, P.C., Great Neck, New York. The Authority expects to deliver the Series 2007 Bonds in definitive form in New York, New York, on or about October 11, 2007.

Piper Jaffray & Co.

Bear, Stearns & Co. Inc.

Roosevelt & Cross, Incorporated

\$75,065,000
HUDSON VALLEY HOSPITAL CENTER
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS, SERIES 2007

\$11,780,000 Serial Bonds

<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP Number⁽¹⁾</u>
August 15, 2010	\$ 150,000	4.00%	3.58%	649903VY4	August 15, 2014	\$825,000	4.00%	3.70%	649903WG2
February 15, 2011	700,000	4.00	3.59	649903VZ1	February 15, 2015	850,000	5.00	3.76	649903WH0
August 15, 2011	725,000	4.00	3.59	649903WA5	August 15, 2015	870,000	5.00	3.76	649903WJ6
February 15, 2012	750,000	4.00	3.62	649903WB3	February 15, 2016	890,000	5.00	3.84	649903WK3
August 15, 2012	780,000	4.00	3.62	649903WC1	August 15, 2016	925,000	5.00	3.84	649903WL1
February 15, 2013	790,000	4.00	3.66	649903WD9	February 15, 2017	950,000	5.00	3.95	649903WM9
August 15, 2013	800,000	4.00	3.66	649903WE7	August 15, 2017	970,000	5.00	3.95	649903WN7
February 15, 2014	805,000	4.00	3.70	649903WF4					

\$23,400,000 5.00% Term Bonds due August 15, 2027, Yield 4.46%⁽²⁾
CUSIP Number⁽¹⁾ 649903WP2

\$39,885,000 5.00% Term Bonds due August 15, 2036, Yield 4.62%⁽²⁾
CUSIP Number⁽¹⁾ 649903WQ0

⁽¹⁾ Copyright 2005, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the Holders of the Series 2007 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2007 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2007 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2007 Bonds.

⁽²⁾ Priced to first call on August 15, 2017.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Institution or the Underwriters to give any information or to make any representations with respect to the Series 2007 Bonds, other than the information and representations contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The Series 2007 Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2007 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2007 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2007 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Certain information in this Official Statement has been supplied by the Institution, the Mortgage Servicer, the Bond Insurer and other sources that the Authority believes are reliable. Neither the Authority nor the Underwriters guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority or the Underwriters. The Underwriters have provided the following sentence in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Financial Security Assurance Inc. (the "Bond Insurer" or "Financial Security") contained in "PART 3 — THE SERIES 2007 BONDS — Bond Insurance" and "Appendix F — Specimen Insurance Policy", none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2007 Bonds; or (iii) the tax exempt status of the interest on the Series 2007 Bonds.

The Institution has reviewed the parts of this Official Statement describing the Plan of Financing (except for the information in the paragraph immediately preceding the heading "Construction Fund Disbursements" and under the headings "Payment of FHA Mortgage Insurance Benefits" and "Prepayment of Note from Hazard Insurance Proceeds or Condemnation Awards"), the Project, Estimated Sources and Uses of Funds, the Hospital Center, General Factors Affecting the Institution's Revenues and Expenses, Bondholders' Risks and Appendix B. The Institution shall certify as of the dates of sale and delivery by the Authority of the Series 2007 Bonds that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Mortgage Servicer has reviewed parts of this Official Statement describing the Mortgage Servicer, the Plan of Financing, the FHA Mortgage Insurance, and the FHA Documents as they relate to the Mortgage Servicer and the FHA Mortgage Insurance, and shall certify as of the dates of sale and delivery by the Authority of the Series 2007 Bonds that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading with respect to the Mortgage Servicer or the FHA Mortgage Insurance. The Mortgage Servicer has also reviewed the part of this Official Statement describing the Estimated Debt Service Schedule for the Series 2007 Bonds, and shall certify as of the dates of sale and delivery by the Authority of the Series 2007 Bonds that such part of this Official Statement does not contain any untrue statements of a material fact and does not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Mortgage Servicer makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the HVHC Resolution, the Series 2007 Resolution, the Servicing Agreement, the FHA Documents and the Loan Agreement (as such terms are defined herein) do not purport to be complete. Refer to the Act, the HVHC Resolution, the Series 2007 Resolution, the Servicing Agreement, the FHA Documents and the Loan Agreement for full and complete details of their provisions. Copies of the HVHC Resolution, the Series 2007 Resolution, the Servicing Agreement, the FHA Documents and the Loan Agreement 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 the 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, FHA or the Institution have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2007 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH 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
DAVID D. BROWN, IV- EXECUTIVE DIRECTOR **GAIL H. GORDON, ESQ. – CHAIR**

OFFICIAL STATEMENT RELATING TO
\$75,065,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HUDSON VALLEY HOSPITAL CENTER
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS,
SERIES 2007

PART 1—INTRODUCTION

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page, inside cover page and appendices hereto, is to set forth certain information concerning the Dormitory Authority of the State of New York (the “Authority”) and the Hudson Valley Hospital Center (“HVHC”, the “Hospital Center” or the “Institution”) in connection with the offering by the Authority of its \$75,065,000 Hudson Valley Hospital Center FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the “Series 2007 Bonds”).

The following is a brief description of certain information concerning the Series 2007 Bonds, the Authority and the Institution. A more complete description of such information and additional information that may affect decisions to invest in the Series 2007 Bonds are contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

Authorization of Issuance

The Hudson Valley Hospital Center FHA-Insured Mortgage Hospital Revenue Bond Resolution adopted by the Authority on July 25, 2007 (the “HVHC Resolution”) authorizes the issuance of multiple Series of Bonds pursuant to separate Series Resolutions for the sole benefit of HVHC. The Series 2007 Bonds will be issued pursuant to the HVHC Resolution and the Hudson Valley Hospital Center Series Resolution Authorizing up to \$85,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007, adopted by the Authority on July 25, 2007 (the “Series 2007 Resolution”). The Series 2007 Resolution and the HVHC Resolution are referred to together as the “Resolution.” Each Series of Bonds issued under the HVHC Resolution and a respective Series Resolution, including the Series 2007 Bonds, is to be for the benefit of HVHC and separately secured by (i) the funds and accounts established pursuant to the respective Series Resolution and (ii) certain revenues received by the Authority from payments to be made by HVHC under the mortgage note relating to each such Series and, in the event of a default,

from FHA mortgage insurance benefits with respect to such note. The Series 2007 Bonds are the first Series of Bonds issued pursuant to the Resolution.

Pursuant to the HVHC Resolution, neither the funds and accounts established under any Series Resolution, nor any loan agreement nor any mortgage entered into in connection with one Series of Bonds, shall secure any other Series of Bonds. Each Series of Bonds must be secured by a mortgage note insured under the National Housing Act, as amended. All references to funds and accounts in this Official Statement are to those funds and accounts authorized to be created pursuant to the HVHC Resolution and so designated and established by the Series 2007 Resolution. See “PART 3 — THE SERIES 2007 BONDS.”

Purpose of the Financing

The Series 2007 Bonds are being issued to provide funds, together with other available moneys, to finance or refinance the cost of certain improvements at HVHC’s campus at Cortlandt Manor, including the design, construction and equipping of: (a) a new four-story, approximately 85,000 square foot, South Wing building, which is to include 84 medical-surgical beds, a new main lobby, admitting and hospitality areas, expansion of the existing emergency department and a partial basement for mechanical services; (b) a new four-story (plus basement), approximately 3,000 square foot, enclosed corridor linking the new South Wing to the existing building; (c) a new patient transport elevator serving the new connecting corridor; (d) a new two-story, approximately 16,300 square foot, North Wing building which is to include an expanded surgery suite; (e) a new, approximately 3,000 square foot, rooftop addition to the existing second floor progressive care unit; (f) interior renovations to the Institution’s existing hospital facilities, including renovations to the existing progressive care unit, ambulatory surgery, surgery and emergency departments; and (g) site modifications, including a new vehicular entrance, turnaround and exit as well as enhanced parking. See “PART 7 - THE PROJECT.”

Description of the Program

The Series 2007 Bonds will be secured by the funds and accounts established under the Series 2007 Resolution (including investment income thereon) excluding the Arbitrage Rebate Fund, and by the payments to be made by the Institution under the Note (as defined below) and the Loan Agreement dated as of July 25, 2007, by and between the Institution and the Authority (the “Loan Agreement”), and in the event of a default by the Institution under the Note or related FHA Documents (as defined in the Resolution) resulting in an assignment of the Note to the United States Secretary of Housing and Urban Development acting by and through the Federal Housing Commissioner (“FHA”), from the FHA mortgage insurance benefits with respect to the Note (the “Mortgage Insurance Benefits”). The proceeds of the Series 2007 Bonds will be used as described above under “Purpose of the Financing.”

As evidence of the loan (the “2007 FHA 241 Loan”) to be disbursed to the Institution pursuant to the FHA Documents and insured by FHA under Section 241 of the National Housing Act, the Institution will deliver to the Authority, as FHA mortgagee, a note in the aggregate principal amount of \$71,740,000 (the “Note”). Pursuant to the Servicing Agreement, regular payments made by the Institution on the Note less the Servicing Fee and Mortgagee Advances, if any, shall be applied to the payment of principal and interest on the Series 2007 Bonds. To secure payment of the Note, the Institution will grant to the Authority a mortgage and a security interest in the Mortgaged Property (the “Mortgage”). The Mortgaged Property is comprised of substantially all of the real property, fixtures and equipment located at HVHC’s campus in Cortlandt Manor, New York. The Mortgage will constitute a second mortgage lien on the Mortgaged Property subordinate to the lien on the Mortgaged Property securing HVHC’s existing FHA-insured loan as set forth below. After the issuance of the Series 2007 Bonds, the Institution expects to lease a small portion of the real property located on its campus to a third party for the purpose of

constructing a medical office building which will be connected to HVHC. Such lease will require the consent of the Authority and FHA but not the Trustee, the Bond Insurer or Holders of the Series 2007 Bonds.

Portions of HVHC's existing properties are subject to a first lien in connection with HVHC's existing FHA-insured mortgage (the "1993 FHA 242 Loan"). As of September 15, 2007, the 1993 FHA 242 Loan had an outstanding balance of \$15,323,325.53 and a final maturity of October 1, 2019 and will remain outstanding after the initial endorsement for insurance by FHA of the 2007 FHA 241 Loan and the issuance of the Series 2007 Bonds. The Institution has also agreed that, at FHA's option, a default on the 1993 FHA 242 Loan would constitute a default under the Note and the Mortgage and could result in the assignment of the 2007 FHA 241 Loan (and Note and Mortgage) to FHA for payment of Mortgage Insurance Benefits even though the 2007 FHA 241 Loan is not otherwise in default.

The Authority will assign to the Trustee all of the Authority's rights in the Trust Revenues, comprised primarily of the Institution's payments on the Note (less Mortgagee Advances, if any, and the Servicing Fee) and will covenant to pay or cause to be paid to the Trustee all such Trust Revenues. Upon the happening of any default under either the Note or the Mortgage resulting in their assignment to FHA, the Authority has further covenanted that all FHA Mortgage Insurance Benefits received by the Authority, as FHA mortgagee with respect to the Note, will immediately upon receipt be transferred to and deposited with the Trustee to be applied in accordance with the Resolution.

Pursuant to a commitment dated August 6, 2007 (the "Commitment"), FHA has agreed to insure advances of funds with respect to the 2007 FHA 241 Loan under Section 241 of the National Housing Act, as amended, and the regulations promulgated thereunder. Under applicable FHA regulations, FHA mortgage insurance benefits are payable following assignment of a note and a mortgage to FHA upon a default by a borrower under such note and mortgage, in the form of cash, FHA debentures, or any combination thereof, at the option of FHA. However, in the Commitment, FHA has stated that the Mortgage Insurance Benefits will be paid in cash rather than in FHA debentures, and the Authority has agreed in the HVHC Resolution to request that Mortgage Insurance Benefits be paid in cash. To the extent that the FHA Mortgage Insurance Benefits are paid, such benefits will be applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds. Any cash proceeds of the FHA insurance remaining after the redemption of the Series 2007 Bonds and payment of reasonable expenses in connection therewith shall be returned to FHA. See "PART 5 — FHA MORTGAGE INSURANCE" and "PART 2 — PLAN OF FINANCING — Payment of FHA Mortgage Insurance Benefits" for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

In accordance with the HVHC Resolution and pursuant to the FHA Documents, the Authority, as FHA mortgagee, will advance funds from the Mortgage Account and, if applicable, the Equity Account of the Construction Fund to pay the Costs of the Project. The Authority will enter into a Servicing Agreement with the Mortgage Servicer for the administration on behalf of the Authority of the Note, the Mortgage and other related FHA documents. Pursuant to the Servicing Agreement, the Mortgage Servicer will supervise disbursements to be made under the Building Loan Agreement (as defined below), collect all payments due from the Institution under the Note and the Mortgage and forward to the Trustee the required payments on the Note after deduction of the Servicing Fee and Mortgagee Advances, if any. Additionally, upon a default by the Institution under either the Note or the Mortgage, the Mortgage Servicer will assist the Authority in obtaining FHA Mortgage Insurance Benefits.

The FHA Mortgage Insurance does not constitute a guaranty of timely or total payment of the principal of, Redemption Price or interest on the Series 2007 Bonds. FHA Mortgage Insurance Benefits will not be available immediately upon a default under the Note and Mortgage and assignment thereof to FHA. In addition, processing claims for FHA Mortgage Insurance Benefits may involve certain time

delays and such FHA Mortgage Insurance Benefits may be subject to certain deductions. To provide a source of funds for the timely payment of the principal of and interest on the Series 2007 Bonds during the period from a default on the Note and Mortgage and their assignment to FHA and the receipt of FHA Mortgage Insurance Benefits, a Debt Service Reserve Fund has been established and funded at the Debt Service Reserve Fund Requirement. The use of the Debt Service Reserve Fund, its limitations and the application of FHA Mortgage Insurance Benefits and other moneys if there are insufficient funds to pay the maturing principal of and interest on the Series 2007 Bonds Outstanding are described below under “PART 12 — BONDHOLDERS’ RISKS — Adequacy of the Debt Service Reserve Fund,” “PART 2 — PLAN OF FINANCING — Payment of FHA Mortgage Insurance Benefits” and “Appendix C — Summary of Certain Provisions of the HVHC Resolution.” For a discussion of how the FHA Mortgage Insurance Benefits may be paid in an amount that is less than the Outstanding principal amount of the Series 2007 Bonds, and the consequences thereof, see “PART 5 — FHA MORTGAGE INSURANCE” and “PART 12 — BONDHOLDERS’ RISKS — Reduction or Loss of Mortgage Insurance.”

As further security for the Series 2007 Bonds, and subject to the qualifications set forth in the HVHC Resolution, the Authority will assign and pledge to the Trustee certain of its rights under the Loan Agreement, including the right to receive payments on the Note; provided, however, that so long as no event of default has occurred, the Authority shall retain all rights and obligations as mortgagee under the FHA Documents. In addition, the Authority will pledge and grant a security interest to the Trustee in the Trust Revenues for the Series 2007 Bonds and all moneys, securities and instruments held from time to time under certain of the funds and accounts established by the Series 2007 Resolution (subject to certain conditions in the Resolution). For a further description of all of the items to be pledged to the Trustee, see “PART 3 — THE SERIES 2007 BONDS — Security for the Series 2007 Bonds” herein and “Appendix C — Summary of Certain Provisions of the HVHC Resolution.”

The Series 2007 Bonds are special obligations of the Authority and, under the Resolution, are payable solely from the Trust Revenues pledged for the Series 2007 Bonds, including moneys derived from payments of principal and interest under the Note and the Loan Agreement, FHA Mortgage Insurance Benefits in the event of a default under the Note or the Mortgage and the assignment thereof to the FHA, and certain funds held by the Trustee, including the Debt Service Reserve Fund and the investment income thereon, net of amounts, if any, applied to the Arbitrage Rebate Fund. Pursuant to the terms of the HVHC Resolution, the funds and accounts established by the Series 2007 Resolution secure only the Series 2007 Bonds and do not secure any other Series of Bonds to be issued under the HVHC Resolution regardless of their dates of issue.

The Authority shall not be obligated to pay the principal of, or interest on, the Series 2007 Bonds except from the Trust Revenues and funds pledged therefor under the Resolution. Neither the faith and credit nor the taxing power of the State of New York (the “State”) or any municipality or political subdivision thereof is pledged to the payment of the principal of, Redemption Price, if any, or interest on the Series 2007 Bonds. The Authority has no taxing power.

The Series 2007 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2007 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development (“HUD”) or FHA. In the event of conflict between the provisions of the FHA Documents and the HVHC Resolution, the Series 2007 Resolution or the Loan Agreement, the FHA Documents will control. Attached hereto as Appendices C and D are summaries of certain provisions of the HVHC Resolution and the Loan Agreement, respectively. Such summaries do not purport to be complete and reference is hereby made to the entirety of such documents for a complete description of all of the terms and provisions thereof. Copies of such documents are available at the offices of the Trustee and the Authority.

The Authority

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, governmental and not-for-profit institutions. See “PART 13 — THE AUTHORITY.”

The Institution

HVHC, a New York not-for-profit corporation located in Cortlandt Manor, New York, is a hospital certified to operate 128 beds. HVHC has received a determination letter from the Internal Revenue Service that it is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). For more detailed information regarding the Institution, see “PART 10 — THE HOSPITAL CENTER.”

PART 2—PLAN OF FINANCING

Application of Bond Proceeds and Other Moneys

The proceeds of the Series 2007 Bonds and other available funds will be deposited (i) in the Mortgage Account and, if applicable, the Equity Account to pay the Costs of the Project; (ii) in the Reserve Account of the Debt Service Reserve Fund in an amount equal to the Reserve Account Requirement; (iii) in the Costs of Issuance Account to pay certain Costs of Issuance of the Series 2007 Bonds; and (iv) in the Investment Income Account to pay a portion of the interest due on the Series 2007 Bonds.

Moneys in the Mortgage Account will be invested pending their disbursement pursuant to the terms of an Investment Repurchase Agreement among the Authority, the Trustee and AIG Matched Funding Corp. with an expiration date of August 15, 2010. The Equity Account will be funded by a payment by HVHC. The Reserve Account Requirement for the Series 2007 Bonds deposited in the Reserve Account of the Debt Service Reserve Fund will be invested pursuant to the terms of an Investment Repurchase Agreement among the Authority, the Trustee and MBIA Inc. with an expiration date of August 15, 2036. The payment obligations of MBIA Inc. under the Investment Repurchase Agreement referred to above are insured under a policy issued by MBIA Insurance Corporation. This policy does not guarantee or otherwise provide for payment of amounts due of the Series 2007 Bonds in the event of non-payment by the Authority. The HVHC Resolution provides that net interest income on the Reserve Account will be deposited to the credit of the Investment Income Account of the Construction Fund until commencement of amortization of the Note and thereafter to the credit of the Debt Service Account of the Debt Service Fund. The amount required to be on deposit in the Investment Income Account as of the date of issuance of the Series 2007 Bonds will be funded through the deposit with the Trustee of \$452,000 of proceeds from the sale of the Series 2007 Bonds and the deposit with the Trustee by the Institution of a letter of credit from General Electric Capital Corporation in the initial amount of \$275,000.

Construction Fund Disbursements

Concurrently with or prior to the delivery of the Series 2007 Bonds, FHA will initially endorse the Note for FHA Mortgage Insurance (the “Initial Endorsement”). Each month during the construction period, the Institution will submit to the Mortgage Servicer, on behalf of the Authority, as FHA mortgagee, an “Application for Insurance of Advance of Mortgage Proceeds” for payment of the Costs of the Project including the interest on the amount of the Note outstanding during the preceding month. This application, together with certain other documentation, will be submitted by the Mortgage Servicer to FHA for approval, which approval is necessary in order for the advance to be entitled to the benefit of the

FHA Mortgage Insurance. Upon receipt of FHA's approval of the advance, the Mortgage Servicer will deliver to the Authority the FHA approved advance and other documents or notifications required under the Servicing Agreement, and the Authority will cause payments to be made to the Institution from the Construction Fund for the costs approved for such advance; provided, however, that the portion of such costs representing interest on the Note, less the Servicing Fee, shall be credited to the Investment Income Account.

Moneys in the Construction Fund shall be disbursed pursuant to the Resolution:

(a) from the Mortgage Account and the Equity Account to the Institution pursuant to the Building Loan Agreement, the Loan Agreement and the Servicing Agreement, for payment of Costs of the Project, and certain costs incurred in connection with the issuance of the Series 2007 Bonds;

(b) from the Costs of Issuance Account for payment of certain costs incurred in connection with the issuance of the Series 2007 Bonds; and

(c) from the Investment Income Account to the Debt Service Account on the last Business Day preceding each February 15 and August 15, commencing on the last Business Day prior to February 15, 2008, until the Note has commenced amortization, such amount as may be required, together with the amount then on deposit in the Debt Service Account and available to pay interest, to provide funds for the interest becoming due on the Series 2007 Bonds.

Further, moneys in the Construction Fund shall be transferred from the Mortgage Account and the Equity Account to FHA, if FHA so requires, in the event of a default under the Note and Mortgage and assignment of the Note and Mortgage to FHA. If FHA does not require such a transfer, the undisbursed principal balance in the Mortgage Account and Equity Account may be applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds. See "PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds."

Procedures Upon Completion of Project

Upon the completion of the Project in accordance with the Building Loan Agreement and applicable FHA regulations, and Final Endorsement by FHA of the Note, the Institution is required to furnish to the Trustee, the Mortgage Servicer and the Authority, a certificate certifying that the Project has been substantially completed as to permit its efficient use in the operations of the Institution and any operator thereof, that all insurance required by the FHA Commitment and in the Mortgage is in full force and effect, and that all Costs of the Project have been paid, or stating the amounts to be reserved for the payment of any unpaid Costs.

In the event that the Institution is obligated by FHA to prepay or reduce the Note in connection with the Project Cost certification process and the amount available in the Construction Fund for application to such prepayment or reduction is less than that portion of the Note which the Institution is so obligated to prepay or reduce, the Institution shall promptly pay the amount of such deficiency to the Authority. Any payment of a prepayment or reduction deficiency by the Institution described in the preceding sentence, whether or not received prior to Final Endorsement, will be credited as a prepayment or reduction of the Note and deposited in the Redemption Fund and applied to the Special Mandatory Redemption of Series 2007 Bonds.

Payment of Note and Series 2007 Bonds

Pursuant to the Commitment, FHA agreed to insure the Note in the aggregate amount of \$71,740,000. The Note will bear interest at a rate of 6.20% from Initial Endorsement up to and including February 28, 2010. Commencing on April 1, 2010, the Note will require equal monthly payments of principal and interest for a period of 300 months at an interest rate of 5.0%, which interest rate will become effective on March 1, 2010. However, if it is determined after the Project Cost certification or Final Endorsement that the rate on the Note can be further reduced, the Authority may consent to such a reduction; provided, however, that such a reduction only will be made to the extent that the timely payment of principal and interest on the Series 2007 Bonds will not be adversely affected.

The Institution will make payments on the Note, which payments will be collected by the Mortgage Servicer on behalf of the Authority, and such payments will then be paid by the Mortgage Servicer, after deduction of the Servicing Fee and Mortgage Advances, if any, to the Trustee for deposit into the Debt Service Account. The HVHC Resolution provides that on the last Business Day prior to each Interest Payment Date the Trustee shall set aside monies in the Debt Service Account representing the following: (i) interest due on the Series 2007 Bonds on such Interest Payment Date; (ii) principal of the Series 2007 Bonds maturing on such Interest Payment Date; (iii) an amount equal to the fees due the Trustee and the Authority which shall be transferred to the Surplus Account; and (iv) an amount, if needed, to be transferred to the Surplus Account to the extent the balance in such account is less than its requirement (\$25,000). Any balance in the Debt Service Account after provision is made for items (i) through (iv) above shall be applied on each Interest Payment Date to the Sinking Fund Redemption of the Series 2007 Bonds maturing on or after August 15, 2017 in direct order of maturity. All net investment earnings in the Debt Service Account to the extent not needed to meet the required and anticipated payments on the Series 2007 Bonds shall be used to fund the Surplus Account to its requirement. Funds in the Surplus Account will be used, together with other sources, to pay the Trustee's annual fee and all fees and expenses of the Authority; any excess in the Surplus Account over its requirement will be transferred to the Debt Service Account and may be used as a credit on subsequent payments due on the Note by the Institution; provided, however, that said excess will not be deemed a prepayment of the Note.

Payment of FHA Mortgage Insurance Benefits

An event of default in connection with either the Note or the Mortgage constitutes an event of default under both such instruments. If a payment default occurs under the Note and is continuing for thirty days, subject to the FHA requirements described in "PART 5 — FHA MORTGAGE INSURANCE — Default and Payment of Mortgage Insurance Benefits," the Note and the Mortgage shall be assigned to FHA in order for the Authority to receive the FHA Mortgage Insurance Benefits. Upon such event and until final payment by FHA of all FHA Mortgage Insurance Benefits, unless and until such default is waived in accordance with the HVHC Resolution and the FHA Documents, the Trustee shall transfer from the Debt Service Reserve Fund to the Debt Service Account on the second Business Day preceding each Interest Payment Date an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest and principal then due on the Series 2007 Bonds Outstanding. For a description of possible limitations on transfers from the Debt Service Reserve Fund, see "PART 12 – BONDHOLDERS' RISKS – Enforceability of Remedies Generally and Bankruptcy." At the option of FHA, a default on the 1993 FHA 242 Loan may constitute a default under the Note and Mortgage and FHA could require acceleration of and the assignment to it of the Note and the Mortgage.

Notwithstanding the foregoing, no assurance can be given that moneys in the Debt Service Reserve Fund will be sufficient to make all payments of debt service on the Series 2007 Bonds from the time a payment default occurs until final payment of FHA Mortgage Insurance Benefits is made. See "PART 12 — BONDHOLDERS' RISKS" and "PART 5 — FHA MORTGAGE INSURANCE." The

procedure to be followed by the Authority in filing claims for FHA Mortgage Insurance Benefits and the application of FHA Mortgage Insurance Benefits are described in “Appendix C — Summary of Certain Provisions of the HVHC Resolution.”

The following describes the payment of FHA Mortgage Insurance Benefits and the application of such benefits with regard to the Series 2007 Bonds:

In the event of a default under the Note or the Mortgage resulting in an assignment of the Note and Mortgage to FHA and the receipt of FHA Mortgage Insurance Benefits, if such FHA Mortgage Insurance Benefits along with other funds available are sufficient, as shown in a certification made or verified by a Financial Consultant, to provide for the timely payment of the principal of and interest on all the Series 2007 Bonds, the Authority shall direct such revenues to be applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds.

FHA Mortgage Insurance Benefits may be paid in cash or debentures or any combination thereof at the discretion of FHA. However, in the Commitment, FHA has stated that the Mortgage Insurance Benefits will be paid in cash rather than in FHA debentures, and the Authority has covenanted to request Mortgage Insurance Benefits to be paid in cash. See “PART 5 — FHA MORTGAGE INSURANCE” for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

When such benefits are paid in cash and such moneys, together with all amounts then on deposit in all the funds and accounts (other than the Arbitrage Rebate Fund) established under the Resolution are sufficient to redeem all of the Outstanding Series 2007 Bonds, with interest to the redemption date, then any Investment Agreement or other investment permitted by the Resolution in which moneys on deposit in any fund or account have been invested shall be liquidated or sold, and the proceeds thereof, together with the proceeds of the FHA Mortgage Insurance Benefits and other available moneys, shall be deposited in the Redemption Account and, after payment of the fees and expenses of the Trustee, used to redeem the Series 2007 Bonds. Any excess proceeds remaining after the redemption of the Series 2007 Bonds shall be applied to reimburse any Mortgage Advances and to payment of all accrued and estimated fees and expenses of the Authority and Mortgage Servicer with the balance, if any, returned to FHA.

In the event that such benefits are received from FHA in more than one cash installment, the Authority shall immediately deposit each such installment in the Redemption Account after providing, by deposit to the Debt Service Account, for the payment of the maturing Principal Amount, if any, and interest due on the Series 2007 Bonds, occurring on or prior to the date set for redemption and apply such moneys to the Extraordinary Mandatory Redemption of a pro rata portion of each maturity of such Series 2007 Bonds, or as otherwise directed by the Authority on the first practicable date such redemption can be made. See “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds.”

In the event of a default under the Note or Mortgage resulting in an assignment of the Note and Mortgage to FHA, it is anticipated that the Mortgage Insurance Benefits, together with the Trust Revenues held pursuant to the HVHC Resolution, will be sufficient to pay the principal of and interest on the Series 2007 Bonds. The Mortgage Insurance, however, does not constitute a guarantee or assurance of the timely payment of the principal or Redemption Price of, and interest on, the Series 2007 Bonds. Furthermore, FHA Mortgage Insurance Benefits, together with other Trust Revenues held on deposit under the Resolution, may not be sufficient to pay the principal or Redemption Price of, and interest on, the Series 2007 Bonds, depending upon the timing of receipt of Mortgage Insurance Benefits and the amount, if any, of the offsets made by FHA in calculating the payment of a claim for FHA Mortgage Insurance Benefits. See “PART 5 — FHA MORTGAGE INSURANCE.”

Prepayment of Note from Hazard Insurance Proceeds or Condemnation Awards

The Loan Agreement provides that hazard insurance proceeds and condemnation awards which are paid to the Authority, as mortgagee under the Mortgage, upon a complete or partial destruction or condemnation (including eminent domain) of the Mortgaged Property shall, to the extent not applied to the repair, restoration or replacement of such Mortgaged Property, and subject to the rights of others accruing under the prior lien mortgages on the Mortgaged Property (see “PART 1 — INTRODUCTION— Description of the Program”), be credited to the prepayment of the Note and applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds. For information concerning redemption of Series 2007 Bonds from prepayment of the Note, see “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds.”

PART 3—THE SERIES 2007 BONDS

Description of the Series 2007 Bonds

The Series 2007 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof, in the initial aggregate principal amounts set forth on the inside cover page hereof. The Series 2007 Bonds will be dated the date of delivery and will bear interest from such date payable on February 15, 2008 and each August 15 and February 15 thereafter and will bear interest at the rates and mature on the dates set forth on the inside cover page hereof. Interest on the Series 2007 Bonds shall accrue based upon a 360-day year of twelve 30-day months.

The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company (“DTC”), pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2007 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2007 Bonds, the Series 2007 Bonds will be exchangeable for other fully registered Series 2007 Bonds in any other authorized denominations of the same maturity 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” herein and “Appendix C — Summary of Certain Provisions of the HVHC Resolution.”

The principal of and interest on the Series 2007 Bonds will be payable in lawful money of the United States of America. The principal or Redemption Price of, or Sinking Fund Redemption on, the Series 2007 Bonds will be payable at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. Interest on the Series 2007 Bonds will be payable by check or draft mailed to the registered owners thereof at their addresses as shown on the registration books held by the Trustee. Interest is payable to the registered owners who are such registered owners at the close of business on the first day of the calendar month of an Interest Payment Date (“Record Date”). In the event that the Series 2007 Bonds are no longer held in book-entry form, Bondholders of \$1,000,000 or more aggregate principal amount of Series 2007 Bonds may receive interest by wire transfer to the wire transfer address, within the continental United States specified by such Bondholder, upon the written request of such Holder to the Paying Agent received not less than 5 days prior to the Record Date, which written request may apply to multiple interest payment dates. In such event, such Bondholders may also receive the Redemption Price by wire transfer at the address in the continental United States specified by such Bondholder in a written request to the Trustee upon presentation and surrender to the Trustee of the Series 2007 Bonds to be redeemed.

Security for the Series 2007 Bonds

The principal amount or Redemption Price of and interest on the Series 2007 Bonds are payable: (1) from payments to be made by the Institution under the Note (other than the Servicing Fee and Mortgage Advances or late payment charges), and certain amounts payable under the Loan Agreement; (2) from FHA Mortgage Insurance Benefits, in the event of a default by the Institution under either the Note or the Mortgage and assignment thereof to FHA; and (3) from certain funds and accounts held by the Trustee pursuant to the Resolution and certain investment income thereon. The obligations of the Institution under the Note are secured by the Mortgage and the Security Agreement. For further description of the FHA Mortgage Insurance Benefits, see “PART 5 — FHA MORTGAGE INSURANCE.”

The HVHC Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be issued for the benefit of the Institution and authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds. 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, including the Series 2007 Bonds. In the event of (i) an optional prepayment by the Institution under the Note, (ii) the receipt of insurance or condemnation proceeds applied to the prepayment of the Note, (iii) a Special Mandatory Redemption of the Series 2007 Bonds following completion of the Project and Final Endorsement of the Note by FHA, (iv) the receipt of proceeds of a refunding mandated by FHA to prevent a default on the Note, or (v) a default under the Note or Mortgage and the receipt of FHA Mortgage Insurance Benefits, the Authority shall cause there to be prepared by a Financial Consultant a Cash Flow Statement, if the Authority determines that such a Cash Flow Statement is appropriate, and apply the above stated funds to the redemption of the Series 2007 Bonds in such a manner as to provide for the timely payment of the principal of and interest on all the Series 2007 Bonds after giving effect to such redemption, all in accordance with the provisions of the HVHC Resolution.

The HVHC Resolution provides for the establishment of a Debt Service Reserve Fund which includes (1) a Reserve Account in an amount equal to the sum of (i) the maximum Principal Amount of the Bonds of such Series constituting Serial Bonds and interest thereon anticipated to come due in any twelve (12) month period, (ii) an amount equal to the maximum amount of interest on the Bonds of such Series constituting Term Bonds coming due in any twelve (12) month period, and (iii) an amount equal to the greater of (A) one month’s principal and interest on the Note at the permanent note rate on the outstanding principal balance of the Note or (B) one month’s interest only on the Note calculated at the interim mortgage rate on the face amount of the Note, and (2) a Collateral Account in the amount of the Collateral Account Requirement.

The Series 2007 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2007 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD or FHA. The Series 2007 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds

All redemptions of the Series 2007 Bonds are to be at a Redemption Price of 100% of the principal amount of the Series 2007 Bonds to be redeemed plus interest accrued to the redemption date.

Sinking Fund Redemption. The Series 2007 Bonds maturing August 15, 2027 and August 15, 2036 are subject to Sinking Fund Redemption in direct order of maturity (and within a maturity by lot) on each February 15 and August 15 after commencement of amortization of the Note from funds remaining in the Debt Service Account and available for such purpose under the Resolution after providing for the

payment of maturing principal and interest then due on the Series 2007 Bonds, Trustee and Authority fees and replenishment of the Surplus Account to the Surplus Account Requirement. Since the amount of funds available to be applied to make Sinking Fund Installments may vary, the HVHC Resolution does not require that Sinking Fund Installments be made in any specific amount, but only to the extent that funds are available in the Redemption Account therefor.

Although the final maturity date of the Series 2007 Bonds is August 15, 2036, the payments of principal and interest under the Note have been scheduled to provide sufficient funds, together with funds in the Debt Service Reserve Fund and certain investment earnings thereon, so that in the absence of a default under the Note or the Mortgage, the Series 2007 Bonds Outstanding are expected to be fully redeemed by August 15, 2035. "PART 4 — ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS" sets forth the estimated schedule of debt service for the Series 2007 Bonds, including estimated sinking fund installments.

Optional Redemption. The Series 2007 Bonds maturing after August 15, 2017 are subject to redemption prior to maturity by the Authority, but only upon the request of the Institution, on or after August 15, 2017, in whole or in part at any time.

Special Mandatory Redemption. The Series 2007 Bonds, including both Serial and Term Bonds, are subject to Special Mandatory Redemption prior to maturity, in part, on the earliest practicable redemption date or dates following completion of the Project and Final Endorsement of the Note by FHA from the deposit into the Redemption Account (1) of moneys remaining in the Mortgage Account and the Investment Income Account and (2) of funds required to be deposited in the Redemption Account by the Institution pursuant to the Loan Agreement. See "PART 4 — ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS."

Extraordinary Mandatory Redemption. The Series 2007 Bonds are subject to Extraordinary Mandatory Redemption in whole or in part at any time prior to maturity on the earliest practicable date following:

(1) the deposit into the Redemption Account of proceeds of casualty insurance on, or condemnation of, the Mortgaged Property as are not applied to the repair, rebuilding or restoration of the Mortgaged Property or the reduction of the 1993 FHA 242 Loan;

(2) the deposit into the Redemption Account, upon the conditions specified in the HVHC Resolution, of FHA Mortgage Insurance Benefits and certain amounts held in the funds and accounts established under the HVHC Resolution; and

(3) the deposit into the Redemption Account, upon the conditions specified in the HVHC Resolution, of proceeds of a refinancing and a full or partial prepayment under the Note following a default thereunder and a determination by FHA that a full or partial refinancing of the Note resulting in such prepayment will avoid a claim for FHA Mortgage Insurance Benefits.

Purchase in Lieu of Optional Redemption. With the consent of the Bond Insurer, in lieu of calling Series 2007 Bonds for optional redemption, the Series 2007 Bonds are subject to mandatory or voluntary tender for purchase at the direction of the Authority upon request of the Institution in whole or in part (and, if in part, in such manner as determined by the Institution) on any date on or after August 15, 2017 at a purchase price equal to the principal amount thereof, plus accrued interest to the purchase date. Purchases of tendered Series 2007 Bonds (whether such tender is on a mandatory or voluntary basis) may be made without regard to any provision of the Resolution relating to the selection of Series 2007 Bonds to be redeemed in a partial optional redemption. Series 2007 Bonds purchased pursuant to any mandatory

or voluntary tender(s) are not required to be cancelled, and if not so cancelled, shall, prior to any reoffering to the public, not be deemed Outstanding in connection with any subsequent partial optional redemption solely for purposes of those provisions of the Resolution relating to the selection of Series 2007 Bonds to be redeemed in a partial redemption.

Selection of Series 2007 Bonds to be Redeemed Upon Partial Optional Redemption, Special Mandatory Redemption or Extraordinary Mandatory Redemption. If fewer than all of the Outstanding Series 2007 Bonds are to be called for Optional Redemption, Special Mandatory Redemption or Extraordinary Mandatory Redemption, upon the written direction of an Authorized Officer of the Authority, the Trustee shall select for redemption (i) a Principal Amount of Series 2007 Bonds such that the Non-Asset Bond Ratio after the redemption is as nearly as practicable the same as the Non-Asset Bond Ratio would have been after such redemption date had such Optional Redemption, Special Mandatory Redemption or Extraordinary Redemption not been effected, and (ii) a Principal Amount of Series 2007 Bonds of each maturity and like interest rate to be redeemed in an amount as nearly as practicable in the proportion that the aggregate Principal Amount of Outstanding Series 2007 Bonds of each maturity and like interest rate bears to the aggregate Principal Amount of Outstanding Series 2007 Bonds or, at the option of the Authority, in accordance with instructions of the Authority based on a revised Cash Flow Statement provided by a Financial Consultant. If fewer than all Series 2007 Bonds of a particular maturity and like interest rate shall be redeemed, the particular Series 2007 Bonds of such maturity to be redeemed shall be selected by the Trustee by lot by such method as prescribed in the HVHC Resolution.

Notice of Redemption. Whenever Series 2007 Bonds are to be redeemed, the Trustee shall give notice of the redemption of such Bonds in the name of the Authority, postage prepaid, to the registered owners of any Series 2007 Bonds which are to be redeemed, at their last known address, if any, appearing on the registration books of the Authority, at least 30 but not more than 45 days prior to the redemption date except that with respect to any Extraordinary Mandatory Redemption such notice shall be given at least 10 days prior to the redemption date. Such notice shall specify: (i) the Series 2007 Bonds to be redeemed (including date of issue, interest rate and maturity date); (ii) the redemption date; (iii) the Redemption Price; (iv) the source of the funds to be used for the redemption; (v) the numbers, any CUSIP number and other distinguishing marks of the Series 2007 Bonds to be redeemed (except in the event that all of the Outstanding Series 2007 Bonds are to be redeemed); (vi) of each such Series 2007 Bond, the principal amount thereof to be redeemed; (vii) that such Series 2007 Bonds will be redeemed at the principal corporate trust office of the Trustee giving the address thereof and the name and telephone number of a representative of the Trustee to whom inquiries may be directed; and (viii) that no representation is made as to the correctness of the CUSIP number either as printed on the Series 2007 Bonds or as contained in such notice and that an error in a CUSIP number as printed on such Bond or as contained in such notice shall not affect the validity of the proceedings for redemption. Such notice shall further state that on such date there shall become due and payable on each Series 2007 Bond to be redeemed, subject to sufficient funds being available therefor, the Redemption Price thereof, together with interest accrued to the redemption date, and that from and after such date, payment having been made or provided for, interest thereon shall cease to accrue. Failure of any registered owner to receive any such notice or any defect therein shall not affect the validity of a redemption of the Series 2007 Bonds with respect to which such notice has been given in accordance with the HVHC Resolution.

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

contains such a condition and moneys sufficient to pay the principal, premium, if any, and interest on the Series 2007 Bonds are not received by the Trustee on or prior to the redemption date or the Authority rescinds such notice, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received, that the redemption did not occur and that the Series 2007 Bonds called for redemption and not so paid remain Outstanding. Any Series 2007 Bonds subject to a conditional redemption where redemption has not occurred shall remain Outstanding, and such failure to redeem shall not constitute an Event of Default.

Notice of Purchase in Lieu of Redemption and its Effect. Notice of purchase of the Series 2007 Bonds in lieu of redemption will be given in the name of the Institution to the registered owners of the Series 2007 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the purchase date specified in such notice. Series 2007 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event the Series 2007 Bonds are called for purchase in lieu of an Optional Redemption, such purchase shall not operate to extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2007 Bonds and such Series 2007 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest, except that such Series 2007 Bonds purchased in lieu of an Optional Redemption will not be deemed Outstanding in connection with any subsequent partial Optional Redemption prior to any reoffering of those purchased Series 2007 Bonds solely for purposes of those provisions of the Resolution relating to the selection of Series 2007 Bonds in such a partial Optional Redemption.

The Institution's obligation to purchase a Series 2007 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the purchase price for all of the Series 2007 Bonds to be purchased on the purchase date. If sufficient money is available on the purchase date to pay the purchase price of the Series 2007 Bonds to be purchased, the former registered owners of such Series 2007 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the purchase price. If sufficient money is not available on the purchase date for payment of the purchase price, the Series 2007 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the purchase date, who will be entitled to the payment of the principal of and interest on such Series 2007 Bonds in accordance with their respective terms.

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

For a more complete description of the redemption, purchase in lieu of redemption and other provisions relating to the Series 2007 Bonds, see "Appendix C — Summary of Certain Provisions of the HVHC Resolution."

Additional Indebtedness

The Authority, as mortgagee under the Mortgage, may, with FHA's prior written approval, consent to the Institution's incurring indebtedness in addition to the Note, secured by a lien on the Mortgaged Property. See "Appendix C — Summary of Certain Provisions of the HVHC Resolution."

Bond Insurance

The Bond Insurance Policy

Concurrently with the issuance of the Series 2007 Bonds, Financial Security Assurance Inc. (the “Bond Insurer” or “Financial Security”) will issue its Municipal Bond Insurance Policy for the Series 2007 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Series 2007 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2007, Financial Security’s combined policyholders’ surplus and contingency reserves were approximately \$2,642,612,000 and its total net unearned premium reserve was approximately \$2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, Financial Security’s consolidated shareholder’s equity was approximately \$3,072,828,000 and its total net unearned premium reserve was approximately \$1,660,356,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Series 2007 Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2007 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption “PART 3 — THE SERIES 2007 BONDS — Bond Insurance” and “Appendix F - Specimen Insurance Policy” for inclusion in the Official Statement.

Rights of the Bond Insurer with Respect to the Series 2007 Bonds

So long as the Bond Insurer is not in default of its obligations to make payments under the Policy and is not insolvent, the Bond Insurer will be treated as the Holder of the Series 2007 Bonds for all purposes of the provisions of the Resolution, including for purposes of amendments to the Resolution and events of default and remedies thereunder and those purposes summarized in Appendix C to this Official Statement.

Book-Entry Only System

DTC, New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 2007 Bond certificate will be issued for each maturity of the Series 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, each a subsidiary of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). DTC has Standard & Poor's Ratings Services' highest rating: AAA. The DTC Rules applicable to 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 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

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

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

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2007 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 maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Series 2007 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee or the Authority, 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 (nor its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds at any time by giving notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2007 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2007 Bond certificates will be printed and delivered to DTC.

Unless otherwise noted, the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. Neither the Authority, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such

information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICES FOR SUCH DTC PARTICIPANTS OR THE BENEFICIAL OWNERS. PAYMENTS MADE AND THE PROVIDING OF NOTICES TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS OR NOTICES.

PART 4—ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS

The following table sets forth the estimated debt service schedule for the Series 2007 Bonds, including estimated schedules of Sinking Fund Redemptions for the Series 2007 Bonds due August 15, 2027 and August 15, 2036. The estimate of Sinking Fund Redemptions is based on the following assumptions: (i) that the first payment of principal on the Note will be made on April 1, 2010; (ii) that no event of default will occur under either the Note or the Mortgage requiring the Authority to assign the Note and the Mortgage to FHA; (iii) that net interest income on the Mortgage Account of the Series 2007 Bonds will be received at the rate of 4.175% per annum until August 15, 2010; (iv) that net interest income on the Reserve Account of the Series 2007 Bonds will be received at the rate of 4.9% per annum until August 15, 2036; (v) that the Note will bear interest at the rate of 6.20% per annum until February 28, 2010 and thereafter at 4.875% per annum; (vi) that the maturity of and final scheduled payment on the Note is March 1, 2035; and (vii) that the Note will be fully disbursed and finally endorsed for its initially approved amount and that the Note will not have any partial prepayments. The notes which follow the table set forth below describe circumstances under which the actual Sinking Fund Redemption of the Series 2007 Bonds due August 15, 2027 and August 15, 2036 will vary from that which is set forth below.

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Estimated Debt Service Schedule for the Series 2007 Bonds

Date	Principal Payments of Serial Bonds	Estimated Sinking Fund Redemption on Term Bonds August 15,		Interest Due	Total Debt Service
		2027	2036		
February 15, 2008	\$ —	\$ —	\$ —	\$ 1,271,000	\$ 1,271,000
August 15, 2008	—	—	—	1,845,000	1,845,000
February 15, 2009	—	—	—	1,845,000	1,845,000
August 15, 2009	—	—	—	1,845,000	1,845,000
February 15, 2010	—	—	—	1,845,000	1,845,000
August 15, 2010	150,000	775,000	—	1,845,000	2,770,000
February 15, 2011	700,000	35,000	—	1,822,625	2,557,625
August 15, 2011	725,000	25,000	—	1,807,750	2,557,750
February 15, 2012	750,000	15,000	—	1,792,625	2,557,625
August 15, 2012	780,000	—	—	1,777,250	2,557,250
February 15, 2013	790,000	10,000	—	1,761,650	2,561,650
August 15, 2013	800,000	15,000	—	1,745,600	2,560,600
February 15, 2014	805,000	25,000	—	1,729,225	2,559,225
August 15, 2014	825,000	25,000	—	1,712,500	2,562,500
February 15, 2015	850,000	15,000	—	1,695,375	2,560,375
August 15, 2015	870,000	20,000	—	1,673,750	2,563,750
February 15, 2016	890,000	20,000	—	1,651,500	2,561,500
August 15, 2016	925,000	10,000	—	1,628,750	2,563,750
February 15, 2017	950,000	10,000	—	1,605,375	2,565,375
August 15, 2017	970,000	15,000	—	1,581,375	2,566,375
February 15, 2018		1,005,000	—	1,556,750	2,561,750
August 15, 2018		1,035,000	—	1,531,625	2,566,625
February 15, 2019		1,065,000	—	1,505,750	2,570,750
August 15, 2019		1,085,000	—	1,479,125	2,564,125
February 15, 2020		1,120,000	—	1,452,000	2,572,000
August 15, 2020		1,145,000	—	1,424,000	2,569,000
February 15, 2021		1,170,000	—	1,395,375	2,565,375
August 15, 2021		1,205,000	—	1,366,125	2,571,125
February 15, 2022		1,235,000	—	1,336,000	2,571,000
August 15, 2022		1,270,000	—	1,305,125	2,575,125
February 15, 2023		1,300,000	—	1,273,375	2,573,375
August 15, 2023		1,330,000	—	1,240,875	2,570,875
February 15, 2024		1,370,000	—	1,207,625	2,577,625
August 15, 2024		1,400,000	—	1,173,375	2,573,375
February 15, 2025		1,440,000	—	1,138,375	2,578,375
August 15, 2025		1,475,000	—	1,102,375	2,577,375
February 15, 2026		1,515,000	—	1,065,500	2,580,500
August 15, 2026		1,220,000	330,000	1,027,625	2,577,625
February 15, 2027			1,590,000	988,875	2,578,875
August 15, 2027			1,635,000	949,125	2,584,125
February 15, 2028			1,675,000	908,250	2,583,250
August 15, 2028			1,715,000	866,375	2,581,375
February 15, 2029			1,760,000	823,500	2,583,500
August 15, 2029			1,810,000	779,500	2,589,500
February 15, 2030			1,850,000	734,250	2,584,250
August 15, 2030			1,900,000	688,000	2,588,000
February 15, 2031			1,950,000	640,500	2,590,500
August 15, 2031			2,000,000	591,750	2,591,750
February 15, 2032			2,050,000	541,750	2,591,750
August 15, 2032			2,105,000	490,500	2,595,500
February 15, 2033			2,155,000	437,875	2,592,875
August 15, 2033			2,210,000	384,000	2,594,000
February 15, 2034			2,270,000	328,750	2,598,750
August 15, 2034			2,330,000	272,000	2,602,000
February 15, 2035			2,385,000	213,750	2,598,750
August 15, 2035			6,165,000	154,125	6,319,125
February 15, 2036			—	—	—
August 15, 2036			—	—	—

The actual Sinking Fund Redemption of, and therefore interest and total debt service on, the Series 2007 Bonds may vary from the estimated schedule set forth on the prior page for various reasons, including the following:

1. The final interest rate on the Note (i.e., the rate following the initial 6.20% rate) is based upon an assumed schedule of construction draws provided by the Institution. If actual draws and therefore moneys credited to the Investment Income Account vary from what has been assumed, the Special Mandatory Redemption of the Series 2007 Bonds set forth in the estimated schedule above will vary from what has been assumed and the final interest rate on the Note may differ from the rate assumed in the estimated schedule set forth above. In such event or if the principal amount of the Note approved by FHA at Final Endorsement is less than the principal amount of the Note approved at Initial Endorsement because the Costs of the Project as finally approved by FHA are less than originally approved, the remaining payments on the Note will be recast. Each succeeding payment due on the Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2007 Bonds as described in “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds — *Special Mandatory Redemption*” above.

2. If an event of default occurs under either of the Note or the Mortgage and the Note and the Mortgage are assigned to FHA, certain funds held pursuant to the HVHC Resolution and the FHA Mortgage Insurance Benefits will be applied to pay the interest due on the Series 2007 Bonds, any maturing Principal Amount of the Series 2007 Bonds, and if provision in a Cash Flow Statement has been made therefor, the fees and expenses of the Trustee, and the balance will be applied to an Extraordinary Mandatory Redemption of the Series 2007 Bonds. In addition, if FHA pays the FHA Mortgage Insurance Benefits in installments, the Authority may cause there to be prepared by a Financial Consultant a Cash Flow Statement for the Series 2007 Bonds. The Authority shall direct the allocation of such benefits received on the Note to the Series 2007 Bonds as it determines, which determinations may be based on the Cash Flow Statement if one is prepared, in order to provide for the timely payment of the Series 2007 Bonds and interest thereon by their respective maturity dates. Such allocation may change the Sinking Fund Redemption schedule from the schedule set forth above. See “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds — *Sinking Fund Redemption*.”

3. To the extent the Institution makes a partial prepayment on the Note and provides other required funds, or a partial prepayment of the Note is effected through the application of the proceeds of an insurance or condemnation award or a refunding mandated by FHA to prevent a default on the Note, the Trustee shall redeem Series 2007 Bonds and the remaining payments on the prepaid Note will be reduced, thus reducing the amounts available in each succeeding semiannual period for redemption of the Series 2007 Bonds secured by the prepaid Note. Such prepayment will change the Sinking Fund Redemptions from the schedule set forth above. See “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds.”

4. Any changes occur to the assumptions described in the first paragraph of this PART 4.

PART 5—FHA MORTGAGE INSURANCE

General

The Note will be insured by FHA under Section 241 of the National Housing Act, as amended. The applicable FHA regulations regarding Section 241 of the National Housing Act, as amended, are contained in Part 241 and Part 200 of Title 24 of the Code of Federal Regulations, and, with certain exceptions, incorporate by reference the provisions of Subpart B, Part 207 of Title 24 of the Code of Federal Regulations covering mortgages, deeds of trust and other similar instruments insured under Section 207 of the National Housing Act as amended.

In the event of conflict between the FHA Documents and the HVHC Resolution or the Loan Agreement, the FHA Documents will control.

The National Housing Act, as amended, and the applicable regulations provide that claims for mortgage insurance benefits under mortgages insured pursuant to Section 241 are to be paid in cash, debentures, or in any combination thereof, at the option of FHA. FHA's current policy is to make a determination regarding how benefits will be paid at the time of the payment. However, FHA, in the Commitment, has stated that the Mortgage Insurance Benefits for the Note will be paid in cash rather than in FHA debentures, and the Authority has covenanted in the HVHC Resolution to request Mortgage Insurance Benefits to be paid in cash. In the event of a default on either the Note or the Mortgage, the Note may be assigned to FHA as discussed below. Mortgage Insurance Benefits on the Note are pledged to the Series 2007 Bonds. To the extent that the Mortgage Insurance Benefits are paid, such benefits will be applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds on the first practicable date following receipt of such Mortgage Insurance Benefits, subject to the limitations included in the Series 2007 Resolution.

FHA regulations provide that the maximum insurable mortgage amount cannot exceed 90% of FHA's estimate of the costs of the Project, including equipment to be used in its operation when the proposed improvements are completed and the equipment is installed.

FHA Insurance Processing

FHA has issued a Commitment for insurance of advances. The Commitment evidences FHA's approval of the application for FHA insurance for the Note and establishes the terms and conditions upon which the Note and Mortgage will be insured. FHA will evidence its insurance of the Note and Mortgage at Initial Endorsement of the Note and will indicate thereon the Section of the National Housing Act, as amended, and regulations under which the Note and Mortgage are insured, prior to insuring any advances under the Note. Insurance of the Note and Mortgage includes insurance of construction loan advances to be made to the Institution pursuant to the Building Loan Agreement between the Institution and the Authority, as FHA mortgagee.

At Initial Endorsement, the Institution will execute the Note evidencing the loan and the Mortgage securing the Note. After FHA initially endorses the Note for FHA insurance, funds will be advanced to provide for initial fees and expenses, including title costs, and architect, attorney, inspection and other related fees and expenses.

A mortgage insurance premium in an annual amount equal to 1% for the first year and one-half of one percent ($\frac{1}{2}$ of 1%) thereafter of the outstanding principal balance of the Note is charged by FHA. The mortgage insurance premium is capitalized in the FHA loan proceeds for a period of three years and is paid from loan proceeds at Initial Endorsement of the Note for the following one year period and annually

thereafter until such capitalized mortgage insurance premium is fully disbursed or Final Endorsement, whichever is earlier, after which it is collected from the Institution on a monthly basis by the Mortgage Servicer on behalf of the Authority, as FHA mortgagee, through the maturity of the Note.

Construction

Construction of the Project is required to proceed in accordance with the Building Loan Agreement. (See below, “PART 6 — CERTAIN PROVISIONS OF THE FHA DOCUMENTS — The Building Loan Agreement”) During construction, an architect hired by the Institution and an FHA inspector will make periodic inspections to ensure on-site conformity with FHA approved plans and specifications. Under the Building Loan Agreement, funds are disbursed based on actual costs incurred and approved by FHA. Prior to any disbursement, certain conditions, including the completion of certain inspections of the construction, updated title evidence satisfactory to the FHA mortgagee and FHA, and FHA approval of the advance, must be satisfied. Disbursements for advances continue for only so long as the Institution is not in default under the Note and Mortgage and otherwise complies with the requirements for disbursement.

Changes in the original plans and specifications or Project Costs approved by FHA at Initial Endorsement must be approved by the Institution, the Institution’s architect, FHA and the Authority in the form of a written approval of a change order to the construction contract. In the event of a change order requiring net increases in construction costs, the Authority, as FHA mortgagee, is required to collect the amount of such increase from the Institution prior to disbursement of the next advance unless FHA waives the requirement or the Institution concurrently submits a change order, approved by FHA, which will reduce construction costs by an amount corresponding to the increase. Such funds may be disbursed to the Institution and contractor as the additional work contemplated by the change order progresses and is approved by FHA.

Under the construction contract, the construction contractor has agreed to the timely completion of construction of the Project in accordance with plans and specifications approved by FHA and will provide payment and performance bonds in an amount approved by FHA and the Authority.

Upon completion of construction and subject to a cost certification process, FHA will again endorse the Note at Final Endorsement up to an amount which FHA committed to insure at Initial Endorsement pursuant to its Commitment. Amounts remaining to be advanced under the Building Loan Agreement will be disbursed, contingent upon FHA approval, upon the receipt of acceptable title insurance endorsements and upon the fulfillment of certain other obligations of the Institution. FHA may consent to an increase in the Mortgage amount and its insurance thereof prior to Final Endorsement under certain circumstances.

Default and Payment of Mortgage Insurance Benefits

The following description of the payment of FHA Mortgage Insurance Benefits and the application of such benefits applies to the Series 2007 Bonds.

FHA regulations define a default under an FHA-insured mortgage as (1) failure of the mortgagor to make any payment due under a note or a mortgage, or (2) failure to perform any other note or mortgage covenant (which includes covenants in the regulatory agreement entered into in connection with such FHA-insured mortgage) if the mortgagee, because of such failure, has accelerated the debt. In the event that there is a default under the regulatory agreement and FHA so requests, the Authority, as mortgagee, at its option, may declare the whole indebtedness due and payable. Furthermore, the regulations provide that upon notice of a violation of a note or mortgage covenant, FHA has the right to require the mortgagee

to accelerate payment of the outstanding principal due in order to protect its interest. The Note will be structured such that a default on the Note or the Mortgage will constitute an event of default under both the Note and the Mortgage. A default by the Institution on certain other FHA-insured indebtedness may result in a default under the Note and Mortgage. See “PART 1 — INTRODUCTION.”

A mortgagee is entitled to receive the benefits of the mortgage insurance after the mortgagor has defaulted and such default, as defined in the regulations, has continued for a period of thirty days, subject to the following requirements. If the default, as defined in the regulations, continues to exist at the end of a thirty-day grace period, the mortgagee is required to give FHA written notice of (1) the default within thirty days after such grace period, and (2) within forty-five days after such grace period, its intention to file an insurance claim and of its election either to assign the mortgage or to acquire and convey title to FHA. Within an additional thirty days after notifying FHA of such election, the mortgagee must file its application form for Mortgage Insurance Benefits and effect such assignment, commence foreclosure proceedings or, with the approval of FHA, acquire title to the mortgaged property by means other than foreclosure, unless the time for taking action is extended by FHA. In addition to the above requirements, FHA requires that, in the event of a default during the period when a prepayment premium in excess of one percent (1%) is payable under the Note or if prepayment of the Note is prohibited, the Authority, as mortgagee, must request an extension for a period of three months of the requirement to file its intention and election to file a mortgage insurance claim in connection with such default. FHA may approve such request for the three months or a shorter period of time, or FHA may disapprove the request. The decision on such a request is at the sole discretion of FHA, based on its analysis of the financial condition of the Institution and the assessment of FHA of the feasibility of arranging a successful refinancing in whole or in part. FHA has stated that it will consider granting such an extension, during which time the Authority, as mortgagee, will assist the Institution in refinancing the Note, only if (a) the operation of the Mortgaged Property has resulted in a net income deficiency which has not been caused solely by management inadequacy or lack of interest by the Institution, and is of such a magnitude that the Institution is currently unable to make required debt service payments, pay all operating expenses in connection with the Mortgaged Property and fund all required reserves, (b) there is a reasonable likelihood that the Institution can arrange to refinance the Note at a lower interest rate or otherwise reduce the debt service payments through partial prepayment or an extension of the Note’s maturity, and (c) refinancing the Note at a lower rate or partial prepayment of the Note or an extension of the Note’s maturity is necessary to restore the operations of the Mortgaged Property to a financially viable condition and to avoid a mortgage insurance claim.

Notwithstanding the above timetable established by FHA, the HVHC Resolution requires that if the Institution fails to make any payment required under the Note or the Mortgage and such failure continues for a period of thirty days, or, if, following a default by the Institution in the performance of any covenant in the Regulatory Agreement or the Mortgage, FHA shall have requested, and the Authority shall have declared, an acceleration of the unpaid principal balance of the Note, the Authority shall immediately (not later than one Business Day after the end of such thirty-day grace period or acceleration, as the case may be) give, or cause the Mortgage Servicer to give, written notice to FHA, the Trustee and the Rating Service including, among other things, a statement of (1) the occurrence of such default, (2) the acts or omissions giving rise to the default, (3) the time period, if any, available to cure such default, (4) a schedule of remaining Interest Payment Dates and a schedule of debt service payments due on the Series 2007 Bonds, (5) a schedule of the funds available to make payments as they become due, (6) the fact that the Mortgage was given to secure an issue of tax-exempt bonds, (7) the Authority’s election to assign the Note and the Mortgage to FHA, and (8) the Authority’s intention to file a claim for the FHA Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Cash Lock Agreement. In filing such notice (the “Notice of Assignment”), the Authority or the Mortgage Servicer shall request priority processing of the mortgage insurance claim and shall attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer

shall request (a) forms and instructions relating to the assignment of the Note and Mortgage and (b) the endorsement of the title insurance policy for the Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority shall submit the legal documentation for review to the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of Series 2007 Bonds Outstanding, the Authority shall take all actions necessary to assign the Note and the Mortgage to FHA and to recover such claim on the mortgage insurance. Thereafter, the Authority shall continue with diligence to complete the assignment of the Note and Mortgage no later than the last Business Day preceding the thirtieth day following the giving of notice to FHA. In the event that such assignment of the Note and Mortgage will be completed later than the last Business Day preceding the thirtieth day following the giving of notice to FHA, notice thereof shall be given by the Authority to the Rating Service.

Notwithstanding the provisions set forth above, the HVHC Resolution provides that in the event of a monetary default under either the Note or the Mortgage during a period when a prepayment premium in excess of one percent (1%) is payable under the Note or when prepayment of the Note is prohibited, within one Business Day following the lapse of the thirty-day grace period, the Authority, as the mortgagee under the Mortgage, shall, or shall cause the Mortgage Servicer to, (1) notify FHA and the Rating Service of the default, (2) file with FHA a request for a three-month extension of the time to file its notice of intention and election to file a claim for mortgage insurance in connection with such default, and (3) file a copy of such extension request with the Rating Service. In filing such notice, the Authority shall, or cause the Mortgage Servicer to, state that it intends to request priority processing of the mortgage insurance claim and shall attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice and request, the Authority shall, or shall cause the Mortgage Servicer to, request forms and instructions relating to the assignment of the Note and Mortgage, and within five Business Days of the receipt of such forms and instructions, the Authority shall, or shall cause the Mortgage Servicer to, submit legal documentation for review to the Office of General Counsel of FHA.

During the extension period approved by FHA (which, except as provided below, shall not be longer than three months), the Authority shall take the following actions, as appropriate: (1) assist the Institution in arranging a refinancing of the Note to cure the default and avert the filing of the claim for mortgage insurance; (2) report to FHA on a monthly basis the progress, if any, in arranging the refinancing; (3) cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the mortgage insurance claim; (4) if thirty days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Series 2007 Bonds, notify FHA of such deficiency and request the immediate payment of FHA Mortgage Insurance Benefits in cash; and (5) if a determination is made by the Authority that the refinancing of the Note is not feasible (a) file a request with FHA for its concurrence in such determination, (b) submit to FHA a notice of intention and election to file a claim for mortgage insurance, (c) file a copy of such intention and election with the Trustee and the Rating Service, and (d) proceed with the processing of the mortgage insurance claim in a timely fashion in the manner followed for a monetary default, as described above. If the request by the Authority for the extension is not approved, the Authority shall, or shall cause the Mortgage Servicer to, (1) file with FHA notice of its intention to file an insurance claim and its election to assign the Note and Mortgage within two Business Days of the receipt of the decision from FHA, (2) file a copy of such intention and election with the Trustee and the Rating Service, and (3) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner followed for a monetary default, as described above. The Authority will not request more than one additional extension of the initial extension period approved by FHA and it will not make such request until it receives written confirmation from the Rating Service that the rating for the Series 2007 Bonds will not be adversely affected by such request for extension. If the conditions for such further

extension are not met, the Authority will proceed with processing the mortgage insurance claim in a timely fashion in the manner followed for a monetary default, as described above.

To the extent a refinancing is arranged and approved by FHA, the HVHC Resolution provides that the Note shall be prepaid, in whole or in part, and the proceeds shall be applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds; provided, however, that the Authority, as the mortgagee, shall not consent to such refinancing until it has received written confirmation from the Rating Service that the rating for the Series 2007 Bonds will not be adversely affected by such refinancing; provided, further, that such refinancing will result in a prepayment of the Note prior to the expiration of the approved extension period. To the extent there is a partial prepayment of the Note pursuant to an approved refinancing, the Authority, as the mortgagee, shall consent to any subordinate or parity liens on the Mortgaged Property as may be required.

To the extent a refinancing is not approved by FHA, the Authority, as mortgagee, shall, or shall cause the Mortgage Servicer to, (i) file with FHA notice of its intention to file an insurance claim and its election to assign the Note and Mortgage within two Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Trustee and the Rating Service, and (iii) proceed with the processing of the mortgage insurance claim in a timely fashion in the manner followed for a monetary default, as described above. To the extent a refinancing cannot be completed within the approved extension period, the Authority, as mortgagee, shall, or cause the Mortgage Servicer to, (i) file with FHA notice of its intention to file an insurance claim and its election to assign the Note and Mortgage within two Business Days of the determination that the refinancing cannot be timely completed, (ii) file a copy of such intention and election with the Trustee and the Rating Service, and (iii) proceed with the processing of the mortgage insurance claims in a timely fashion in a manner followed for a monetary default, as described above; provided, however, that at the option of the Authority, as mortgagee, if a refinancing has been arranged and approved by FHA within the approved extension period, and such refinancing can be completed within an additional thirty days, at the Authority's sole discretion, the refinancing will be accepted by the Authority if (1) confirmation is received from the Rating Service that the rating on the Series 2007 Bonds will not be adversely affected, and (2) the Note and the Mortgage have not been assigned to FHA.

To the extent (i) FHA does not immediately pay a claim when requested by the Authority as described above, (ii) the processing of the mortgage insurance claim does not proceed as described in the previous five paragraphs or (iii) the Rating Service does not provide confirmation that the rating on the Series 2007 Bonds will not be adversely affected by a refinancing accomplished as described in the previous three paragraphs, then the Authority shall proceed in a manner to preserve the Mortgage Insurance of the Note and the Mortgage, and otherwise protect the interest of the Bondholders.

The HVHC Resolution further provides that if a non-monetary default by the Institution under the terms of the Mortgage shall have occurred, the Authority shall, within thirty days after the occurrence of such default (or other grace period established under applicable FHA regulations), (1) give notice of such default to FHA and the Rating Service, and (2) on the basis of its determination as to which course of action shall be in the best interest of the Bondholders, either:

(a) declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Institution, and shall within one Business Day give, or cause the Mortgage Servicer to give, to FHA, the Trustee and the Rating Service written notice of such default and of the Authority's intention and election to file a claim for Mortgage Insurance Benefits. In filing such notice the Authority or Mortgage Servicer shall request priority processing of the mortgage insurance claim and shall attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer shall request (a) forms

and instructions relating to the assignment of the Note and Mortgage and (b) an endorsement of the title insurance policy for the Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority shall submit the legal documentation for review by the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of the Series 2007 Bonds Outstanding or unless such default has been cured in accordance with the HVHC Resolution, the Authority shall take all action necessary to assign the Note and the Mortgage to FHA and to recover such claim on the Mortgage Insurance; or

(b) enter into an agreement with the Institution, approved by FHA, extending the time for curing such default; provided that the Rating Service has been notified that the time for curing such default has been extended and confirmation has been received from the Rating Service that its rating for the Series 2007 Bonds will not be adversely affected.

Prior to the date the Note and the Mortgage are assigned to FHA, the Institution may cure a monetary default, in which event the Authority shall withdraw its notice of assignment to FHA. In all cases, the Authority must have first received written confirmation from FHA that the withdrawal of any notice of assignment or election to receive FHA Mortgage Insurance Benefits of the Note and the Mortgage will not adversely affect the Mortgage Insurance, or be construed as a waiver or reduction thereof.

In connection with an assignment to FHA of the Note and Mortgage, the FHA Mortgage Insurance Benefits are payable in an amount equal to the aggregate of (1) the unpaid principal amount of the Note, computed as of the date of default; plus (2) the amount of all payments made by or on behalf of the Authority, as mortgagee, with respect to taxes, special assessments and water charges, which are liens prior to the Mortgage, insurance on the property, mortgage insurance premiums paid after default, and an allowance for reasonable payments made, with FHA approval, for the completion and preservation of the Mortgaged Property. From the aggregate of the foregoing amount is deducted the total of (a) an assignment fee of 1% of the unpaid principal balance of the Note as of the date of default, (b) certain amounts which have been realized by or on behalf of the Authority, as mortgagee, on account of the Note or from the Mortgaged Property after the date of default, (c) certain cash items held by or on behalf of the Authority, as mortgagee, and not paid over to FHA, and (d) other offsets as described below.

The proceeds of the Mortgage Insurance will not include interest accruing on the Note for the month preceding the date of default on the Note or Mortgage. Interest is payable on FHA Mortgage Insurance Benefits at the applicable debenture rate, which is the higher of the rate in effect on the date of the Commitment or on the date of Initial Endorsement. The applicable debenture rate for the Note will be not less than 5.0%. Because FHA has agreed to pay the FHA Mortgage Insurance Benefits in cash rather than debentures, the FHA Mortgage Insurance Benefits will include an amount equivalent to the debenture interest, i.e. not less than 5.0%, that would have been earned on the portion of insurance benefits so paid in cash from the date of default on the Note or Mortgage until the date payment of the FHA Mortgage Insurance Benefits is made. However, if the Authority, as mortgagee, fails to give FHA notice of default or fails to take any action required of a mortgagee in connection with a mortgage insurance claim by the time stipulated in the regulations, and in a manner satisfactory to FHA, FHA may pay the Authority interest at the debenture rate on the amount of the FHA Mortgage Insurance Benefits only from the date notice of default was given, in the case of failure to give timely notice, or to the date on which the particular required action should have been taken or to which it was extended.

Prior to actual assignment of the Note and Mortgage to FHA and receipt of FHA Mortgage Insurance Benefits, the Authority, as mortgagee, must also satisfy certain legal requirements including submission of a title insurance policy showing that no liens or encumbrances (except those approved by FHA) are superior to the liens of the Mortgage. As part of the assignment process, the Authority, as mortgagee, is

also required to submit certain additional documentation to FHA within 45 days from the date the Note and the Mortgage are assigned to FHA. The documentation required to be supplied to FHA includes, but is not limited to, the Note, the Mortgage, the Security Agreement, financing statements, assurances of completion, title insurance policy and hazard insurance policy, together with assignments of such documents to FHA. Upon receipt of the notification of default and an assignment to FHA in exchange for FHA Mortgage Insurance Benefits, FHA reviews the documentation to determine compliance with its fiscal and legal requirements.

In connection with a claim for FHA Mortgage Insurance Benefits, FHA may require delivery to it of certain cash items. Cash items are defined to include, among other things, any cash held by or on behalf of the mortgagee which has not been applied to reduce the Note, funds held by the mortgagee for the account of the mortgagor, and any undrawn balance under letters of credit used in lieu of a cash deposit relating to the Note. The mortgagee is responsible for all funds in its custody and must therefore obtain approval from FHA (and others when required) prior to release of any funds which may be in its possession. Failure properly to protect such funds, including letters of credit, may result in a deduction from the FHA Mortgage Insurance Benefits with respect to the Note and Mortgage in an amount equal to funds FHA asserts should have properly been held as a deposit.

When FHA pays Mortgage Insurance Benefits in cash, rather than in FHA debentures, its normal practice is to offset certain cash items held by the Authority, as FHA mortgagee, against the amount of the Mortgage Insurance Benefits. When FHA pays a claim in FHA debentures, however, it normally does not offset the cash items, but requires the mortgagee to pay the cash items to it, and pays the claim in FHA debentures. Although FHA may require the reduction of the Mortgage Insurance Benefits by the amount of certain cash items held by the Authority, as FHA Mortgagee, FHA will not require a reduction by the amount held in certain other funds and accounts held by the Authority for the benefit of the Series 2007 Bonds.

The timing of payment of Mortgage Insurance Benefits by FHA is subject to change depending upon overall FHA policy considerations and work load. Mortgage Insurance payments may be delayed if disputes arise as to the amount of the payment, or for other reasons described under “PART 12 — BONDHOLDERS’ RISKS” herein. Accordingly, no assurance can be given as to when Mortgage Insurance Benefits will be available for redemption of the Series 2007 Bonds. Although the Debt Service Reserve Fund would be available to pay debt service on the Series 2007 Bonds during the period prior to payment by FHA in full of any mortgage insurance claim, there is no assurance that the mortgage insurance claim would be paid in full prior to exhaustion of the funds in such Debt Service Reserve Fund.

FHA is authorized to borrow from the United States Treasury amounts which it determines to be necessary to make cash payment under the National Housing Act, as amended. The National Housing Act, as amended, contains authorization to appropriate such sums as may be necessary to cover losses sustained by the FHA General Insurance Fund. Annual appropriation acts of the United States Congress have in the past appropriated such sums. No assurances can be given regarding future appropriations.

In order to receive mortgage insurance benefits, FHA requires, in the assignment process, that the mortgagee warrant that (1) no act or omission of the mortgagee has impaired the validity and priority of the mortgage; (2) the mortgage is prior to all mechanics’ and materialmen’s liens filed of record subsequent to the recording of the mortgage, regardless of whether such liens attached prior to the recording date; (3) the mortgage is prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of the mortgage except such liens or other matters as may be approved by FHA; (4) the amount stated in the instrument of assignment is actually due under the mortgage and there are no offsets or counterclaims against such amount; and (5) the mortgagee has a good right to assign the mortgage. In assigning its security interest in chattels, including

materials, located on the premises covered by the mortgage, or its security interest in building components stored either on-site or off-site at the time of assignment, the mortgagee is required to warrant that (a) no act or omission of the mortgagee has impaired the validity or priority of the lien created by the chattel security instruments; (b) the mortgagee has a good right to assign the security instruments; and (c) the chattel security instruments are a first lien on the items covered by the instrument except for such other liens or encumbrances as may be approved by FHA.

Casualty Insurance Requirements

FHA requires the maintenance of specified casualty insurance on the Mortgaged Property. The mortgagee must obtain such coverage in the event the mortgagor fails to do so. If the mortgagee fails to pay any premiums necessary to keep the Mortgaged Property so insured, the Mortgage Insurance may be terminated at the election of FHA. Alternatively, failure to maintain such insurance may result in loss of Mortgage Insurance Benefits in the event that the Mortgage is assigned to FHA and there are uncompensated amounts arising out of a casualty loss, unless, at the time the Mortgage was initially endorsed, the Project or Mortgaged Property was covered by casualty insurance and such insurance was later cancelled or not renewed and the mortgagee gave notice thereof to FHA within thirty days (or within such further time as FHA may approve) accompanied by a certification that diligent efforts to obtain casualty insurance at reasonably competitive rates were unsuccessful and that efforts to obtain adequate insurance coverage at competitive rates will be continued.

Under FHA regulations, if a mortgagee receives proceeds from any policy of casualty insurance, it may exercise its option under the mortgage to use such proceeds for repairing, replacing or rebuilding the mortgaged property, but it may not make any other disposition of the proceeds (such as application to the mortgage indebtedness) without FHA's prior written approval. If FHA fails to give its approval to the use of the insurance proceeds within sixty days after written request by the mortgagee, the mortgagee may use or apply the funds for any of the purposes specified in the mortgage without prior FHA approval.

In the event that casualty insurance proceeds are received, a determination will be made by the Authority, in consultation with the Institution, whether to apply the casualty insurance proceeds to rebuilding the Mortgaged Property or, subject to the rights of others pursuant to the 1993 FHA 242 Loan, the prepayment of all or part of the Note. If a portion of such proceeds are applied to prepayment of the Note, they shall be deposited in the Redemption Account for application to the Extraordinary Mandatory Redemption of all or a portion of the Series 2007 Bonds. See "PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds" herein.

PART 6—CERTAIN PROVISIONS OF THE FHA DOCUMENTS

The Note

Pursuant to the Commitment, FHA agreed to insure the Note in the aggregate amount of \$71,740,000. The Note will bear interest at a rate of 6.20% from Initial Endorsement up to and including February 28, 2010. Commencing on April 1, 2010, the Note will require equal monthly payments of principal and interest for a period of 300 months at an interest rate of 5.0%. However, if it is determined at Final Endorsement that the rate on the Note can be further reduced, the Authority may consent to such a reduction; provided, however, that such a reduction only will be made to the extent that the timely payment of principal and interest on the Series 2007 Bonds will not be adversely affected.

Payments on the Note are made by the Institution to the Mortgage Servicer, on behalf of the Authority, as mortgagee, on the first day of each month. These payments less the Servicing Fees and

Mortgagee Advances (if any) will be pledged to the Series 2007 Bonds. In the event the Institution fails to make any payment on the Note when due, and such failure continues for a period of 30 days, the entire amount of the Note may be declared due and payable by the mortgagee. A default by the Institution on certain other FHA-insured indebtedness may result in a default under the Note and Mortgage. See “PART 1 - INTRODUCTION.”

Prepayment Provisions

The Note provides that it cannot be prepaid (other than with the proceeds of FHA Mortgage Insurance Benefits, insurance or condemnation awards, the proceeds of a refinancing required by FHA in order to avoid a claim for FHA Mortgage Insurance Benefits or in connection with Final Endorsement after completion of the Project) in whole or in part prior to August 15, 2017. On or after August 15, 2017, subject to FHA approval, the Note may be prepaid in whole or in part at any time in immediately available funds upon at least 123 days’ prior written notice of such prepayment to the Authority or such shorter period as the Authority may approve.

All such prepayments shall be made at a price equal to the amount of such prepayment plus interest accrued to the date on which such prepayments are made. Additional costs may be required to be paid by the Institution which are related to the costs of the Authority to redeem Series 2007 Bonds. Upon prepayment in part, payment of the remaining principal amount of the Note will be recast over the remaining term to its maturity so as to be payable in approximately equal monthly amounts which, when applied first to interest on the outstanding balance and the remainder to principal, will be sufficient to repay the amounts due on the Note by such maturity subject to FHA approval. See “PART 5 — FHA MORTGAGE INSURANCE.”

The Mortgage

The Mortgage (in the form prescribed by FHA) will be executed by the Institution and delivered to the Authority, as FHA mortgagee. Until the final payment of the Note, the Institution agrees not to sell, encumber or alienate the Mortgaged Property in any way without the consent of the Authority and FHA except as otherwise permitted pursuant to the FHA Documents. The Institution also covenants that (i) it will not voluntarily create or permit to be created any other lien or liens against the Mortgaged Property without the consent of FHA and the Authority except as otherwise permitted by the FHA Documents or (ii) execute or file for record any instrument which imposes a restriction upon the sale or occupancy of the Mortgaged Property on the basis of race, creed or color.

In the event the Institution fails to pay any of the sums required to be paid under the Note or Mortgage, the Authority, at its option, may pay such amounts. The Mortgage provides that all sums paid by the Authority may be added to the principal amount of the Note, bear interest at the rate set forth in such Note and will be due and payable on demand. A default by the Institution on certain other FHA-insured indebtedness may result in a default under the Note and Mortgage and may at the option of FHA result in an assignment of the Note and Mortgage to FHA for purposes of Mortgage Insurance Benefits. See “PART 1 - INTRODUCTION.”

The Institution agrees that, in addition to payments for debt service due on the Note, it will pay monthly amounts to provide for the payment when due of premiums on the FHA Mortgage Insurance, casualty insurance, water charges, and taxes and assessments. If not so paid by the Institution, the Authority may pay such items and the amounts so paid shall be added to the Institution’s indebtedness. The Institution may make no structural alterations without consent of the Authority and FHA.

The Institution is required to keep the property insured against casualties as stipulated by FHA, such insurance to be carried for terms and with companies acceptable to the Authority, as FHA mortgagee. Coverage shall not be less than the greater of 80% of the actual cash value of the insurable improvements and equipment or the aggregate unpaid balance of the Note. Policies shall be endorsed with a standard mortgage clause, payable to the Authority. Any awards or claims for damages arising on account of condemnation are payable or assigned to the Authority, as FHA mortgagee, to the extent of the indebtedness. Under the Mortgage, the Institution covenants that it will not commit or permit waste and that it will maintain the Mortgaged Property in good repair and will promptly comply with all applicable laws and regulations affecting the property. If the Institution fails to make any required inspection, repair, care or attention of any kind to the property, the Authority, in its discretion, may do so, and the cost thereof shall be added to the Institution's indebtedness.

In the event of a default under the Note or the Mortgage, any sums owed by the Institution to the Authority under any of the FHA Documents shall, at the option of the Authority, become immediately due and payable. In the Mortgage, the Institution expressly provides that the Authority may sell the Mortgaged Property at public auction and convey the same to the purchaser; however, the HVHC Resolution does not authorize the Authority to sell the Mortgaged Property but only provides for the Authority to assign the Note and the Mortgage to FHA in the event of a default thereunder.

The Mortgage also provides that in the event of a default under the Mortgage all payments made by the Authority to remedy a default by the Institution and the total of any payments due from the Institution to the Authority under the loan documents may be added to the debt secured by the Mortgage and repaid to the Authority upon demand. In addition, the Mortgage provides that any such amount shall be a lien against the Mortgaged Property prior to any other lien attaching or accruing subsequent to the lien of the Mortgage. It is not anticipated that the Authority will advance moneys under the above circumstances.

Pursuant to the terms of the HVHC Resolution, the FHA Documents may be amended by the parties thereto, provided that no such amendments may have a material adverse effect on the security for the Series 2007 Bonds.

The Authority may accelerate the indebtedness if any payment shall be overdue by 30 days, or, at its option or if directed by FHA, if the Institution fails to perform any other covenant in the Note and the Mortgage and fails to cure any such default within 30 days subject to certain FHA approvals. See "PART 5 — FHA MORTGAGE INSURANCE."

Upon satisfaction of the Note, in accordance with its terms and upon execution by the Institution of all agreements and stipulations set forth in the Mortgage, the FHA mortgagee will execute a corresponding release and cancellation of the Mortgage.

For a description of the Institution's other FHA-insured mortgage, see "PART 1 — INTRODUCTION — Description of the Program."

The Building Loan Agreement

The Building Loan Agreement (in the form prescribed by FHA) (the "Building Loan Agreement") will be executed by the Institution in connection with the Project, as borrower and mortgagor, and the Authority, as FHA mortgagee. The Building Loan Agreement provides that: (1) the Project be completed in accordance with the drawings and specifications of the architect; (2) any changes in the specifications be approved by the architect and any changes in construction cost also be approved by FHA; (3) advances for construction be made only for work completed and material and equipment stored on the site (unless otherwise approved by FHA), subject to a 10% retainage until completion of the Project (unless a lesser

retainage is permitted by FHA); (4) all advances be subject to prior approval of the Authority, as FHA mortgagee, and FHA; (5) the Institution furnish, prior to the first advance, a title insurance policy or policies for the benefit of the Authority, as FHA mortgagee, and FHA which policy or policies will be endorsed to cover each advance; (6) there be deposited with the Authority, as FHA mortgagee, appropriate liability and casualty insurance policies or adequate proof of self-insurance; and (7) to assure completion of the Project, the contractor provide performance and payment bonds or other assurance required by FHA.

FHA and the Authority, as mortgagee, may, in their discretion, approve a construction cost increase but not until the Institution deposits with the Authority sufficient funds to cover the increase or concurrently submits a change order which will reduce construction costs by an amount corresponding to the increase. Under the Building Loan Agreement, the Authority is required to continue to make advances to the Institution provided there has been no default by the Institution thereunder.

A failure to complete the Project within the building loan term because of cost overruns or otherwise would constitute a default under the Note and the Mortgage, in which case the Authority would be entitled to exercise its right to assign the Note and the Mortgage to FHA and to file a claim for the FHA Mortgage Insurance Benefits in accordance with applicable FHA regulations.

The Regulatory Agreement

The Regulatory Agreement will be entered into between the Institution and FHA and sets forth certain of the Institution's obligations in connection with the management and operation of the Institution and the Project. The Regulatory Agreement is incorporated by reference into the Mortgage.

The Regulatory Agreement prohibits the use of the Project for any purpose other than the purposes for which it was intended. The Regulatory Agreement also prohibits the conveyance, transfer or encumbrance of the property or any personal property of the Project. The Regulatory Agreement also provides that the Institution may use all rents and other receipts from the Project only for expenses of the Institution including reasonable operating expenses and necessary repairs.

The Regulatory Agreement provides that the Institution may not, without prior written approval of FHA, remodel, add to or demolish any part of the Project. The Institution also is required to maintain the Project in good repair.

In the event of a default under the Regulatory Agreement, the Regulatory Agreement provides that FHA may notify the FHA mortgagee of the default and request the FHA mortgagee to declare a default under the Mortgage and the Note. The Authority, as FHA mortgagee, is not a party to the Regulatory Agreement and, therefore, may not directly declare the Institution in default thereunder.

PART 7—THE PROJECT

Proceeds from the Series 2007 Bonds will be used, together with funds from the Institution, to finance or refinance the costs of improvements to and the expansion of HVHC's existing facilities at its campus in Cortlandt Manor, New York, including the design, construction and equipping of: (i) a new four-story, approximately 85,000 square foot, South Wing building, which is to include 84 medical surgical beds, a new main lobby, admitting and hospitality areas, expansion of the existing emergency department and a partial basement for mechanical services; (ii) a new four-story (plus basement), approximately 3,000 square foot, enclosed corridor linking the new South Wing to the existing building; (iii) a new patient transport elevator serving the new connecting corridor; (iv) a new two-story, approximately 16,300 square

foot, North Wing building which is to include an expanded surgery suite; (v) a new, approximately 3,000 square foot, rooftop addition to the existing second floor progressive care unit; (vi) interior renovations to the Institution's existing hospital facilities, including renovations to the existing progressive care unit, ambulatory surgery, surgery and emergency departments; and (vii) site modifications, including a new vehicular entrance, turnaround and exit as well as enhanced parking. Miscellaneous construction, equipment and/or other capital expenditures at the above-referenced location may also be financed from the proceeds of the Series 2007 Bonds.

The number of certified beds will remain at 128 beds and 24 bassinets. Four general medical surgical beds will be converted to progressive care beds. Currently, many of the Hospital Center's rooms are semi-private which does not permit the Hospital Center to utilize its full number of certified beds. The Project will convert all patient rooms to private, which will allow greater bed utilization. Construction is expected to commence in October of 2007 and take 27 months to complete. Proceeds of the Series 2007 Bonds will also be used to (i) make the required deposit to the Reserve Account of the Debt Service Reserve Fund; (ii) pay the Costs of Issuance of the Series 2007 Bonds and (iii) pay a portion of the interest to accrue on the Series 2007 Bonds during the construction period of the Project. See "PART 8 — ESTIMATED SOURCES AND USES OF FUNDS." The proceeds of the Series 2007 Bonds will be loaned by the Authority to the Institution pursuant to the Loan Agreement and the portion to be applied to the Costs of the Project will be disbursed by the Authority, as FHA mortgagee, pursuant to the provisions of the Building Loan Agreement and the Servicing Agreement.

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PART 8—ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal amount of the Series 2007 Bonds	\$ 75,065,000
Original Issue Premium.....	2,734,827
Equity contribution from HVHC	8,312,852
Total Sources of Funds	<u>\$ 86,112,679</u>
Uses of Funds:	
Deposit to the Construction Fund ⁽¹⁾	\$ 80,080,679
Deposit to Series 2007 Debt Service Reserve Fund.....	5,580,000
Deposit to Series 2007 Debt Service Fund	452,000
Total Uses of Funds	<u>\$ 86,112,679</u>

(1) Includes deposit to Mortgage Account of \$71,740,000. Amounts in certain accounts of the Construction Fund will be applied to pay \$3,622,234.89 for the bond insurance premium, the New York State bond issuance charge, underwriters’ discount, the Authority fee, State Department of Health fee and certain other fees and expenses related to the financing.

PART 9—THE MORTGAGE SERVICER

Tyll & LaVigne, Inc., a New York corporation, located in Saratoga Springs, New York has agreed to service the Mortgage under the terms of the Servicing Agreement. Tyll & LaVigne, Inc. is an approved FHA mortgagee qualified to service loans insured by FHA under Sections 223, 232, 241 and 242 of the National Housing Act, as amended.

Tyll & LaVigne, Inc. is currently serving as mortgage servicer for 16 hospital and nursing home loans insured by FHA with a total original principal amount of approximately \$1,770,546,200.

PART 10—THE HOSPITAL CENTER

Forward-Looking Statements

CERTAIN STATEMENTS IN THIS PART 10 AND ELSEWHERE IN THIS OFFICIAL STATEMENT THAT RELATE TO THE HOSPITAL CENTER ARE FORWARD-LOOKING STATEMENTS THAT ARE BASED ON THE BELIEFS OF, AND ASSUMPTIONS MADE BY, THE MANAGEMENT OF THE HOSPITAL CENTER. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS OR PERFORMANCE OF THE HOSPITAL CENTER TO BE MATERIALLY DIFFERENT FROM ANY EXPECTED FUTURE RESULTS OR PERFORMANCE. SUCH FACTORS INCLUDE BUT ARE NOT LIMITED TO, ITEMS DISCUSSED IN “PART 11 – GENERAL FACTORS AFFECTING THE INSTITUTION’S REVENUES AND EXPENSES.”

Introduction

The Hospital Center is a voluntary, not-for-profit acute care community hospital located in the Town of Cortlandt Manor, Westchester County, New York. Presently, the Hospital Center provides medical,

surgical, pediatric and maternity services and has a certified bed capacity of 128. It was incorporated on July 27, 1911 as The Peekskill Community Hospital and changed its name to Hudson Valley Hospital Center on November 20, 1991.

Services and Programs

The Hospital Center offers diagnostic and therapeutic services on an inpatient and outpatient basis. As of September 1, 2007, the Hospital Center’s certified bed complement was allocated among the following services:

Service	Certified Beds [*]
Medical – Surgical	82
Intensive Care Unit.....	10
Progressive Care Unit	8
Pediatrics	6
Maternity	14
Neonatal Intensive Care Unit.....	8
Total	128

* Excludes 24 newborn bassinets.

The Hospital Center provides services in medicine, family practice, surgery, obstetrics/gynecology, pediatrics and several sub-specialties including anesthesiology, dentistry, diagnostic imaging, emergency medicine, internal medicine, laboratory medicine, neurology, neurosurgery, ophthalmology, oral surgery, orthopedics, otolaryngology, plastic surgery, psychiatry and urology. The Hospital Center operates a 24 hour emergency services department. Its diagnostic imaging department, laboratory medicine and cardio-pulmonary services offer a wide range of diagnostic tests and treatments for inpatients and outpatients. The Hospital Center has been designated by the New York State Department of Health as a Stroke Center. The Hospital Center also operates an outpatient methadone maintenance treatment program.

The physical therapy department features services in sports medicine as well as treatments for back and hand injuries. A cardiac rehabilitation program to provide follow up care for cardiac patients as well as a full time occupational therapy program are also offered by the Hospital Center. The Hospital Center’s radiology department provides varied diagnostic modalities including a hospital based computerized tomography (“CT”) scanner and magnetic resonance imaging (“MRI”).

The Hospital Center leases space in a professional building in the municipality of Croton located approximately ten miles south of the Hospital Center where it offers outpatient diagnostic radiology services, laboratory services and physical therapy treatments.

As a community hospital, the Hospital Center focuses on excellence in healthcare services and community satisfaction. The Hospital Center was designated as one of the Ten Best Places to Work in Westchester County by Westchester County Magazine in 2007, and received a 2006 Forbes Magazine Enterprise Award for Innovation in Healthcare Delivery. In 2007, the Hospital Center earned designation by the American Nurses Credentialing Center as a Magnet hospital based on excellence in nursing services, an award given to less than 5% of hospitals nationwide. The Hospital Center has a ‘no wait’ emergency room where patients are referred upon arrival to a registered nurse and then placed in treatment space.

Existing Facilities

The Hospital Center’s main campus is located on an approximately 12 acre site in Cortlandt Manor, Westchester County, New York. The following table sets forth the principal patient care, ancillary and support services buildings owned by the Hospital Center, each building’s approximate year of construction (or, if applicable, substantial renovation), its approximate gross square footage and the principal facilities or services contained therein:

Principal Patient Care, Ancillary and Support Services Buildings Owned by the Hospital Center

Building	Approximate Year of Construction or Substantial Renovation	Approximate Gross Square Footage	Principal Facilities and Services
Hospital Building	1966	70,578	Patient Rooms, Operating Rooms, Physical Therapy, Occupational Therapy, Education, Pharmacy, Maintenance, Dietary, Cafeteria, Volunteers, Administration, Registration, Cashiers, Lobby, Laboratory, Medical Records
Grounds Maintenance Building	1975	1,064	House, Lawn and Garden Equipment and Maintenance Supplies
Turner Pavilion	1978	30,792	Intensive Care Unit, Purchasing, Mechanical, Central Sterile, Storeroom, Emergency Room, Radiology, Cardiac Rehabilitation, Electrocardiography/ Electroencephalography, Respiratory Therapy
Annex Building	1986	4,080	Finance Departments (Accounting, Patient Accounting, Management Information Systems), Marketing/Public Relations and Storage
1993 Building	1995	56,293	Surgical Suite, Emergency Department, Laboratory Services, Education Department and Mechanical Space

Governance and Related Entities

The Hospital Center, a New York not-for-profit corporation, received a determination letter from the Internal Revenue Service that it is qualified as an exempt organization under Section 501(c)(3) of the Code. The Hospital Center has a sole corporate member – Westchester Putnam Health Management Systems, Inc. (“WPHMS”), a New York not-for-profit corporation which is also qualified as an exempt organization under Section 501(c)(3) of the Code. WPHMS and Sound Shore Health System, Inc. (the sole member of Sound Shore Medical Center, a 326-bed acute care private teaching hospital located in New Rochelle and Mount Vernon Hospital, a 228-bed acute care community hospital located in Mt. Vernon) are participants in a healthcare alliance through Pinnacle Healthcare, Inc. (“Pinnacle”). Westchester County Medical Center, an approximately 956-bed teaching hospital located in Valhalla, New York, is also a member of Pinnacle pursuant to an agreement which will expire in August, 2008.

Pinnacle, a New York Not-for-Profit Corporation, was formed for the charitable purpose of benefiting and supporting the healthcare alliance and presently provides primarily managed care contracting services to its participants. Pinnacle is the sole member of WPHMS and Sound Shore Health System, Inc.

The Hospital Center is governed by its Board of Directors (the “Board”). Directors are elected by WPHMS and serve three-year terms with no director, other than officers, holding office for more than two successive terms unless one year has elapsed from the end of the Director’s last term. The Officers of the Board are elected by the Directors at the annual meeting. The Board is scheduled to meet every other month.

The voting Directors and officers of the Board as of September 1, 2007, their year of first appointment and their principal occupations were as follows:

Name/Office	Year First Appointed	Occupation
Edward B. MacDonald, Jr. <i>Chairman</i>	1990	Vice President – Administration and Finance; Jacob Javitz Center Community Member
Minerva Abramson <i>Vice Chairman</i>	1971	
Sheila Drogy <i>Second Vice Chairman</i>	1991	Corporate Secretary; Terrace Management, Inc. (catering)
Jeffrey Sweet <i>Third Vice Chairman</i>	1973	Retired Vice Chairman; Workers Compensation Board of the State of New York
Aram Casparian <i>Secretary</i>	1989	Retired School Superintendent; Lakeland School District
The Hon. George Oros <i>Assistant Secretary</i>	2000	Attorney and Westchester County legislator
Philip Ambrosino <i>Treasurer</i>	1984	Principal; Lieberman Research Associates (market research)
John Testa <i>Assistant Treasurer</i>	1994	Insurance Broker; Brincherhoff-Neuville, Inc.
Lawrence Baskind, M.D.	2004	Physician
John Patrick Dugan	2002	Chairman; PDI, Inc.
Richard Esposito	2004	Principal; Esposito Builders, Inc.
Harry J. Greeley	2002	Vice President; Cushman & Wakefield, Inc.
Sheila Guida	2001	Retired Administrative Assistant; Empire Blue Cross/Blue Shield
William Higgins, M.D.	2006	Physician
James Kane	1981	Retired Vice President; Peoples Westchester Bank
Michael R. Kansler	2005	President and Chief Nuclear Officer, Entergy Corporation
John McGurty, Jr. M.D.	2004	Physician
The Hon. Stephen J. Mignano	1997	Judge; New York State Court of Claims
Valerie Zarcone, D.O.	2006	Physician

The Board has ten standing committees: the Executive Committee; the Performance Improvement Committee; the Finance Committee; the Nominating Committee; the Personnel Committee; the Joint

Conference Committee; the Planning Committee; the Development and Community Relations Committee; the Methadone Advisory Committee and the Ethics Committee.

The Executive Committee has the power to transact all regular business of the Hospital Center in the intervals between meetings of the Board, subject to certain limitations set forth in the Hospital Center's corporate bylaws and the New York Not-for-Profit Corporation Law. The Executive Committee also exercises the Board's planning functions. The Performance Improvement Committee evaluates and monitors the quality of care and clinical performance at the Hospital Center and is responsible for developing a written Performance Improvement plan for each department. The Finance Committee is responsible for all matters relating to the financial condition of the Hospital Center including management and investment of all funds of the Hospital Center. The Nominating Committee is responsible for recommending candidates as Directors of the Hospital Center. The Personnel Committee is responsible for recommending policies with respect to discipline, complaints and grievances from, among and with respect to employees of the Hospital Center. It is also responsible for recommending salary scales, contract terms with key personnel and personnel practices regarding employee relations. The Joint Conference Committee conducts itself as a forum for the discussion of matters of policies and practices of the Hospital Center, especially those pertaining to efficient and effective patient care, and serves as a medico-administrative liaison with the Board of Directors, the Medical Staff and the Administration of the Hospital Center. The Planning Committee is responsible for developing the Hospital Center's long range plans and goals. The Development and Community Relations Committee is responsible for fund raising and public relations. The Methadone Advisory Committee is responsible for review of the Methadone Maintenance Treatment Program activities, budget and public relations. Finally, the Ethics Committee reviews all proposed transactions and contracts between members of the Board of Directors and the Hospital Center to ensure that such transactions and contracts are fair and reasonable to the Hospital Center.

Conflicts of Interest Policy

The Hospital Center's bylaws require any duality of interest or possible conflict of interest on the part of any Director or Officer to be fully disclosed to the Board. Directors and Officers are required to file an annual statement disclosing any substantial financial interest in an entity contracting or transacting business with the Hospital Center. If a Board member has a duality of interest or possible conflict of interest on any matter, the member may not vote or use personal influence on the matter. The Hospital Center is subject to the conflict of interest provisions of the New York Not-for-Profit Corporation Law with respect to contracts or other transactions with members of the Board or Officers of the Hospital Center.

Related Entities

WPHMS is the sole member or sole stockholder, as applicable, of the following entities in addition to the Hospital Center:

The Foundation of Hudson Valley Hospital Center, Inc. – The Foundation of Hudson Valley Hospital Center, Inc. (the "Foundation") is a New York not-for-profit corporation whose principal activity is the solicitation of contributions from the public through direct mailings and fund raising programs on behalf of the Hospital Center.

Hudson Valley Ventures, Inc. – Hudson Valley Ventures, Inc. is a for profit corporation that subleases office building space to the Hospital Center. Hudson Valley Ventures, Inc. is also the sole shareholder of Yorktown Imaging Ventures, Inc., a for-profit corporation that owns a minority interest in an imaging center in Yorktown.

A.C. Ventures, Inc. – A.C. Ventures, Inc. is a for-profit corporation that purchases office space which it leases to various physicians in Cold Spring. It also leases office space to the Hospital Center.

KNOWA Ventures, Inc. – KNOWA Ventures, Inc. is a for profit corporation that leases office space and subleases office space to various physicians in Yorktown. It also subleases office space to the Hospital Center.

None of WPHMS, the Foundation, Hudson Valley Ventures, Inc., A.C. Ventures, Inc. or KNOWA Ventures, Inc. is obligated to pay debt service on the Series 2007 Bonds.

Management

The senior management of the Hospital Center consists of the President; Vice President – Administration; Vice President – Finance; Vice President – Medical Affairs and Vice President – Patient Services.

John C. Federspiel, President (53). Mr. Federspiel joined the Hospital Center as President in 1987 and is responsible for its overall management. He received a Bachelor of Science degree from Ohio State University and a Master of Business Administration degree from Temple University.

Deborah Lee Neuendorf, Vice President – Administration (54). Ms. Neuendorf joined the Hospital Center in 1996 as Director of Quality Management and assumed her present position in 2001. She is responsible for various professional departments and support services of the Hospital Center including radiology, laboratory, rehabilitation services, Wellness Club and health information. She received a Bachelor of Science degree from the University of Kentucky, a Bachelor of Science in Nursing degree from St. Louis University and a Master of Science in Nursing degree from Emory University.

Mark E. Webster, Vice President – Finance (51). Mr. Webster joined the Hospital Center in 1989 in his present position and is responsible for all fiscal services, management information systems, communications and engineering. He received a Bachelor of Science degree from Miami University and a Master of Science degree in finance from Walsh College. Mr. Webster is the husband of Kathleen Webster, R.N., Vice President- Patient Services.

Robert J. Bernasek, M.D., Vice President – Medical Affairs (54). Dr. Bernasek was appointed to his present position in 2006. He is and has been a member of the medical and dental staff of the Hospital Center since 2006. Prior to joining the Hospital Center, Dr. Bernasek was the Medical Director, Connecticut Hospital Care Specialists, Bridgeport Hospital Primary Care Center and Southern Connecticut Health Network, all in Bridgeport, Connecticut (1996 – 2006). He received a Bachelor of Arts degree from Dartmouth College and a Doctor of Medicine degree from University of Kansas. He is board certified in internal medicine and hematology.

Kathleen Webster, R.N., Vice President – Patient Services (54). Ms. Webster joined the Hospital Center in 1976 and assumed her current position in 1996. She received a Bachelor of Science in Nursing degree from Hartwick College and a Master of Science degree in nursing administration from Pace University. Ms. Webster is the wife of Mark E. Webster, Vice President – Finance.

Medical and Dental Staff

As of December 31, 2006, there were approximately 343 physician and dentist members of the medical and dental staff of the Hospital Center holding appointments in five categories: active staff (265); affiliated staff (0); courtesy staff (54); consulting staff (22); and honorary staff (2). The medical

and dental staff is organized into eight clinical departments: medicine, surgery, pediatrics, obstetrics and gynecology, emergency medicine, diagnostic imaging, laboratory medicine and anesthesiology. As of December 31, 2006, approximately 94% of the active medical and dental staff members were board certified in one or more of their specialties, and the average age of the members of the medical and dental staff with admitting privileges was approximately 49 years. In 2006, the ten highest admitting physicians accounted for approximately 41.4% of total admissions. As of December 31, 2006, nine of the ten highest admitting physicians were under 60 years of age and their average age as of December 31, 2006 was approximately 44.6 years. Of the ten highest admitting physicians, eight were employees of Hospital Medicine Associates, P.C. (the “Hospitalist PC”), the hospitalist practice under contract with the Hospital Center.

Approximately 80% of the primary care physicians of the Hospital Center use the hospitalist program for admission and care of their patients in the Hospital Center. The Hospitalist PC is required to maintain a minimum of two physicians on site at the Hospital Center at all times and has responsibility for admission of patients as well as care during their stay. The hospitalist program improves throughput of patients and provides for better communications with the admitting physician. For the seven-month period ended July 31, 2007, eight of the ten highest admitting physicians were from the Hospitalist PC and accounted for 49.2% of the admissions to the Hospital Center.

The following table summarizes the active medical and dental staff composition by clinical service, the number of physicians and dentists, their average age and the percent of those physicians/dentists who are board certified:

Active Medical and Dental Staff Composition as of December 31, 2006

Department	Number	Average Age (Years)	% Board Certified
Anesthesiology	10	59	90%
Diagnostic Imaging	35	45	94%
Emergency Medicine	14	44	85%
Laboratory Medicine	8	47	100%
Medicine	135	51	92%
Obstetrics and Gynecology	7	48	100%
Pediatrics	23	49	100%
Surgery	33	49	95%
Total	265	49	94%

Source: Hospital Center records

Service Area, Other Area Hospitals and Utilization

Service Area

The Hospital Center’s service area consists of northern Westchester County and Putnam County. The Hospital Center’s service area had an estimated 2005 population of approximately 152,917 that is projected to increase approximately 5.3% to approximately 160,999 in 2011.¹ Individuals aged 65 and over accounted for approximately 12% of the Hospital Center’s service area total estimated population in 2005 and are projected to increase approximately 1.9% from 2005 to 2011.¹ Individuals aged 85 and over accounted for approximately 1.7% of the Hospital Center’s service area total estimated population in 2005 and are projected to increase approximately 0.3% from 2005 to 2011.¹ Between 2000 and 2005, the median income in the Hospital Center’s service area grew 16.1% from \$77,162 to \$89,606.² From 2000

¹ Source: Claritas, Inc. via Solucient Market Planner Plus based on 2000 census.

² Source: Solucient Market Planner Plus; most recent data available

through 2005, the unemployment rates for Westchester and Putnam counties have ranged from 3.4% – 4.6% and 2.9% – 4.0%, respectively, both below the New York and national unemployment rates.

The Hospital Center experienced a 3.0% increase in cases between 2003 and 2005. A summary of the changes in the Hospital Center cases by neighborhood from 2003 to 2005 is set forth in the following table:

Neighborhood	2003 Cases*	2005 Cases*
Peekskill	1,416	1,605
Cortlandt Manor	800	791
Yorktown.....	716	687
Montrose.....	286	266
Mohegan Lake.....	281	313
Putnam Valley.....	295	287
Croton on Hudson	249	229
Cold Spring.....	169	194
Garrison	183	163
Mahopac	155	149
Buchanan.....	102	105
Lake Peekskill	90	91
Verplanck	104	94
Shrub Oak.....	91	85
Other.....	917	962
Total Cases	5,854	6,021

(*) Excludes newborns

Source: Hospital Center records based on most recent data available

Other Area Hospitals

The Hospital Center considers its principal competitors in its existing service area to be Northern Westchester Hospital Association, Mt. Kisco (“NWA”), Phelps Memorial Hospital Center, Sleepy Hollow (“Phelps”), Putnam Hospital Center, Carmel (“Putnam”) and Westchester Medical Center, Valhalla (“WMC”).

The following table sets forth for the Hospital Center and each of its principal service area competitor hospitals the approximate distance from the Hospital Center, reported beds, discharges, patient days, average length of stay and average occupancy based on reported beds for 2005, the most recent data available.

Approximate Distance from Hospital Center, Reported Beds, Discharges, Patient Days, Average Length of Stay, and Average Occupancy for the Hospital Center and its Principal Service Area Competitors for 2005

Hospital	Approximate Distance from Hospital Center (miles)	Reported Beds	Discharges	Patient Days	Average Length of Stay (days)	Average Occupancy (%)
HVHC.....	-	128	6,021	29,581	4.9	63.3%
NWA.....	15.3	233	8,986	38,773	4.3	45.6%
Phelps	20.3	190	7,375	50,277	6.8	72.5%
Putnam.....	16.2	164	7,032	35,853	5.1	59.9%
WMC	20.8	956	19,037	170,135	8.9	48.8%

NOTE: Discharges and Patient Days exclude newborn and neonatology volumes

SOURCES: Source for all Hospital Center information is Hospital Center records. Source for Reported Beds data is Solucient Provider View. Source for all other information is Hospital Association of New York State Inpatient Database.

NWHA and Phelps are both members of the Stellaris Health Network, a four hospital system with facilities in Westchester County. WMC is a tertiary care center which offers various services that the Hospital Center does not perform. Putnam is a member of Health Quest Systems, Inc., a system with hospitals in Poughkeepsie and Rhinebeck, both in Dutchess County.

The Hospital Center's inpatient medical-surgical, obstetrics and pediatrics market share for the Hospital Center's service area for the year ended December 31, 2005 (the most recent data available) is set forth in the following table:

Hospital Center Service Area Inpatient Market Share by Clinical Service For 2005

Hospital	HVHC	NWHA	Phelps	Putnam	WMC	Other Providers	Total
Medical Surgical	38.5%	12.9%	8.3%	9.3%	12.9%	18.1%	100.0%
Pediatrics	9.0%	16.8%	1.8%	1.5%	46.8%	24.1%	100.0%
Obstetrics.....	43.9%	20.6%	5.3%	8.3%	3.7%	18.2%	100.0%

SOURCES: Source for all Hospital Center information is Hospital Center records. Source for all other information is Hospital Association of New York State Inpatient Database.

Utilization

A summary of historical utilization data for the years 2004, 2005 and 2006 and the seven-month periods ended July 31, 2006 and July 31, 2007 is presented in the following table:

Historical Utilization of the Hospital Center For Years 2004, 2005 and 2006, and for the Seven-Month Periods Ended July 31, 2006 and 2007

	2004	2005	2006	Seven-Month Period Ended July 31,	
				2006	2007
Certified Beds.....	128	128	128	128	128
Total Discharges ⁽¹⁾	6,855	6,922	7,309	3,713	3,717
Patient Days ⁽¹⁾	30,878	31,949	32,445	17,434	17,086
Average Length of Stay (in days).....	4.5	4.6	4.4	4.7	4.6
Average % Occupancy ⁽¹⁾	65.9%	68.4%	69.4%	64.2%	63.0%
Medicare Case Mix Index.....	1.4331	1.3976	1.3758	1.3520	1.3731
All Payor Case Mix Index.....	1.1492	1.1825	1.2283	1.2295	1.2089
Emergency Room Visits					
Treated and Released.....	24,676	26,204	28,082	16,556	16,412
Admitted.....	4,090	4,375	4,893	2,847	2,793
Total.....	28,766	30,579	32,975	19,403	19,205
Ambulatory Procedures and Visits					
Ambulatory Surgery Procedures.....	5,580	5,357	5,360	3,279	3,073
Ambulatory Care Visits.....	4,727	4,524	4,516	2,744	2,672
Total Ambulatory Procedures and Visits .	10,307	9,881	9,876	6,023	5,745

(1) Excludes newborns
Source: Hospital Center records

Management's Discussion of Utilization

From 2004 to 2006 the Hospital Center's total discharges increased 6.6% and the average length of stay was substantially unchanged. As a result, patient days increased 5.1% from 2004 to 2006 and average occupancy rose from 65.9% to 69.4%. The Medicare case mix index (an index based on severity of illness) declined slightly, but the all payor case mix index rose due to an increase in Medicaid medical cases primarily related to tuberculosis diagnoses.

Emergency room visits increased 14.6% from 2004 to 2006 with increases of 13.8% in visits of patients treated and released and of 19.6% in visits of patients leading to their admission. Ambulatory surgery procedures decreased 3.9% from 2004 to 2006 and ambulatory care visits decreased 4.5% due in part to the retirement in 2006 of a longstanding community practitioner from the surgical staff and the reduction in activity preceding retirement. The retired physician's practice was acquired by two young surgeons who are members of the Hospital Center medical staff.

For the seven-month period ended July 31, 2007, total discharges and the average length of stay were substantially unchanged from the comparable prior year period while patient days declined 2.0% and average occupancy fell from 64.2% to 63.0%. Management attributes the absence of growth in discharges to the continuing impact of the retirement of a senior practitioner from the surgical staff and to 54 (1.9%) fewer admissions from the Emergency Room in the first seven months of 2007 compared to the same period in 2006. The Medicare Case Mix Index rose 1.6% due to a severely ill medical patient admitted from a nursing home while the All Payor Case Mix Index decreased 1.7%. Total Emergency Room visits decreased 1.1% during the seven-month period ended July 31, 2007 compared to the same period in 2006. For the seven-month period ended July 31, 2007, ambulatory surgery procedures and ambulatory care visits decreased 6.4% and 2.6% respectively over the comparable prior year period. Management believes these decreases are due to the previously discussed retirement of a senior practitioner and the building of new surgical practices with three new practitioners.

Summary of Historical Revenue and Expenses

The following summary of consolidated statements of operations (the "Summary") for the three years ended December 31, 2004, 2005 and 2006 are derived from the Hospital Center's Financial Statements which have been audited by PricewaterhouseCoopers LLP, independent auditors. The Summary should be read in conjunction with the financial statements and related notes included in Appendix B of this Official Statement. The data in the Summary for the seven-month periods ended July 31, 2006 and 2007, are derived from unaudited financial statements which include all adjustments, consisting of normal recurring accruals, which the Hospital Center considers necessary for a fair presentation of the financial position and results of operations for these periods. The results for the seven-month period ended July 31, 2007 should not be considered indicative of the results for the full fiscal year.

Statements of Operations

	Year Ended December 31,			Seven-Month Period Ended July 31,	
	2004	2005	2006	2006	2007
OPERATING REVENUES:					
Net patient service revenue.....	\$ 84,542,802	\$ 89,517,295	\$ 98,289,988	\$ 57,260,768	\$ 58,066,163
Other operating revenue.....	2,415,522	2,342,573	2,074,555	1,023,456	1,129,808
Total operating revenue.....	<u>86,958,324</u>	<u>91,859,868</u>	<u>100,364,543</u>	<u>58,284,224</u>	<u>59,195,971</u>
OPERATING EXPENSES:					
Salaries.....	34,763,509	37,531,888	41,157,101	23,307,808	25,964,864
Physician fees.....	2,001,851	1,918,099	2,821,028	1,659,681	1,606,134
Fringe benefits.....	6,995,657	7,580,312	8,252,670	4,918,264	5,658,989
Supplies and other expenses.....	28,610,259	27,366,422	31,218,312	17,724,348	17,773,325
Provision for bad debts.....	3,238,525	1,775,068	2,594,010	1,384,443	1,551,502
Interest.....	1,518,418	1,341,181	1,326,715	765,145	739,517
Depreciation and amortization.....	4,962,198	4,488,172	5,623,532	3,320,645	3,358,789
Total operating expenses.....	<u>82,090,417</u>	<u>82,001,142</u>	<u>92,993,368</u>	<u>53,080,334</u>	<u>56,653,120</u>
Operating gain.....	4,867,907	9,858,726	7,371,175	5,203,890	2,542,851
Investment income.....	554,012	806,560	1,659,737	569,787	879,138
Loss on transfer.....	-	(477,840)	-	0	0
Excess of revenue over expenses.....	<u>5,421,919</u>	<u>10,187,446</u>	<u>9,030,912</u>	<u>5,773,677</u>	<u>3,421,989</u>

	Year Ended December 31,			Seven-Month Period Ended July 31,	
	2004	2005	2006	2006	2007
Change in net unrealized gains and losses on investments.....	230,272	(75,897)	1,227,306	347,978	575,514
Net assets released from restrictions for capital expenditures.....	3,126,250	-	4,097,086	0	0
Increase in unrestricted net assets before cumulative effect.....	8,778,441	10,111,549	14,355,304	6,121,655	3,997,503
Cumulative effect of a change in accounting principle.....	-	(146,854)	-	0	0
Increase in unrestricted net assets after cumulative effect.....	\$ 8,778,441	\$ 9,964,695	\$ 14,355,304	\$ 6,121,655	\$ 3,997,503

Management's Discussion-Analysis of Recent Financial Performance

Seven-month period ended July 31, 2007 compared to seven-month period ended July 31, 2006

For the seven-month period ended July 31, 2007, the Hospital Center had an operating gain of \$2,542,851 which represented a \$2,661,039 (51.1%) decrease from the \$5,203,890 operating gain reported for the seven-month period ended July 31, 2006. Total operating revenue increased \$911,747 (1.6%) while total operating expenses increased \$3,572,786 (6.7%). During the seven-month period ended July 31, 2007, net patient service revenue increased \$805,395 (1.4%) over the comparable period in 2006. Revenues were adversely affected by the referral of outpatient CT and MRI services to other facilities.

Salaries increased \$2,657,056 (11.4%) in the seven-month period ended July 31, 2007 over the comparable period in 2006, principally due to an increase of 42.0 full-time equivalent employees ("FTEs") resulting from successful recruiting of registered nurses which is intended to decrease dependence on agency (per diem and part-time) staffing. Fringe benefits increased \$740,725 (15.1%) primarily due to the increase in salaries. Provision for bad debts increased \$167,059 (12.1%) compared to the same period in 2006 primarily due to three inpatient cases that were written off during the first part of 2007. Other expense categories experienced small increases (supplies and other expenses and depreciation and amortization) or small decreases (physician fees and interest).

Investment income increased \$309,351 (54.3%) due to favorable market conditions and increased cash balances. In the seven-month period ended July 31, 2007, the Hospital Center realized an excess of revenues over expenses of \$3,421,989, a decrease of \$2,351,688 (40.7%) from the excess of \$5,773,677 in the same period for 2006.

Year ended December 31, 2006 compared to year ended December 31, 2005

For the year ended December 31, 2006, the Hospital Center had an operating gain of \$7,371,175 which represented a \$2,487,551 (25.2%) decrease from the \$9,858,726 operating gain reported for the year ended December 31, 2005. Total operating revenue increased \$8,504,675 (9.3%), while total operating expenses increased \$10,992,226 (13.4%). Net patient service revenue increased \$8,772,693 (9.8%) in 2006 over the previous year. This increase was primarily attributable to volume increases for inpatient discharges (5.6%), emergency room visits (7.8%), open MRI visits (7.3%), CT scans (20.7%) and ultrasound tests (8.3%). Other operating revenue decreased by \$268,018 (11.4%), primarily due to the receipt of reduced funding for anti-bioterrorism and the methadone program.

Salaries increased \$3,625,213 (9.7%) in 2006 due to an increase in FTEs. Fringe benefits during the same period increased \$672,358 (8.9%) due to the increase in salaries. Physician fees increased \$902,929 (47.1%) in 2006 primarily due to the hiring of physicians for the hospitalist program, which is intended to improve patient throughput and reduce length of stay.

Supplies and other expenses increased \$3,851,890 (14.1%) in 2006 over the previous year, primarily due to costs of temporary staffing in nursing. Provision for bad debts increased \$818,942 (46.1%) reflecting a more conservative approach to the ability to collect charges associated with emergency room activity. The provision for bad debts represented 2.6% of net patient service revenue in 2006 compared to 2.0% of net patient service revenue in 2005. Interest was substantially unchanged while depreciation and amortization increased \$1,135,360 (25.3%) due to increased investment in property, plant and equipment.

Investment income increased \$853,177 (105.8%) due to favorable market conditions and increased cash balances. In 2006, the Hospital Center realized an excess of revenue over expenses of \$9,030,912, a decrease of \$1,156,534 (11.4%) from the excess of \$10,187,446 in 2005. In 2006, the Medical Center recognized \$4,097,086 of net assets released from restrictions for capital expenditures, representing a transfer from the Foundation for these purposes.

Year ended December 31, 2005 compared to year ended December 31, 2004

For the year ended December 31, 2005, the Hospital Center had an operating gain of \$9,858,726 which represented a \$4,990,819 (102.5%) increase from the \$4,867,907 operating gain reported for the year ended December 31, 2004. Total operating revenues increased \$4,901,544 (5.6%), while total operating expenses decreased \$89,275 (0.1%). Net patient service revenue increased \$4,974,493 (5.9%) in 2005 over the previous year. This increase was primarily attributable to an increase in the outpatient CT scans and outpatient open MRI visits.

Salaries increased \$2,768,379 (8.0%) due to overall increased compensation to nurses as well as a change in nurse staffing mix with more registered nurses and fewer aides, partially reflective of the demands of a slightly higher all-payor case mix. Fringe benefits during the same period increased \$584,655 (8.4%) consistent with the increases in salary expense. An \$83,752 (4.2%) decline occurred in physician fees.

Supplies and other expenses decreased \$1,243,837 (4.3%) in 2005 over the previous year as an equity distribution of approximately \$800,000 from the Hospital Center's malpractice insurance carrier resulted in a reduction of insurance expense and offset higher costs resulting from increased prices of pharmaceuticals and surgical implants. Provision for bad debts decreased \$1,463,457 (45.2%) due to a change in Hospital Center policy for accounting for private pay accounts resulting in a shift from bad debt to charity care. The provision for bad debts represented 2.0% of net patient service revenue in 2005 compared to 3.8% of net patient service revenue in 2004. Interest decreased by \$177,237 (11.7%) due to amortization of existing loans, and depreciation and amortization expense decreased \$474,026 (9.6%) due to completion of depreciation of certain older assets.

Investment income increased \$252,548 (45.6%) due to increased cash available for investment. In 2005 the Hospital Center realized an excess of revenue over expenses of \$10,187,446, an increase of \$4,765,527 (87.9%) over the excess of \$5,421,919 in 2004. In 2004, the Medical Center recognized \$3,126,250 of net assets released from restrictions for capital expenditures, representing a transfer from the Foundation for these purposes.

Sources of Patient Service Revenue and Reimbursement Methodologies

Sources of Patient Service Revenue

The major portion of revenue received by the Hospital Center is derived from third-party payors. The Hospital Center is a provider under the Medicare and Medicaid programs and receives payments from Empire Blue Cross and Blue Shield ("Blue Cross") and other commercial insurance and managed care

companies. The following table shows the percentage distribution of discharges by payor source for each of the three fiscal years ended December 31, 2004, 2005 and 2006.

Percent of Discharges by Payor Source⁽¹⁾

Payor	Year Ended December 31,		
	2004	2005	2006
Medicare Fee For Service	40.0%	42.5%	41.4%
Medicaid Fee For Service	4.9	6.7	7.5
Medicare Managed Care	3.0	3.5	4.0
Medicaid Managed Care	3.8	3.8	3.8
Blue Cross	13.5	12.8	12.8
Commercial Insurance, Self-Pay, No-Fault, Workers Compensation, Other Managed Care	34.8	30.7	30.5
Total	100.0%	100.0%	100.0%

(1) Excludes newborns.
Source: Hospital Center records

All revenue, utilization and reimbursement information in this Part 10 represent historical data and may not be indicative of future activity. The Hospital Center cannot assess or predict the ultimate effect on its operations which may result from existing or future reimbursement legislation or regulations.

Reimbursement Methodologies

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

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

Medicare is administered by the Centers for Medicare and Medicaid Services (“CMS”), which is an agency of the U.S. Department of Health and Human Services (“DHHS”). DHHS’s rule-making authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS. Non-governmental organizations or agencies (generally insurance companies), known as “intermediaries” or “carriers,” contract with CMS to serve as Medicare’s fiscal agent in specific states or regions. These intermediaries and carriers determine the appropriateness of and process claims for payment for Medicare to providers in these states or regions.

The Hospital Center is paid for services to the majority of Medicare inpatients under a federal prospective payment system (“PPS”). Under inpatient PPS, payments are based on a standard national amount depending on the patient’s diagnosis (“Diagnosis Related Group” or “DRG”) without regard to each hospital’s actual inpatient operating and capital costs. The standard national amounts are adjusted for area wage differences and for the Hospital Center are based on wage levels in the New York City Metropolitan Statistical area (“MSA”). Hospitals receive payment for cases that exceed DRG-specific cost thresholds as well as the costs of organ procurement and a predetermined amount per discharge for Medicare inpatient-related capital costs. The standardized rates are updated annually (the “update factor”) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the “market basket”). Currently, the update factor equals the percentage increase in the

market basket (for hospitals that timely submit data to CMS on quality indicators), but from time to time, Congress has enacted legislation reducing these updates below the market basket.

PPS methodologies also apply to hospital outpatient services (“Outpatient PPS”). Under Outpatient PPS, most outpatient services are grouped into one of approximately 800 Ambulatory Payment Classifications and paid a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service (e.g., visit, chest x-ray, surgical procedure). The payment for each service is comprised of a payment from the Medicare program and a coinsurance payment of the balance from the beneficiary. A limited number of services are based on fee schedules or other reimbursement methodologies.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “MMA”) introduced a prescription drug benefit under Medicare (Medicare Part D), created incentives for health care insurance companies to offer Medicare managed care plans known as Medicare Advantage and provided for a number of hospital-related reimbursement changes. The MMA also created a Hospital Quality Initiative, under which hospitals are required to submit data to CMS related to 10 quality indicators to avoid a 0.4% reduction in their annual market basket rate increases starting in 2005. The Hospital Center is enrolled in this program, is reporting the necessary data and has received a full market basket update in 2005 and 2006. Other hospital reimbursement related provisions in the MMA include reclassification of MSAs (thereby revising the wage indices across the country) and the introduction of a new technology payment add-on under certain circumstances where the DRG payment does not adequately cover the cost of a new device, drug or other development.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the rate of increase in the cost of the program. Future actions by the federal government are expected to continue the trend toward more restrictive Medicare reimbursement for hospital services.

Medicare Managed Care. Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may dis-enroll and re-enroll in the traditional Medicare fee-for-service system at any time. Managed care products for the Medicare population are typically offered by commercial insurers and HMOs.

Medicare enrollees in managed care products have their health care managed and paid for by the applicable insurer, HMO or similar entity (the “managed care plan”). The managed care plan is reimbursed by the Medicare program on a monthly per-beneficiary amount for each Medicare enrollee; the payment amount generally includes either a per diem or DRG payment, plus a risk-sharing arrangement. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan and its participating hospitals, physicians and other providers seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial pressures are expected to reduce per patient revenues for the Hospital Center’s Medicare managed care enrolled patients. Enrollment in Medicare managed care plans is expected to continue increasing and substantial numbers of Medicare beneficiaries are expected to enroll in such plans. In 2006, Medicare managed care provided approximately 2% of the Hospital Center’s net inpatient patient service revenue.

Medicaid. Medicaid is designed to pay providers for care given to the indigent and others who receive federal aid. Unlike Medicare, which is an exclusively federal program, Medicaid is a partially federally-funded state program. States obtain federal funds for their Medicaid programs by obtaining the approval of CMS of a “state plan” which conforms to Title XIX of the Social Security Act and its

implementing regulations. Within broad national guidelines which the federal government provides, each of the states establishes its own eligibility standards, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state. After its state plan is approved, a state is entitled to federal matching funds for Medicaid expenditures. The current federal share is approximately 50% in New York State, and the remainder of the costs is shared by the State and the social services district of the patient's residence.

Medicaid operates as a vendor payment program. Subject to federally-imposed upper limits and specific restrictions, states may either pay providers directly or may pay for Medicaid services through various prepayment arrangements such as HMOs. Providers participating in Medicaid must accept Medicaid payment rates as payment in full. States must make additional payments to qualified hospitals that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients.

States may impose nominal deductibles, coinsurance, or co-payments on some Medicaid recipients for certain services. Emergency services and family planning services must be exempt from such co-payments. Certain Medicaid recipients must be excluded from this cost sharing: pregnant women, children under age 18, hospital or nursing home patients who are expected to contribute most of their income to institutional care, and categorically needy HMO enrollees.

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

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

Every year the Medicaid reimbursement rates paid to hospitals for the forthcoming year must be certified by the State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. The State has enrolled a substantial portion of its Medicaid population into private managed care plans as part of a waiver it received from the federal government under Section 1115 of the Social Security Act. The primary service area of the Hospital Center is under mandatory managed care enrollment: the Medicaid population is required to enroll in managed care, unless they fall into one of several exempt categories. In 2006, Medicaid managed care represented approximately 5% of the Hospital Center's net inpatient patient service revenue.

Under NYHCRA, mechanisms are established for the financing of public goods consisting of indigent care, health care initiatives and graduate medical education. Third party payors are encouraged through fiscal incentives to make payments directly to public good pools although they have the choice of paying providers directly on an encounter basis. NYHCRA specifies the distribution from the public good pools. The Indigent Care Pool (the "Indigent Care Pool") is funded through an assessment charged to general hospitals and payments from Medicaid, Blue Cross and other payors to reflect the need for financing losses resulting from bad debts and the cost of charity care. The assessment against a hospital is related to

actual non-Blue Cross, non-Medicaid inpatient revenues received by a hospital. Amounts received from the Indigent Care Pool are determined by the hospital's bad debt and charity care needs as they relate to the total Statewide bad debt and charity care needs. The Graduate Medical Education Pool (the "GME Pool") is funded and distributed on a regional basis. Approximately 20% of the GME Pool reimbursement to hospitals is removed from the pool and added to the reimbursement hospitals receive on a per case basis. Indigent Care and GME Pool distributions are based on receipts for each calendar year. Health care initiatives pay for special projects, particularly expansion of coverage of special need categories, including children.

Managed Care Programs and Commercial Insurance. Payments to a hospital on behalf of subscribers of HMOs and Preferred Provider Organizations ("PPOs") are generally based on contracts between the hospital and the HMO or PPO. These contracts provide for various reimbursement methodologies including per diem rates, per discharge rates and discounts from established charges.

The Hospital Center contracts with approximately 30 insurance companies (including Blue Cross) across approximately 55 different insurance products. These contracts accounted for approximately 40.5% of its 2006 net patient service revenue and provide for payment on a DRG basis or a per diem basis. Generally, the Hospital Center's contracts with managed care organizations provide additional payments for high cost cases and contain rate opening provisions for new technology or new surgical techniques where the cost of care increases substantially. The Hospital Center's ten largest managed care contracts also have standardized processes for notification and authorization, eligibility, concurrent and retrospective review, claims submission and acknowledgement, appeals and adjustments, remittances and certain advances of receivables. This standardization has reduced the number of claim denials since the execution of each respective contract. In 2006, none of the managed care organizations other than Blue Cross were the source of more than 10% of the Hospital Center's net patient service revenue.

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

Liquidity and Capital Resources

As of July 31, 2007, the Hospital Center's unrestricted cash and investments (as defined below) totaled \$37.9 million; its outstanding long-term debt and capitalized leases, net of the portion currently payable, was \$18.0 million; and its unrestricted net assets were \$52.6 million. The following table sets forth: (i) the Hospital Center's unrestricted cash and investments, its average daily operating expenses, its outstanding long-term debt and capitalized leases (net of the portion currently payable), maximum annual debt service thereon as of December 31, 2006 and its unrestricted net assets as of December 31, 2004, 2005 and 2006 and pro-forma as of December 31, 2006 giving effect to the issuance of the Note and (ii) certain financial ratios derived therefrom and from its audited financial statements as of and for the years then ended.

	Year Ended December 31,			
	2004	2005	2006	Pro-Forma 2006 ⁸
Unrestricted cash and investments ⁽¹⁾	\$ 20,095,218	\$ 27,210,031	\$ 38,243,829	\$ 38,243,829
Average daily operating expenses ⁽²⁾	\$ 211,310	\$ 212,364	\$ 239,369	239,369
Days cash on hand ⁽³⁾	95.10	128.13	159.77	159.77
Maximum annual debt service ⁽⁴⁾	\$ 1,812,000	\$ 1,812,000	\$ 1,812,000	\$ 8,179,000
Cushion ratio ⁽⁵⁾	11.09	15.02	21.11	4.68
Outstanding long-term debt, including capital leases, (net of current portion) ..	\$ 19,842,999	\$ 19,161,721	\$ 19,117,371	\$ 90,857,371
Unrestricted net assets.....	\$ 24,280,848	\$ 34,245,544	\$ 48,600,848	\$ 48,600,848
Cash to debt ⁽⁶⁾	1.01	1.42	2.00	0.42
Debt to capitalization ⁽⁷⁾	0.44	0.36	0.28	0.65

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

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

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

(4) Maximum annual principal and interest requirements for the current or any future year on long-term indebtedness as of December 31, 2006. Includes amounts required to be deposited in the Mortgage Reserve Fund established in conjunction with the Hospital Center's outstanding FHA-insured indebtedness. Excludes payments on capital leases.

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

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

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

(8) Assumes that the Note will be in the amount of \$71,740,000 and will require annual debt service payments of \$5,546,664 from 2008 to 2033 (based on its assumed issuance on January 1, 2006). Includes additional amounts to be deposited in the Mortgage Reserve Fund established in conjunction with the Hospital Center's outstanding FHA-Insured indebtedness. Interest and depreciation expense are not adjusted to take into account interest on the Note and depreciation on the facilities and equipment which the Note finances.

Source: Hospital Center records.

Debt Service Coverage

The following table sets forth the Hospital Center's income available for debt service for the years ended December 31, 2004, 2005 and 2006 and its historical coverage of the maximum annual debt service requirement on debt outstanding as of December 31, 2006.

	Year Ended December 31,		
	2004	2005	2006
Excess (deficiency) of revenues over expenses.....	\$ 5,421,919	\$ 10,187,446	\$ 9,030,912
Depreciation and amortization.....	4,962,198	4,488,172	5,623,532
Interest and amortization of financing fees.....	1,518,418	1,341,181	1,326,715
Income available for debt service.....	11,902,535	16,016,799	15,981,159
Maximum annual debt service requirement*.....	1,812,000	1,812,000	1,812,000
Maximum annual debt service coverage ratio.....	6.57	8.84	8.82

* Maximum annual principal and interest requirements for the current or any future year on long-term indebtedness and capital leases as of December 31, 2006. Includes amounts required to be deposited in the Mortgage Reserve Fund established in connection with the Hospital Center's outstanding FHA-insured indebtedness. Excludes payments on capital leases.

Source: Hospital Center records.

Assuming that (i) the Note was issued as of January 1, 2006 in the amount of \$71,740,000 and requires a maximum annual debt service payment of \$5,546,664 beginning 2008 and (ii) additional deposits, as stipulated in the Commitment, are made to the Mortgage Reserve Fund established in conjunction with the Hospital Center's outstanding FHA-insured indebtedness the pro-forma maximum annual debt service coverage ratio calculated as set forth in the table above for 2006 would be 2.0.

Investments

The Hospital Center's investments and assets limited as to use principally consist of cash and cash equivalents, money market funds, U.S. government securities, corporate bonds and notes, stocks and mutual funds.

As of July 31, 2007, the composition of the Hospital Center's short-term investments and assets limited as to use, which include unrestricted investments, donor restricted funds, administrative restricted funds and Mortgage Reserve Funds required by the Hospital Center's outstanding FHA-insured loan, was as follows:

Cash equivalents.....	\$ 21,490,930
U.S. government bonds and notes.....	8,518,722
Equities/Mutual Funds	7,934,104
Depreciation Reserve Funds	7,059,390
Total	\$ 45,003,146

Of this amount, approximately \$36,269,137 is not donor restricted funds, Mortgage Reserve Funds required by the outstanding FHA-insured loan or other amounts restricted by third parties.

Outstanding Indebtedness

As of July 31, 2007, the Hospital Center had approximately \$17,954,676 of long-term debt outstanding (net of current portion) comprised of the following:

Principal Balance	Maturity	Interest Rate	Description
\$14,704,129	November, 2020	6.35%	FHA-Insured Mortgage Putnam County Savings Bank mortgage loan to Hospital Center and Hudson Valley Ventures, Inc.
\$ 2,242,283	January, 2017	6.0%	
\$ 1,008,264	Various (2008-2011)	4.2% to 8.1%	Capital leases and other

Pension Plan

The Hospital Center provides pension coverage for its eligible employees through a defined contribution pension plan (the "Plan"). Under the Plan, the Hospital Center contributes 4.0% – 5.5% of each eligible employee's annual compensation for each Plan year. The Hospital Center recorded pension expense of \$1,449,566 in 2006, \$1,691,941 in 2005 and \$1,300,279 in 2004.

Employees

As of December 31, 2006, the Hospital Center employed approximately 950 individuals or approximately 700.0 FTEs. Eligible full-time employees receive benefits that include: health insurance covering hospitalization, major medical expenses, vision care and dental treatment; life insurance; disability insurance and educational assistance. Qualified part-time employees receive limited benefits. The Hospital Center has no collective bargaining agreements.

Licensure and Accreditation

The Hospital Center has an operating certificate from the New York State Department of Health ("DOH") and is accredited by The Joint Commission.

Insurance

The Hospital Center maintains comprehensive all-risk form property insurance as well as directors' and officers', workers compensation and various other policies from commercial insurance carriers for which it pays annual premiums and is subject to varying deductibles. The Hospital Center has a combined commercial policy of professional and general liability coverage with limits of \$2 million per occurrence/\$6 million annual aggregate and a commercial umbrella liability policy with coverage limits of \$5 million.

All medical staff members with admitting privileges are required to maintain professional liability insurance coverage from companies licensed in the State in minimum amounts of \$1.3 million per occurrence and \$3.9 million in the aggregate.

Litigation

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

Capital Expenditures/Future Plans

In 2004, 2005 and 2006 the Hospital Center incurred capital expenditures of approximately \$2.1 million, \$4.3 million and \$4.4 million, respectively, for acquisition of plant, buildings and equipment (net of disposals). The Hospital Center estimates that capital expenditures for 2007 will aggregate approximately \$24.2 million, including approximately \$19.0 million related to the Project. In addition, the Hospital Center will contribute approximately \$3.8 million to WPHMS for the construction of a parking facility which will serve the Hospital Center.

As of July 31, 2007, the Hospital Center had two submitted Certificate of Need applications for capital projects not yet completed. The table below sets forth the project name, application status, estimated/approved total project cost and source of funding for each project.

CERTIFICATE OF NEED STATUS REPORT AS OF JULY 31, 2007

<u>Project Name</u>	<u>Application Status</u>	<u>Estimated Project Cost</u>	<u>Source of Funding</u>
Linear Accelerator	Pending	\$4.5 million	Operations
Hyperbaric Chamber	Pending	\$2.5 million	Operations

PART 11 – GENERAL FACTORS AFFECTING THE INSTITUTION’S REVENUES AND EXPENSES

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

The revenue and expenses of the Hospital Center are affected by the changing health care 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 health care 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 Hospital Center to an extent that cannot be determined at this time.

General

The Series 2007 Bonds are not a debt or liability of the State or any political subdivision thereof, but are special and limited obligations of the Authority payable solely from the payments payable by the Hospital Center pursuant to the Loan Agreement, payments by the Hospital Center pursuant to the Note, the FHA Mortgage Insurance Benefits with respect to the Note, the funds and accounts held by the Trustee pursuant to the Series 2007 Resolution (except the Arbitrage Rebate Fund) and certain investment income thereon. The Authority has no taxing power. No representation or assurance can be made that payments will be made by the Hospital Center in amounts sufficient to provide funds for payment of debt service on the Series 2007 Bonds when due and to make other payments necessary to meet the obligations of the Hospital Center. Further, there is no assurance that the revenues of the Hospital Center can be increased sufficiently to match increased costs that may be incurred. The Series 2007 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2007 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD and FHA.

The receipt of future revenues by the Hospital Center is subject to, among other factors, federal and state regulations and policies affecting the health care industry and the policies and practices of managed care providers, private insurers and other third-party payors, and private purchasers of health care services. The effect on the Hospital Center of recently enacted statutes and recent regulatory changes and of future changes in federal, state and private policies cannot be determined at this time. Loss of established managed care contracts could also adversely affect the future revenues of the Hospital Center.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for health care services, including an anticipated continued pressure on utilization, the capabilities of the management of the Hospital Center, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Hospital Center, increased use of contracted discounted payment schedules with HMOs, PPOs and other payors, economic and demographic developments in the United States and in the service area in which facilities of the Hospital Center are located, competition from other health care institutions, changes in interest rates which affect investment results and investment returns, and changes in rates, costs, third-party payments and governmental regulations concerning payment, are among other factors which may adversely affect revenues and expenses and, consequently, the Hospital Center's ability to make payments pursuant to the Note. See "PART 10 – THE HOSPITAL CENTER" and "Appendix B – Financial Statements of The Hospital Center."

Legislative Regulatory and Contractual Matters Affecting Revenue

The health care industry is heavily regulated by the federal and state governments. A substantial portion of revenue for health care providers is derived from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In 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 be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Hospital Center cannot be predicted.

Legislation is periodically introduced in Congress and in the New York State legislature that could result in limitations on the Hospital Center'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 Hospital Center. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide national health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. The effects of future reform efforts on the Hospital Center cannot be predicted.

The Hospital Center has received, from time to time, subpoenas, civil investigatory demands, or other informal inquiries from state and federal governmental agencies or investigators. It is often impossible to determine the specific nature of the investigation, or whether the Hospital Center might have any potential liability under a cause of action that might subsequently be asserted by the government. Moreover, the Hospital Center is generally not informed when such investigations are resolved without the assertion of any claims. The Hospital Center's management considers these investigations a routine part of operations in the current health care climate, and expects them to continue in the future. See "Regulatory Reviews and Audits" below.

State Budget

The State's 2007-08 enacted budget extends NYHCRA through March 31, 2008. NYHCRA created a system of State-imposed assessments and surcharges on various categories of third party payors for healthcare services that fund annual State-operated pools for indigent care, healthcare initiatives, and professional education. Other funding for NYHCRA stems from conversion proceeds generated by the privatization of Blue Cross and revenues from cigarette taxes. See Part 10 – "The Hospital Center – Sources of Patient Service Revenue and Reimbursement Methodologies." The Hospital Center receives significant payments from such pools, and no assurances can be given that substantial changes in these programs will not occur or that payments will remain at levels comparable to the present level whether NYHCRA is extended further or allowed to expire.

Department of Health Regulations

The Hospital Center is subject to regulations of DOH. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Hospital Center's ability to add services or beds or to modify targeted existing services materially is also subject to DOH review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Hospital Center's ability to make changes to its service offerings and respond to changes in the competitive environment may be limited.

State Commission on Healthcare

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the State Legislature authorized the creation of a "Commission on Health Care Facilities in the Twenty-First Century" (the "Commission") charged with studying the State's hospital and nursing home systems and making recommendations (the "Recommendations") for closure, resizing, conversion, consolidation and restructuring. The Commission was comprised of 18 statewide commissioners and 6 regional commissioners from each of the six regions in the State (Long Island, New York City, Hudson Valley, Northern, Central and Western). In making its Recommendations, the Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors, as determined by the Commissioner of Health or the Commission. In its final report released on November 28, 2006 (the "Final Report"), the Commission's Recommendations targeted nearly 50 hospitals for restructuring

and nine hospitals for closure. If and when the Recommendations are fully implemented, the Commission anticipates a reduction of approximately 4,200 hospital beds and 3,000 nursing home beds Statewide, while creating home and community-based alternatives to nursing home placement. Federal and State funds are expected to be available to assist, in part, with the costs of implementing the Recommendations, assuming that any conditions requisite to such financing are met. In accordance with procedures established in the legislation creating the Commission, the Governor approved the Final Report and the Legislature did not exercise its right provided by those procedures to reject the Final Report in its entirety on or before December 31, 2006. Therefore, the Recommendations are to be implemented by the Commissioner of Health, with full implementation scheduled for June 2008. Several lawsuits have been filed, and a temporary restraining order issued, challenging the authority of the Commission, which, if successful, could affect implementation of some or all of the Recommendations. The Hospital Center is not identified in the Final Report as an entity targeted for closure or restructuring of any kind. However, Westchester Medical Center, an institution the Hospital Center identified as a competitor, is to consider establishing its Children's Hospital as a separate entity and review its clinical service mix to identify opportunities for reconfiguration which are non-duplicative of the services offered in the community hospitals. See "PART 10 – THE HOSPITAL CENTER – Service Area, Other Area Hospitals and Utilization."

Managed Care and Other Private Initiatives

Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Payment methodologies include per diem rates, case-rate payments, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. Managed care programs are expected to reduce significantly the utilization of health care services generally and inpatient services in particular. In addition, some managed care organizations have from time to time delayed reimbursements to hospitals, thereby affecting the cash flows of those hospitals. The Hospital Center's financial condition may be adversely affected by these factors.

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 at will. Medicare managed care products can be offered only by a licensed HMO or a specially approved network called a Provider Sponsored Organization ("PSO"). At this time, the New York region has a limited number of approved PSOs.

The 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. Although Medicare HMOs have a strong interest to control utilization and thereby control costs for its population, implementation has proven more difficult.

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 Hospital Center are similar to those already discussed for Medicare managed care programs. 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 will continue to be paid by the State directly to the hospitals. See “PART 10 – THE HOSPITAL CENTER – Sources of Patient Service Revenue and Reimbursement Methodologies.”

Regulatory Reviews and Audits

The Hospital Center, like other health care institutions, is subject to regulatory reviews and audits of its governmental reimbursement and, based on the results of such reviews and audits, may be required to repay previously received reimbursement. One such audit is the Medicare Recovery Audit Contract Initiative. This review calls for a three-year recovery audit demonstration project in states with the highest per capita Medicare expenditure in order to test and ensure the accuracy of Medicare payments. New York is included in this review project, and the review process has begun, but the Hospital Center cannot determine at this time whether the review will result in material repayment obligations.

In 2006, the Office of the New York State Attorney General commenced an informal, industry-wide inquiry regarding amounts recognized as reserves, however denominated, on the institutional cost report and/or financial statement of New York’s skilled nursing facilities and hospitals. The Hospital Center has responded to this request. It is too early to determine whether the inquiry will take the form of a formal investigation or otherwise have a material adverse impact on New York hospitals including the Hospital Center.

Competition

The Hospital Center faces and will continue to face competition from other hospitals and integrated delivery systems that offer similar health care services. See “PART 10 – THE HOSPITAL CENTER – Service Area, Other Area Hospitals and Utilization” herein. Competition could also result from certain health care providers that may be able to offer lower priced services to the population served by the Hospital Center. These services could be substituted for some of the revenue generating services currently offered by the Hospital Center. The services that could serve as substitutes for hospital treatment include skilled, specialized and residential nursing facilities, home care, drug and alcohol abuse programs, ambulatory surgical centers, expanded preventive medicine and outpatient treatment, freestanding independent diagnostic testing facilities, and increasingly sophisticated physician group practices. Certain of such forms of health care delivery are designed to offer comparable services at lower prices, and the federal government and private third-party payors may increase their efforts to encourage the development and use of such programs. Similarly, efforts to increase consumer choice of available sources of health care could affect the Hospital Center’s ability to maintain its market share at current levels.

Management of the Hospital Center believes that sustained growth in patient volume, together with firm cost controls, will be increasingly important as the health care environment becomes more competitive. 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 Hospital Center will occur.

The competition for physicians has intensified in recent years, with frequent recruitment efforts by hospitals both locally and nationally to attract physicians away from competing hospitals in order to bolster admissions and profitability attributable to the patients such physicians frequently bring with them or are able to attract.

The growth of e-commerce may result in a shift in the way that health care is delivered. Persons residing in the Hospital Center's service area may be able to receive certain health services from remote providers. For example, physicians are increasingly able to provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered on-line. Additionally, other service providers may now compete with the Hospital Center by advertising and providing easy registration for their services through this medium.

Recent "pay-for performance" initiatives designed to reward hospitals, physicians, medical groups and other providers for achieving improvements in quality and clinical outcomes will likely impact how health care services are provided in the future. Quality benchmarks established by a number of industry organizations serve as the basis for these reward programs. There are currently over 100 pay-for-performance programs operated nationwide by health plans, employer coalitions and public insurance programs. CMS is conducting several pay-for-performance demonstration programs and legislation has been introduced in Congress on pay-for-performance for physicians. Because these initiatives are relatively new, it is unclear what the financial impact will be of participating in these programs.

Management of the Hospital Center believes that insurers will encourage competition among hospitals and providers on the basis of price and payment terms and quality. To some degree, payors have used these factors to direct patients to particular hospitals, physicians or other providers for specified services or to exclude hospitals, physicians or other providers from their network of providers. Because patients typically receive lower rates of reimbursement for using out-of-network providers, utilization of a provider, such as the Hospital Center, that is not in a network could be adversely affected as a result.

Workforce Shortages

Health care providers depend on qualified nurses and allied health professionals to provide quality service to patients. There is currently a nationwide shortage of qualified nurses and allied health professionals. This shortage and the more stressful working conditions it creates for those remaining in the profession are increasingly viewed as a threat to patient safety and may trigger the adoption of state and federal laws and regulations intended to reduce that risk. For example, some states are considering legislation that would prohibit forced overtime for nurses. In response to the shortage of qualified nurses and allied health professionals, health care providers, including the Hospital Center, have increased and could continue to increase wages and benefits to recruit or retain professional and nursing staff and have had to hire more expensive contract personnel. The shortage could also limit the operations of health care providers by limiting the number of patient beds available. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Hospital Center's ability to control costs and its financial performance.

Increased Costs

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

Federal and State “Fraud and Abuse” Laws and Regulations

The federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the “Anti-Kickback Law”) make it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in return for or to induce business that may be paid for, in whole or in part, under a federal health care program including, but not limited to, the Medicare and Medicaid programs. In addition to criminal penalties, including fines of up to \$25,000 and five years imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the federal health care programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. The Hospital Center conducts activities of these general types or similar activities.

The Office of the Inspector General of DHHS (“OIG”) has published safe harbor regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to review the Special Fraud Alerts issued by the OIG for further guidance, seek an Advisory Opinion from OIG regarding the proposed arrangement, or alter them in order to ensure compliance with the Anti-Kickback Law. Failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful but may increase the likelihood of challenge.

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that are not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by OIG officials) that they may create liability in connection with a wide variety of business transactions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Hospital Center). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or *qui tam* action brought by a private individual in the name of the government could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, such as practice purchases, physician recruiting and retention programs, various forms of hospital assistance to individual physicians, medical practices or physician contracting entities, physician referral services, hospital-physician services or management contracts, and space or equipment rentals between hospitals and physicians. The Hospital Center conducts these or similar types of activities, which pose varying degrees of risk. Much of this risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Hospital Center is not aware of any challenge or investigation with respect to such matters, there can be no assurance that one or more will not occur in the future.

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) created a new program operated jointly by DHHS and the United States Attorney General to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Law. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to federal health

care programs, provides for intermediate sanctions and expands the scope of civil monetary penalties. Subsequent federal legislation expanded the authority of the OIG to exclude persons from federal health care programs, increased certain civil and monetary penalties for violations of the Anti-Kickback Law and added a new monetary penalty for persons who contract with a provider that the person knows or should know is excluded from the federal health care programs. Finally, actions which violate the Anti-Kickback Law or similar laws may also involve liability under the federal civil False Claims Act (the “FCA”), which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the FCA may be brought by the United States Attorney General or as a *qui tam* action.

In light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Hospital Center will not be found to have violated the Anti-Kickback Law and, if so, whether any sanction imposed would have a material adverse effect on the operations of the Hospital Center.

False Claims

There are many complex rules that a health care provider must follow with respect to the submission of claims. The failure to follow these rules may be found in the admitting process, the care delivery process, the coding process or the billing process. The FCA allows the United States government, through the United States Attorneys’ Office or the Department of Justice, to recover significant damages from persons or entities that knowingly or recklessly submit fraudulent claims for payment to any federal agency. It also permits individuals, as plaintiffs or “whistleblowers,” to initiate actions on behalf of the government. Under the FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. If a health care provider is found to have violated the FCA, the potential liability is substantial. The violator can be held liable for up to triple the actual damages incurred by the government. It can also be fined a penalty of \$5,500 to \$11,000 for each violation of the FCA and be temporarily or permanently excluded from the federal health programs.

Importantly, the FCA broadly defines the terms “knowing” and “knowingly.” Specifically, knowledge will have been proven for purposes of the FCA if the person: (i) has actual knowledge of the information; (ii) acts in deliberate ignorance of the truth or falsity of the information; or (iii) acts in reckless disregard of the truth or falsity of the information. Moreover, the statute specifically provides that a specific intent to defraud is not required in order to prove that the law has been violated.

In addition to the FCA, the Civil Monetary Penalties Law authorizes the imposition of substantial civil money penalties against an entity that engages in activities including, but not limited to, (1) knowingly presenting or causing to be presented, a claim for services not provided as claimed or which is otherwise false or fraudulent in any way; (2) knowingly giving or causing to be given false or misleading information reasonably expected to influence the decision to discharge a patient; (3) offering or giving remuneration to any beneficiary of a federal health care program likely to influence the receipt of reimbursable items or services; (4) arranging for reimbursable services with an entity which is excluded from participation from a federal health care program; (5) knowingly or willfully soliciting or receiving remuneration for a referral of a federal health care program beneficiary; or (6) using a payment intended for a federal health care program beneficiary for another use. A hospital that participates in arrangements known as “gainsharing,” through which the hospital pays physicians to limit or reduce services to Medicare fee-for-service beneficiaries also may be subject to substantial civil monetary penalties. The Secretary of DHHS, acting through the OIG, has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

Finally, it is a criminal federal health care fraud offense to: (1) knowingly and willfully execute or attempt to execute any scheme to defraud any health care benefit program; or (2) obtain, by means of false or fraudulent pretenses, representations or promises, any money or property owned or controlled by any health care benefit program. Penalties for a violation of this federal law include fines and/or imprisonment, and a forfeiture of any property derived from proceeds traceable to the offense.

Management of the Hospital Center is not aware of any violations by the Hospital Center of the “false claims” laws. However, there can be no assurances that the Hospital Center will not be charged with, or found to have violated such laws and, if so, that any fines or other penalties would not have a material adverse effect on its operations.

Restrictions on Referrals

The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits, subject to limited exceptions, a physician (or an immediate family member of such physician) who has a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services. The Stark Law also prohibits a person or entity from presenting or causing to be presented a claim for payment under 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 and certain other imaging services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services and supplies, 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, inpatient and outpatient hospital services (not including lithotripsy), and nuclear medicine services and supplies.

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law. It covers all patients (irrespective of payor) and prohibits practitioners* from referring a patient to a health care provider for clinical laboratory services, x-ray imaging services, radiation therapy services, pharmacy services or physical therapy services, if the referring practitioner (or an immediate family member) has a financial interest in the health care provider unless an applicable exception is met.

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 and includes certain indirect relationships. 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.

If the practitioner has a financial relationship with an entity that provides one of the designated health services, the Stark prohibitions will apply unless one of the exceptions is met. Unlike the Anti-Kickback Law and its safe harbors discussed above (where the failure to meet a safe harbor does not necessarily mean the referral/arrangement is improper), failure to satisfy an exception to the Stark provisions means (i) that the referral itself is prohibited, and (ii) the entity receiving the referral is prohibited from seeking payment for such service. However, the mere existence of a financial relationship does not violate the Stark provisions. Stark is only violated if (i) a financial relationship exists, (ii) a referral for designated services is made, and (iii) no relevant exception is met.

* Under the State Provisions, a practitioner is defined as a licensed or registered physician, dentist, podiatrist, chiropractor, nurse, midwife, physician assistant or special assistant, physical therapist, or optometrist.

The exceptions under the Stark provisions can be broken down into three categories, based upon the nature of the financial relationship between the referring provider and the entity receiving the referral. The three categories of exceptions include: (i) exceptions to ownership arrangements, (ii) exceptions to compensation arrangements, and (iii) exceptions to both compensation and ownership arrangements. Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violation of Stark may lead to denial of payment for prohibited referrals, the need to refund payments received, significant civil monetary penalties and/or exclusion from federal health care programs. Under an emerging legal theory, knowing violations of the Stark Law may also serve as the basis for liability under the FCA.

Joint Ventures

The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Law, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In a Special Fraud Alert issued in 1989, the OIG raised concerns about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to “lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals.” In the Special Fraud Alert, the OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a “shell” (i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In 2003, the OIG issued a Special Advisory Bulletin indicating that “contractual joint ventures” (where a provider expands into a new line of business by contracting with an entity that already provides the items or services) may violate the Anti-Kickback Law and expressing skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures.

In addition, under the federal tax laws and regulations governing organizations exempt from federal income taxes under Section 501(c)(3) of the Code (“Section 501(c)(3) Organizations”), a tax-exempt hospital’s participation in a joint venture with for-profit entities must further the hospital’s exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital’s tax-exemption may be revoked, the hospital’s income from the joint venture may be subject to tax, or the parties may be subject to some other sanction. See “Internal Revenue Code Limitations” for further discussion of risks related to the tax-exempt status of the Hospital Center.

Any evaluation of compliance with the Anti-Kickback Law or laws and regulations governing Section 501(c)(3) Organizations depends on the totality of the facts and circumstances. While management of the Hospital Center believes that the joint venture arrangements to which the Hospital Center is a party are in material compliance with the Anti-Kickback Law and OIG policies, and the laws and regulations governing Section 501(c)(3) Organizations, there can be no assurance that the Internal Revenue Service (“IRS”) or OIG will not take a contrary view. Any determination that it is not in compliance with such laws, regulations or policies could have a material adverse effect on the future operational or financial condition of the Hospital Center.

HIPAA

HIPAA was enacted by Congress to mandate portability of health insurance. Congress included in HIPAA certain “administrative simplification” provisions intended to reduce the administrative costs of processing health care payments by encouraging the electronic exchange of health information and the use of standardized formats for health care claims and other transactions. Congress recognized, however, that increased electronic exchange of health information presents privacy concerns and security risks and, therefore, also required that privacy and security safeguards be put into place.

HIPAA and its regulations apply to health plans, health care clearinghouses, and those health care providers who electronically conduct certain financial and administrative transactions (e.g., electronic health care claim submissions). Regulations regarding privacy, security and transaction standards have been finalized. The final privacy regulations address five basic privacy principles: (i) consumer control over health information, (ii) boundaries on patient record use and release, (iii) safeguards for personal health information, (iv) accountability for patient record use and release, and (v) a balance between public responsibility and privacy protections. The final transaction standards and security regulations are also now effective.

Under HIPAA, there will be specific federal penalties if a patient’s right to privacy is violated. Civil violations, including disclosures made in error, will carry a monetary penalty of \$100 per violation up to \$25,000 per year. Criminal penalties for intentional violations carry fines of up to \$250,000 and 10 years in prison.

Compliance with HIPAA has required expensive and substantial changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in monitoring of ongoing compliance with the various regulations. The Hospital Center maintains formal plans for compliance with all applicable HIPAA requirements, has trained its staff and employees in these requirements and maintains specified HIPAA Compliance Officers for Privacy and Security who have been provided the authority to supervise, update and enforce policies and procedures designed to assure HIPAA compliance.

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. This law mandates certain medical screening and stabilizing treatment requirements be met before a patient who is medically unstable or in labor may be transferred to another facility, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. This law applies even when the hospital is temporarily on diversion status. The law further prohibits hospitals delaying such screening or treatment in order to inquire about an individual’s method of payment.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties of up to \$50,000 per violation. Accordingly, failure of the Hospital Center to meet its responsibilities under the law could adversely affect its financial condition.

Enforcement and Accreditation Activity

Enforcement activity against health care providers is increasing, and enforcement authorities are adopting more aggressive approaches. The Hospital Center 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 and professional and industrial associations of staff and employees, applicable professional review organizations, The Joint Commission, the Environmental Protection Agency, the IRS and other federal, state and local governmental agencies, including those that administer the National Health Planning and Resources Development Act and the Occupational Safety Health Act.

The Hospital Center is frequently subject to audits and other investigations relating to various segments of its operations, as are many other medical centers throughout the nation. Because of the complexity of the laws to which it is subject, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in expensive and prolonged enforcement action against the Hospital Center.

Renewal and continuation of certain 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 Hospital Center. 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 Hospital Center's scope of licensure, certification or accreditation, could reduce payments received by it or could require repayment of amounts which it had previously received.

OIG Compliance Guidelines

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

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

Not-for-Profit Status

As a non-profit tax-exempt organization, the Hospital Center is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation for charitable purposes. At the same time, the Hospital Center conducts large-scale complex business transactions and is a significant employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for

non-profit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

Internal Revenue Code Limitations

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

Third-party reimbursement methodologies create financial incentives for hospitals to recruit and retain physicians who will admit patients and utilize hospital services. The Hospital Center's use of these incentives is limited, however, by legal restrictions, including limitations with respect to permitted activities of tax-exempt organizations and the federal Medicare and Medicaid statutes. As a tax-exempt organization, the Hospital Center is limited in its 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 scrutinized a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents examine 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 certain health care 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. The Hospital Center, like many hospitals, may have entered into arrangements, directly or through affiliates, with physicians that are of the kind that the IRS has indicated it will examine in connection with audits of tax-exempt hospitals. Any suspension, limitation, or revocation of the Hospital Center's tax-exempt status or assessment of significant tax liability could have a materially adverse effect on it and might lead to loss of tax exemption of interest on the Series 2007 Bonds. Management is not aware of any current inquiry, challenge or investigation, and believes that all such arrangements entered into by the Hospital Center are consistent in all material respects with the limits imposed on tax-exempt organizations.

Revocation of the tax-exempt status of the Hospital Center 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 2007 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 Hospital Center 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 health care providers and non-exempt individuals or entities. While management believes that the Hospital Center's arrangements with private persons and entities are generally consistent with guidance by IRS,

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 Hospital Center.

The Taxpayer Bill of Rights Act imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an “excess benefit transaction” with a “disqualified person.” Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve “excess benefit.” “Excess benefit transactions” include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. “Disqualified persons” include “insiders” such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congress’ intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization’s board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

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

Tax Audits

Taxing authorities have recently been conducting general 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. Although the Hospital Center is not the subject of any such audit at this time, other hospitals located in the State have been the subject of such audits.

Antitrust

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. Violation of the antitrust laws could subject the Hospital Center to criminal and civil enforcement by federal and state agencies, as well as by private litigants seeking damages. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, and use of a hospital’s local market position for entry into related health care businesses. From time to time, the Hospital Center may be involved with all of these types of activities, and it cannot be predicted whether or to what extent liability may arise. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case.

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 health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

Environmental Matters

Health care 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, the Hospital Center may be subject to potentially material liability for costs of investigating and remediating releases of any substances, either on its properties or that have migrated from its properties or that have been improperly disposed of off-site, and the harm to persons or property that such releases may cause. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of infectious, toxic, radioactive, flammable and other hazardous materials, waste, 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 or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Hospital Center will not encounter such risks in the future, and such risks may result in material adverse consequences to its operations or financial condition.

Malpractice Lawsuits

Although the frequency of malpractice lawsuits filed against physicians and hospitals has stabilized in recent years, the size of the awards has grown and the dollar amounts of patient damage recoveries is 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 Hospital Center.

Technological Changes

Federal legislation was passed in 1992 that levied fees on industry to support a substantial upgrade and reorganization of the federal Food and Drug Administration, the agency that regulates the introduction of new drugs and devices to the market, for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices. As a result, the median time required for new drug approvals has been substantially reduced. Other legislation decreased the types of devices regulated and reformed the biologics approval process. Once new drugs secure market approval, they are often included on hospitals' formularies – the list of drugs maintained by the hospitals for patient care. New

drugs and devices could reduce utilization or render obsolete the way that services are currently rendered, thereby either increasing expense or reducing revenues.

New drugs and devices may add greatly to the Hospital Center's cost of providing services with no or little offsetting increase in federal or other third-party reimbursement because the costs of new drugs and devices may not be accounted for in the DRG or other third-party payment received by hospitals. The PPS system imposed on outpatient services does permit a direct pass-through of the costs of certain new technologies defined by the government and the Hospital Center's contracts with some of its managed care organizations may provide for adjustments to payment rates to reflect the costs of such new drugs, devices or technologies.

Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and the Hospital Center may have to incur significant costs to acquire the equipment needed to maintain or enhance its competitive position. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the Hospital Center to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations. For example, the costs to acquire and implement an electronic medical records system are significant but it is widely believed that it will lead to greater efficiencies in the provision of patient care and improved quality of care. CMS recently published new Stark exceptions for electronic prescribing and electronic medical records technology. The OIG published similar safe harbors for the Anti-Kickback Law. The final rules provide some relief from the restrictions hospitals have faced in providing such technology to physicians.

Future Legislation

In addition to legislative proposals previously discussed herein, other legislative proposals that could have an adverse effect on the Hospital Center include: (a) any changes in the taxation of not-for-profit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax exempt financing for Section 501(c)(3) Organizations; and (c) regulatory limitations affecting the ability of the Hospital Center to undertake capital projects or develop new services.

Legislative bodies have considered legislation concerning the charity care standards that non-profit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating that non-profit, charitable hospitals have an open-door policy toward Medicare and Medicaid patients as well as offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on non-profit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. The scope and effect of legislation, if any, that may be enacted at the federal or state levels with respect to charity care of non-profit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, could have the effect of subjecting a portion of the income of the Hospital Center to federal or state income taxes or to other tax penalties and adversely affect the ability of the Hospital Center to generate net revenues sufficient to meet its obligations and to pay the debt service on the Series 2007 Bonds and its other obligations.

Other Risk Factors

The following additional factors, among others, may adversely affect the operations of health care providers, including the Hospital Center, to an extent that cannot be determined at this time:

- Employee strikes and other adverse labor actions and conditions, which could result in a substantial reduction in revenues without a corresponding decrease in costs;
- Increased unemployment or other adverse economic conditions in the Hospital Center's service area which might increase the proportion of patients without health insurance benefits or who otherwise are unable to pay fully for the costs of their care;
- Efforts by employers to reduce the costs of health insurance by having employees bear a greater portion of their health care costs, causing employees to be more selective and cost-conscious in choosing health care services;
- Reduced need for hospitalization or other health care services arising from medical and scientific advances;
- Bankruptcy of an indemnity/commercial insurer, managed care plan, provider or other payor;
- Acts of war or acts of so-called terrorists, including the use of weapons capable of mass destruction; and
- The need to find qualified replacements for the Hospital Center's workforce as existing employees reach retirement age.

PART 12 – BONDHOLDERS' RISKS

The discussion herein of risks to Holders of the Series 2007 Bonds is not intended as dispositive, comprehensive or definitive, but rather is intended only to summarize certain matters which could affect payment on the Series 2007 Bonds. However, Holders of the Series 2007 Bonds should be aware that these matters and other potential risks and factors could adversely affect the Hospital Center's ability to make payments on the Note which supports the Series 2007 Bonds, including the factors listed in "PART 10 – THE HOSPITAL CENTER" and "PART 11 – GENERAL FACTORS AFFECTING THE INSTITUTION'S REVENUES AND EXPENSES." Other sections of this Official Statement should be referred to for a more detailed description of risks described in this Section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal office of the Trustee.

General

The Series 2007 Bonds are special obligations of the Authority payable solely from the amounts payable under the Note, certain payments under the Loan Agreement, the Mortgage Insurance Benefits and certain amounts in the Debt Service Reserve Fund and certain other funds held pursuant to the Resolution.

The Series 2007 Bonds may be redeemed earlier or later than described above under "PART 4 – ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS" due to various factors some of which are described therein.

Adequacy of Revenues

Although the scheduled payment of principal of and interest on the Series 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by FSA, the Note, the Mortgage and the FHA Mortgage Insurance Benefits are the primary security for the Series 2007 Bonds. Reliance has been placed by the Authority upon the underwriting criteria utilized by FHA in insuring the Mortgage and as evidence of the adequacy of the Hospital Center's revenues to maintain the Mortgaged Property and make the payments required under the Note and the Mortgage.

The ability of the Hospital Center to make payments under the Note and the Loan Agreement depends, among other things, on the capabilities of management, economic conditions including the demand for health care services, the ability of the Hospital Center to provide services required by patients and physicians, confidence in the Hospital Center, competition from other health care facilities in the Hospital Center's service area, various third-party reimbursement programs (including Medicare and Medicaid), and other factors. See "PART 10 – THE HOSPITAL CENTER."

Forward Looking Statements

Certain statements in this Official Statement that relate to the Hospital Center including, but not limited to, statements in "Part 10 – THE HOSPITAL CENTER" and "Part 11 – GENERAL FACTORS AFFECTING THE INSTITUTION'S REVENUES AND EXPENSES" are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the Hospital Center. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Hospital Center to be materially different from any expected future results or performance. Such factors include, but are not limited to, matters described in "PART 10 – THE HOSPITAL CENTER" and "Part 11 – GENERAL FACTORS AFFECTING THE INSTITUTION'S REVENUES AND EXPENSES."

Enforceability of Remedies Generally and Bankruptcy

The Series 2007 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement, the Mortgage and the FHA Documents. 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 Agreement and the Mortgage may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2007 Bonds will be qualified as to enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the Holders of the Series 2007 Bonds are subject to various provisions of title 11 of the United States Code (the "Bankruptcy Code"). If the Hospital Center were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Hospital Center and its property, including the commencement of a foreclosure proceeding under the Mortgage. The Hospital Center would not be permitted or required to make payments of principal or interest under the Loan Agreement and the Note, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without

an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on the Series 2007 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Hospital Center, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Authority's continuing security interest in the Hospital Center's gross revenues arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Authority or the Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Hospital Center under the Note and the Loan Agreement, and may adversely affect the Authority's and Trustee's ability to take all steps necessary to file a claim under the FHA Documents on a timely basis.

The Hospital Center 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, secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against the Hospital Center 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.

Reduction or Loss of Mortgage Insurance

As more fully discussed above under "PART 5 – FHA MORTGAGE INSURANCE," the failure of the Hospital Center to maintain adequate casualty insurance on the Project and Mortgaged Property, and the Authority's failure to obtain such insurance in lieu thereof, may result in the loss of Mortgage Insurance Benefits. Mortgage Insurance Benefits may also be lost for failure to pay required Mortgage Insurance premiums to FHA and failure to provide FHA with required notices or otherwise to comply with FHA rules and regulations governing insurance claims. The Servicing Agreement requires that the Mortgage Servicer supervise the Hospital Center with regard to the payment of casualty and Mortgage Insurance premiums, and that the Mortgage Servicer provide FHA with required notices, in some cases at the direction of the Authority. To the extent offsets are made in the payment of the Mortgage Insurance Benefits, depending upon the amount of such offsets, the total amount of the Mortgage Insurance Benefits may not be adequate to provide for the timely payment of the principal amount of and interest on the Series 2007 Bonds.

A default under the FHA Documents is the only basis upon which the Authority may present a claim for Mortgage Insurance Benefits. A default under the Loan Agreement, the Resolution or any other document to which the Hospital Center is a party which is not also a default under the Note or the Mortgage will not entitle the Authority to present a claim for Mortgage Insurance Benefits. A default with respect to the 1993 FHA 242 Loan may at the option of FHA constitute a default on the Note and result in an assignment of the Note to FHA for payment of Mortgage Insurance Benefits.

Event of Taxability

If the Hospital Center does not comply with certain covenants of the Hospital Center set forth in the Loan Agreement or if certain representations or warranties made by the Hospital Center in the Loan Agreement or in certain certificates of the Hospital Center are false or misleading, the interest paid or payable on the Series 2007 Bonds may become subject to inclusion in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007 Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that the interest on the Series 2007 Bonds should become subject to inclusion in gross income for federal income tax purposes, the Resolution does not provide for payment of additional interest on the Series 2007 Bonds, the redemption of the Series 2007 Bonds or the acceleration of the payment of principal on the Series 2007 Bonds.

Adequacy of the Debt Service Reserve Fund

As described in “PART 3 – THE SERIES 2007 BONDS – Security for the Series 2007 Bonds” and “PART 2 – PLAN OF FINANCING – Payment of FHA Mortgage Insurance Benefits,” the Debt Service Reserve Fund has been established to provide additional funds for payment of the maturing principal of and interest on the Series 2007 Bonds in the event of a default under the Note and Mortgage and the assignment of the Note and Mortgage to FHA because the Mortgage Insurance Benefits will not be paid immediately. FHA regulations do not permit the Trustee to give notice of assignment to FHA following a payment default on the Note and Mortgage until after the expiration of a 30-day grace period. It is expected that the Mortgage Insurance Benefits and certain other moneys held by the Trustee should be sufficient to provide for the payment of all of the Series 2007 Bonds Outstanding prior to their maturity, together with interest thereon when due, in the event of a default under the Note and Mortgage and the assignment thereof to FHA. In addition, certain funds deposited in the Debt Service Reserve Fund should be sufficient, together with certain other moneys held by the Trustee for such purpose, to pay interest on and maturing principal of the Series 2007 Bonds, pending receipt of full payment of the Mortgage Insurance Benefits, for a period of twelve months. However, no assurance can be given that the Mortgage Insurance Benefits and the amounts available in the Debt Service Reserve Fund will be sufficient to pay in full or when due the maturing principal of and interest on the Series 2007 Bonds in the event of a default under the Note and Mortgage and the assignment thereof to FHA if the final payment of the Mortgage Insurance Benefits is not made prior to the third Interest Payment Date from the date of default under the Note and Mortgage.

Payment of Mortgage Insurance Benefits may be delayed, for example, due to a delay in the assignment of the Note and Mortgage to FHA, or if disputes arise with FHA as to the amount of the claim or the payment thereof. Further, delays could occur if a bankruptcy proceeding is commenced by or against the Hospital Center following a default under the Note and the Mortgage, and if a temporary restraining order is issued by a bankruptcy court against assignment of the Note and the Mortgage to FHA. In the event of a default under the Note and the Mortgage, the Authority is required by the terms of the Resolution to take all actions necessary to assign the Note and the Mortgage to FHA and recover the Mortgage Insurance Benefits pursuant to the schedule described in “PART 5 – FHA MORTGAGE INSURANCE – Default and Payment of Mortgage Insurance Benefits.”

Secondary Market

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

PART 13—THE AUTHORITY

Background, Purposes and Powers

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

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

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

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects,

designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

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

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

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

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

Public Programs	Bonds Issued	Bonds Outstanding	Bonds and Notes Outstanding	Notes Outstanding
State University of New York Dormitory Facilities	\$ 1,975,416,000	\$ 752,200,000	\$ 0	\$ 752,200,000
State University of New York Educational and Athletic Facilities	11,351,092,999	4,656,433,960	0	4,656,433,960
Upstate Community Colleges of the State University of New York	1,366,010,000	575,980,000	0	575,980,000
Senior Colleges of the City University of New York	8,609,563,549	3,146,002,270	0	3,146,002,270
Community Colleges of the City University of New York	2,194,081,563	549,157,730	0	549,157,730
BOCES and School Districts	1,569,416,208	1,180,200,000	0	1,180,200,000
Judicial Facilities	2,161,277,717	745,382,717	0	745,382,717
New York State Departments of Health and Education and Other	3,182,915,000	1,988,005,000	0	1,988,005,000
Mental Health Services Facilities	5,682,130,000	3,719,825,000	0	3,719,825,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	913,895,000	827,890,000	0	827,890,000
Totals Public Programs	\$ 39,779,273,036	\$ 18,141,076,677	\$ 0	\$ 18,141,076,677
Non-Public Programs	Bonds Issued	Bond Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	\$ 14,453,076,020	\$ 6,877,178,039	\$ 151,373,000	\$ 7,028,551,039
Voluntary Non-Profit Hospitals	12,032,779,309	7,404,650,000	0	7,404,650,000
Facilities for the Aged	1,960,585,000	1,065,765,000	0	1,065,765,000

Non-Public Programs	Bonds Issued	Bond Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Supplemental Higher Education Loan Financing Program.....	95,000,000	0	0	0
Totals Non-Public Programs.....	\$ 28,541,440,329	\$ 15,347,593,039	\$ 151,373,000	\$ 15,498,966,039
Grand Totals Bonds and Notes.....	\$ 68,320,713,365	\$ 33,488,669,716	\$ 151,373,000	\$ 33,640,042,716

Outstanding Indebtedness of the Agency Assumed by the Authority

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

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

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	\$ 3,930,000
Insured Mortgage Programs.....	6,625,079,927	592,999,927
Revenue Bonds, Secured Loan and Other Programs.....	2,414,240,000	34,635,000
Total Non-Public Programs.....	9,265,549,927	631,564,927
Total MCFFA Outstanding Debt.....	\$ 13,082,780,652	\$ 631,564,927

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

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

The current members of the Authority are as follows:

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

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of

New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2010.

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

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

BRIAN RUDER, Scarsdale.

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

ANTHONY B. MARTINO, CPA, Buffalo.

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

SANDRA M. SHAPARD, Delmar.

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

ROMAN B. HEDGES, Delmar.

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

KEVIN R. CARLISLE, Averill Park.

Mr. Carlisle was appointed as a Member of the Authority by the Temporary President of the Senate on January 29, 2007. After a career in public housing and business consulting, Mr. Carlisle retired in 2003 as Assistant Commissioner of the state Division of Housing and Community Renewal ("DHCR") and Vice President of the New York State Housing Trust Fund Corporation. He was responsible for capital development programs which financed approximately 4,000 units annually, with a total

development cost of \$500 million. He conceived the state's Homes for Working Families Program, which received the 1999 Award for Program Excellence from the National Council of State Housing Finance Agencies. Similarly, Mr. Carlisle implemented the Rural Leveraging Partnership Program, which was cited as a national model by U.S. Rural Housing Services. He also served at DHCR as Director of Underwriting, Deputy Director of the Office of Rural Development, and designed the housing strategy that met the state's off-site commitment to induce the U.S. Army's 10th Mountain Division to locate at Fort Drum. Before he joined DHCR in 1982, Mr. Carlisle was a partner in Barrett Carlisle & Co., a real estate development and consulting firm, and served the City of Troy and the City of Cohoes in economic planning and real estate project management. Mr. Carlisle earned both a Bachelor's degree in Economics and a Master's degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

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

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

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

Mr. Francis was appointed Director of the Budget on January 1, 2007. As Director of the Budget, Mr. Francis heads the New York State Division of the Budget and serves as the chief fiscal policy advisor to the Governor. Mr. Francis is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Francis also currently serves as a Senior Advisor to the Governor. His private sector experience includes managing partner of the Cedar Street Group, a venture capital firm he founded in 2001; chief financial officer for Priceline.com from its formation in 1997 to 2000; chief financial officer for Ann Taylor stores from 1993 to 1997; and managing director at Merrill Lynch & Co., where he worked from 1986 to 1993. Mr. Francis is a graduate of Yale College and New York University Law School.

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

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke's-Roosevelt Hospital Center since 2002. Before joining St. Luke's-Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

The principal staff of the Authority is as follows:

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

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

PORTIA LEE is the Managing Director of Public Finance. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

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

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

JAMES M. GRAY, R.A., is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing,

contract administration, interior design, and engineering and other technology services. He has been with the Authority since 1986, and has held increasingly responsible positions within the Office of Construction, including Director of the State University of New York (“SUNY”) and Independent Institutions Construction Program. He began his public service career in 1977 in the New York State Office of General Services. He has been a registered architect in New York since 1983. Mr. Gray holds a Bachelor’s degree in architecture from the New York Institute of Technology.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority’s insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the “PACB”) has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2007 Bonds.

Legislation

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

Environmental Quality Review

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

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2007. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

**PART 14—LEGALITY OF THE SERIES 2007 BONDS
FOR INVESTMENT AND DEPOSIT**

Under State law, the Series 2007 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control and belonging to them.

The Series 2007 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 15—STATE’S RIGHT TO REQUIRE REDEMPTION OF BONDS

Under the Act, notwithstanding and in addition to any provisions for the redemption of bonds which may be contained in the Resolution or the Series 2007 Bonds, the State may, upon furnishing sufficient funds therefor, require the Authority to redeem, prior to maturity, as a whole, any issue of bonds, including the Series 2007 Bonds, on any interest payment date not less than twenty years after the date of the bonds of such issue at one hundred five per centum (105%) of their face value and accrued interest or at such lower redemption price as may be provided in such bonds in case of the redemption thereof as a whole on the redemption date.

PART 16—NEGOTIABLE INSTRUMENTS

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

PART 17—TAX MATTERS

In the opinion of Sidley Austin LLP, New York, New York, Bond Counsel, based on existing law and except as provided in the next sentence, interest on the Series 2007 Bonds is not includable in the gross income of the owners of the Series 2007 Bonds for purposes of federal income taxation. Interest on the Series 2007 Bonds will be includable in gross income for purposes of federal income taxation retroactive to their date of issuance if the Institution or the Authority fails to comply subsequent to the issuance of such Series 2007 Bonds with certain requirements of the Code and covenants regarding the use, expenditure and investment of the Series 2007 Bond proceeds and the timely payment of certain investment earnings to the U.S. Treasury.

The above opinion with respect to the exclusion from gross income of the interest on the Series 2007 Bonds for federal income tax purposes may not be relied upon to the extent that such exclusion is adversely affected as a result of any action taken in reliance upon the opinion of counsel other than Bond Counsel delivered subsequent to the issuance of the Series 2007 Bonds.

In rendering this opinion, Bond Counsel has relied upon the representations made by the Institution with respect to certain material facts within the knowledge of the Institution and upon the accompanying opinion of its counsel and has made no independent investigation thereof.

Interest on the Series 2007 Bonds will not be treated as a specific preference item in calculating the alternative minimum taxable income of individuals; however interest on the Series 2007 Bonds will be included in the calculation of the alternative minimum tax liabilities of corporations. The Code contains provisions (some of which are noted below) that could result in tax consequences, upon which Sidley Austin LLP renders no opinion, as a result of (i) ownership of the Series 2007 Bonds or (ii) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S-corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Series 2007 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Under existing law, the interest on the Series 2007 Bonds is exempt from personal income taxation of the State and its political subdivisions.

The excess, if any, between the tax basis of a maturity of substantially identical Series 2007 Bonds to a purchaser (other than a purchaser who holds such Series 2007 Bonds as inventory, stock in trade, or for sale to customers in the ordinary course of business) who purchases such Series 2007 Bonds at the initial offering price and the amount payable at maturity is “bond premium”. Bond premium is amortized over the respective terms of the Series 2007 Bonds with bond premium (the “Premium Bonds”) for federal income tax purposes (or, in the case of a Series 2007 Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2007 Bond). Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable bond premium attributable to each taxable year such Premium Bonds are held. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of amortizable bond premium attributable to a taxable year and the treatment of the bond premium upon the sale or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Interest paid on the Series 2007 Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest on the Series 2007 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2007 Bonds to be subject to backup withholding if such interest is paid to Beneficial Owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the Beneficial Owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients. Amounts withheld under the backup withholding rules from a payment to a Beneficial Owner would be allowed as a refund or a credit against such Beneficial Owner’s federal income tax liability provided the required information is furnished to the IRS.

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2007 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent Beneficial Owners from realizing the full

current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky, *Davis v. Kentucky Department of Revenue of the Finance and Administration Cabinet*, 197 S.W.3d 557 (2006), which held that it was a violation of the Commerce Clause of the United States Constitution for the Commonwealth of Kentucky to grant a state income tax exemption for interest on bonds issued by or on behalf of the Commonwealth of Kentucky and its political subdivisions while subjecting interest on bonds issued by or on behalf of other states and their political subdivisions to Kentucky state income tax. It is not possible to know at this time how the Supreme Court will decide this case. If the decision is affirmed by the United States Supreme Court, states such as the State may be required to eliminate the disparity between the income tax treatment of bonds issued by or on behalf of other states and their potential subdivisions and the income tax treatment of bonds issued by or on behalf of the State and its political subdivisions, such as the Series 2007 Bonds. The impact of this decision may also affect the market price for, or the marketability of, the Series 2007 Bonds.

Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Sidley Austin LLP expresses no opinion.

PART 18—STATE AND FHA NOT LIABLE ON THE SERIES 2007 BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The HVHC Resolution specifically provides that the Series 2007 Bonds are not a debt of the State nor shall the State be liable thereon.

The Series 2007 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2007 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD and FHA.

PART 19—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 thereby vested in the Authority to fulfill the terms of any agreements made with the holders thereof, or in any way impair the rights and remedies of such holders until such notes or bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, 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 and bonds.

PART 20—LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2007 Bonds by the Authority are subject to the approval of Sidley Austin LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2007 Bonds. The proposed form of

the opinion of Bond Counsel to the Authority is set forth in Appendix E hereto. Certain legal matters will be passed upon for the Mortgage Servicer by its counsel, Krooth & Altman LLP, Washington, D.C.

Certain legal matters will be passed upon for the Institution by its counsel, Dennett Law Offices, P.C., Great Neck, New York and for the Underwriters by their counsel, Clifford Chance US LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2007 Bonds or questioning or affecting the validity of the Series 2007 Bonds or the proceedings and authority under which they are to be issued. There is no litigation pending which in any manner questions the right of the Authority to finance the Project in accordance with the provisions of the Act, the HVHC Resolution, the Series 2007 Resolution and the Loan Agreement.

PART 21—UNDERWRITING

The underwriters listed on the cover page of this Official Statement (the “Underwriters”) have jointly and severally agreed, subject to certain conditions, to purchase the Series 2007 Bonds from the Authority at a purchase price of \$77,799,827.25 and to make a public offering of the Series 2007 Bonds at prices that are not in excess of or yields that are not less than the public offering prices or yields stated on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all such Series 2007 Bonds if any are purchased. The Underwriters will receive an underwriting fee (including certain expense reimbursement) for their services in the amount of \$559,037.43.

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

PART 22—CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended (“Rule 15c2-12”), the Institution 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 165 days after the end of each fiscal year, commencing with the fiscal year of the Institution ending December 31, 2007, for filing by DAC with each Nationally Recognized Municipal Securities Information Repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a “Repository”), and, if and when one is established, the New York State Information Depository (the “State Information Depository”), on an annual basis, operating data and financial information of the type hereinafter described which is included in “PART 10 — THE HOSPITAL CENTER” of this Official Statement (the “Annual Information”), together with the Institution’s 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 each Repository and to the State Information Depository when they become available.

If, and only if and to the extent that, it receives the Annual Information and annual financial statements described above from the Institution, DAC has undertaken in the Continuing Disclosure

Agreement, on behalf of and as agent for the Institution 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 Institution, with each such Repository and the State Information Depository.

The Institution also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, in a timely manner, 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 they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Institution, the Trustee or the Authority, DAC will file the Notices with each such Repository or the Municipal Securities Rulemaking Board (the “MSRB”), and the State Information Depository, in a timely manner. With respect to the Series 2007 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 Institution, 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, audited financial statements, Notices or any other information, disclosures or notices provided to it by the Institution, Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Trustee, the Institution, the Holders of the Series 2007 Bonds or any other party. DAC has no responsibility for the Authority’s failure 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 Institution, Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Institution, 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 Institution which consists of operating data and financial information of the type included in “PART 10 — THE HOSPITAL CENTER” including: (i) utilization statistics of the type set forth under the headings and subheadings “Utilization” and “Management’s Discussion of Utilization”; (ii) revenue and expense data of the type set forth under the headings “Summary of Historical Revenue and Expenses” and “Management’s Discussion — Analysis of Recent Financial Performance;” and (iii) information on the sources of revenue by payor of the type set forth under the subheading “Sources of Patient Service Revenue,” together with a narrative explanation as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Institution.

The Notices include notices of any of the following events (each a “Notice Event”) with respect to the Series 2007 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2007 Bonds; (7) modifications to the rights of Holders of the Series 2007 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2007 Bonds; and (11) rating changes. In addition, DAC will undertake to provide to each Repository or the MSRB and the State Information Depository, in a timely manner, notice of any failure

by the Institution to provide the Annual Information and annual financial statements by the date required in the Institution's undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement to provide continuing disclosure described above is an action to compel specific performance of the undertaking of DAC, the Institution, the Trustee and/or the Authority, and no person, including any Holder of the Series 2007 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the Institution 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 2007 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2007 Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of the Series 2007 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 2007 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing 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 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 may be amended or modified without consent of the Holders of Series 2007 Bonds under certain circumstances set forth therein. Copies of the agreement when executed by the parties thereto upon the delivery of the Series 2007 Bonds will be on file at the principal office of the Authority.

PART 23—RATINGS

The Series 2007 Bonds are expected to be rated "Aaa" and "AAA" by Moody's Investors Service and Standard & Poor's Ratings Services, respectively, with the understanding that, upon delivery of the Series 2007 Bonds, the Policy will be issued by the Bond Insurer. An explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that such ratings will prevail for any given period of time or that they will not be changed or withdrawn by the respective rating agency if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2007 Bonds.

PART 24—MISCELLANEOUS

References in this Official Statement to the Act, the HVHC Resolution, the Series 2007 Resolution, the Loan Agreement, the Servicing Agreement and the FHA Documents do not purport to be complete. Refer to the Act, the HVHC Resolution, the Series 2007 Resolution, the Loan Agreement, the Servicing Agreement and the FHA Documents for full and complete details of their provisions. Copies of the HVHC Resolution, the Series 2007 Resolution, the Loan Agreement, the Servicing Agreement and the FHA Documents are on file with Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2007 Bonds are fully set forth in the HVHC Resolution. Neither any advertisement of the Series 2007 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2007 Bonds.

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

The information regarding the Institution was supplied by the Institution. The Authority believes that this information is reliable, but the Authority and the Underwriters make no representations or warranties whatsoever as to the accuracy or completeness of this information.

The information regarding the Mortgage Servicer was supplied by the Mortgage Servicer. The Authority believes that this information is reliable, but the Authority, the Institution and the Underwriters make no representations or warranties whatsoever as to the accuracy or completeness of this information.

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

The Bond Insurer provided the information relating to the Bond Insurer and the Policy in "PART 3 — THE SERIES 2007 BONDS — Bond Insurance" and in "Appendix F — Specimen Insurance Policy." The Authority believes that this information is reliable, but the Authority and the Underwriters make no representations or warranties whatsoever as to the accuracy or completeness of this information.

"Appendix A — Certain Definitions," "Appendix C — Summary of Certain Provisions of the HVHC Resolution," "Appendix D — Summary of Certain Provisions of the Loan Agreement," and "Appendix E — Form of Approving Opinion of Bond Counsel to the Authority" have been prepared by Sidley Austin LLP, New York, New York, Bond Counsel to the Authority.

The Institution has reviewed the parts of the Official Statement describing the Plan of Financing (except for the information in the paragraph immediately preceding the heading "Construction Fund Disbursements" and under the headings "Payment of FHA Mortgage Insurance Benefits" and "Prepayment of Note from Hazard Insurance Proceeds or Condemnation Awards"), the Project, Estimated Sources and Uses of Funds, the Hospital Center, General Factors Affecting the Institution's Revenues and Expenses, Bondholders' Risks and Appendix B. The Institution shall certify as of the dates of sale and delivery of the Series 2007 Bonds that such parts do not contain any untrue statement of material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

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

The Institution has agreed with the Authority to furnish, or cause to be furnished, no later than 60 days subsequent to the last day of each of the first three quarters in each fiscal year and no later than 90 days subsequent to the fourth quarter of each fiscal year, beginning with the fiscal year that commenced January 1, 2007, to (i) the Authority, (ii) each Repository, and (iii) each Bondholder who has so requested, the following information: (a) the unaudited consolidated financial statements of the Institution including the statement of financial position as of the end of such quarter and as of the end of the prior fiscal year, the statement of operations for the fiscal year to date and for the comparable prior year period, and changes in net assets and cash flow for the fiscal year to date; (b) utilization statistics for

the fiscal year to date and for the comparable prior year period, including certified beds, total discharges, patient days, average length of stay, average percent occupancy, emergency room visits (treated and released, admitted and total), ambulatory surgery visits and ambulatory care visits; and (c) percentage of patient discharges by net patient service revenue source. In the event that the Institution satisfies its requirement to provide annual information in accordance with the Continuing Disclosure Agreement prior to 90 days subsequent to the fourth quarter of any fiscal year, the submission under the Continuing Disclosure Agreement will satisfy the requirement of the fourth quarter.

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/ David D. Brown, IV
Authorized Officer

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CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

In addition to the other terms defined in this Official Statement, when used in the summaries of certain provisions of the HVHC 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, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law, as amended).

Act of Bankruptcy means the filing of a petition commencing a case under the United States Bankruptcy Code by or against the Institution.

Annual Administrative Fee means the annual fee for the general administrative expenses of the Authority in the amount or percentage and payable as stated in the Applicable Loan Agreement.

Applicable means (i) with respect to any Construction Fund, Mortgage Account, Equity Account, Insurance and Condemnation Account, Investment Income Account, Costs of Issuance Account, Arbitrage Rebate Fund, Debt Service Fund, Debt Service Account, Surplus Account, Debt Service Reserve Fund, Reserve Account, Collateral Account, Purchase Account or Redemption Fund, the fund or account 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 Reserve Account Requirement, the said Requirement established in connection with a Series of Bonds, (iii) with respect to any Collateral Account Requirement, the said Requirement established in connection with a Series of Bonds, (iv) with respect to any Investment Income Account Requirement, the said Requirement established in connection with a Series of Bonds, (v) with respect to any Series Resolution, the Series Resolution relating to a particular Project, (vi) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project for the Institution, (vii) with respect to any Loan Agreement, the Loan Agreement entered into by and between the Institution and the Authority, relating to a particular Project for the Institution, (viii) with respect to any FHA Documents, either collectively or as separate documents, the FHA Documents delivered and entered into relating to a particular Project for the Institution, (ix) with respect to any Servicing Agreement, the Servicing Agreement entered into by and between a Mortgage Servicer and the Authority, relating to a particular Project, (x) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution, (xi) with respect to any Project, the Project being financed in connection with the issuance of a particular Series of Bonds, (xii) with respect to any Supplemental Resolution, any such Resolution supplementing a particular Series Resolution, (xiii) with respect to a Trustee or a Paying Agent, the Trustee or Paying Agent identified in the Applicable Series Resolution, (xiv) with respect to any Bond Insurance Policy and/or Surety Bond, the Bond Insurance Policy and/or Surety Bond delivered in connection with a particular Series of Bonds, (xv) with respect to a Mortgage Servicer, the Mortgage Servicer identified in the Applicable Series Resolution or Applicable Bond Series Certificate, (xvi) with respect to any Trust Revenues, the Trust Revenues pledged in connection with a particular Series of Bonds and (xvii) with respect to any Bond Insurer, the Bond Insurer which is providing a Bond Insurance Policy or Surety Bond with respect to an Applicable Series of Bonds.

Arbitrage Rebate Fund means the fund so designated and established by an Applicable Series Resolution pursuant to the HVHC Resolution.

Authority Fee means a fee payable to the Authority and attributable to the issuance of a Series of Bonds and the financing and/or refinancing of the Project.

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 (5) 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 Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, 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 and the General Counsel, and when used with reference to any act or

document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of the Institution, the person or persons authorized by a resolution or its by-laws to perform any act or execute any document; and (iii) in the case of the Applicable Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Applicable 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 Applicable Trustee or the bylaws of such Applicable Trustee; and (iv) in the case of a Mortgage Servicer, the person or persons authorized by a resolution or the by-laws of such Mortgage Servicer to perform any act or execute any document.

Available Moneys means, with respect to an Applicable Series of Bonds (i) all amounts drawn under a letter of credit, surety bond, insurance policy or other similar third party payment agreement and deposited to the credit of the funds and accounts established under the HVHC Resolution or under the Applicable Series Resolution, (ii) the proceeds of any obligations issued for the express purpose of providing for the payment of the principal of and premium, if any, and interest on the Bonds, (iii) moneys of the Institution which have been transferred to and on deposit with the Applicable Trustee, for a period of not less than one hundred twenty-three (123) days during which no general assignment for the benefit of creditors of the Authority or the Institution has been made under the State Debtor and Creditor Law (being Chapter 17 of the Laws of 1909 of the State, as amended) as amended from time to time, and no petition has been filed by the Authority or by the Institution under the United States Bankruptcy Code of 1978 (11 U.S.C. Section 101 et seq.), as amended from time to time, or if such petition has been filed, it has been dismissed during such one hundred twenty-three (123) day period, (iv) all other amounts on deposit in any such Fund or Account as to which the Applicable Trustee has received an opinion of nationally recognized counsel experienced in bankruptcy matters to the effect that payment to the Bondholders of such moneys would not constitute a transfer which may be avoided under any provision of the United States Bankruptcy Code in the event of an act of bankruptcy on behalf of the Institution or the Authority and (v) all amounts on deposit in the funds and accounts established under the HVHC Resolution or under the Applicable Series Resolution as to which the Trustee has received a final non-appealable order of the United States Bankruptcy Court providing for the payment of such amounts in accordance with the HVHC Resolution or any Series Resolution.

Bond or Bonds means the Series 2007 Bonds and any other Series of bonds of the Authority authorized pursuant to the HVHC Resolution and issued pursuant to an Applicable Series Resolution.

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

Bondholder, Holder of Bonds or Holder 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;

Bond Insurance Policy means the municipal bond insurance policy, if any, issued by the Bond Insurer with respect to an Applicable Series of Bonds.

Bond Insurer means such insurance corporation, if any, acceptable to an Authorized Officer of the Authority, which has issued the Bond Insurance Policy and/or a Surety Bond in connection with an Applicable Series of Bonds, and its successors and assigns.

Bond Series Certificate means a certificate of the Authority fixing terms, conditions and other details of Bonds of an Applicable Series in accordance with the delegation of power to do so under an Applicable Series Resolution as such Bond Series Certificate may be amended or supplemented from time to time.

Bond Year means, unless otherwise stated in the Applicable Series Resolution, a period of twelve (12) consecutive months beginning February 15 in any calendar year and ending on February 14 of the succeeding calendar year.

Business Day will mean a day on which the Authority and the Applicable Trustee are not required or authorized by law to close.

Capital Addition means, with respect to an Applicable Series of Bonds, an addition, amendment or supplement to a Project as defined in the Act.

Cash Flow Statement means a cash flow analysis prepared on a basis consistent with the original cash flow statement relative to an Applicable Series of Bonds and approved by the Authority and the Applicable Bond Insurer and provided to the Applicable Trustee, which is prepared by a Financial Consultant and which demonstrates that Trust Revenues available therefor will be sufficient in each succeeding Bond Year to pay principal of and interest on all Bonds Outstanding coming due in such Bond Year, all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, and any Mortgagee Advances, and which includes all fundamental assumptions used in reaching such conclusions, when compared with the original cash flow statement delivered at Closing on file with the Trustee.

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

Collateral Account means each such account authorized to be created pursuant to the HVHC Resolution in each Debt Service Reserve Fund and so designated and established by the Applicable Series Resolution.

Collateral Account Requirement means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds, as of any particular date of calculation, the amount, if any, by which (a) the aggregate principal amount of all Bonds of such Applicable Series then Outstanding plus interest on such Bonds accrued to such date plus fifteen (15) days thereafter exceeds (b) the sum of (i) amounts on deposit in the Reserve Account, the Debt Service Account, the Redemption Account (not including amounts attributable to Bonds of such Series which are no longer deemed Outstanding) and the Investment Income Account (assuming for this purpose that no credit shall be given with regard to the outstanding face amount of any Letter of Credit on deposit therein), plus (ii) if the calculation is made (A) prior to Final Endorsement, the outstanding principal balance of the Note, i.e., the face amount of the Note as of the date of Initial Endorsement (reduced by the amount of any payment or prepayment of the principal of the Note), less one percent (1%) of and thirty (30) days' interest on such outstanding principal balance (at an interest rate set forth in the Applicable Bond Series Certificate), or (B) after Final Endorsement, the outstanding principal balance of the Note less one percent (1%) of and thirty (30) days' interest on the outstanding principal balance of such Note (at an interest rate set forth in the Applicable Bond Series Certificate).

Commitment means, with respect to an Applicable Series of Bonds, the Commitment for Insurance of Advances or of Completion issued by FHA to insure the advances of funds secured by the Mortgage as assigned to the Authority by the Assignment, and with respect to projects which are completed and to be refinanced, approval of FHA of the amendments to the FHA Documents, if required.

Cost or Costs of Issuance means, with respect to an Applicable Series of Bonds, the items of expense incurred in connection with the preparation, authorization, sale and issuance of such Series of Bonds, and the preparation and execution of the Loan Agreement and the Applicable FHA Documents.

Cost or Costs of the Project means, with respect to an Applicable Project, costs and expenses or the refinancing or refunding of bonds of a public benefit corporation issued to pay all costs and expenses determined by the Authority to be necessary in connection therewith, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, relocation, demolition, construction, reconstruction, rehabilitation, renovation, repair and improvement of such 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 such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such 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 for the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement and equipping of such 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 such Project, (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement or equipping of such Project, (ix) the costs and expenses incurred in connection with the refinancing of any outstanding indebtedness constituting a lien on the Mortgaged Property or the Project, including the cost of acquiring, refinancing and/or accepting assignment of, an existing FHA Insured Note, and (x) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant hereto, to the Loan Agreement, the FHA Documents, or to the Servicing Agreement; provided that payment of any such costs with moneys in the Mortgage Account or the Equity Account shall have been either endorsed for Mortgage Insurance or approved for release by FHA.

Counsel means, with respect to an Applicable Series of Bonds, an attorney or firm of attorneys (who may be counsel for the Authority, the Institution, the Mortgage Servicer and the Applicable Trustee) acceptable to the Authority.

Debt Service Reserve Fund Requirement means unless otherwise defined in the Applicable Series Resolution or the Applicable Bond Series Certificates as of any particular date of computation with respect to Bonds of an Applicable Series, an amount equal to not less than the sum of (i) the Reserve Account Requirement and (ii) the Collateral Account Requirement.

Defeasance Security means any of the following: (i) Government Obligations of the type described in clauses: (i), (ii), (iii) or (iv) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and (iii) an Exempt Obligation, provided such Exempt Obligation: (A) 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; (B) 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 respective interest payment dates and redemption dates specified in the irrevocable instructions referred to in clause (A) above and as to which the principal of and interest on and other receipts to be derived from the Government Obligations which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the interest payment date or dates, the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (A) above; and (C) is rated by at least two nationally recognized rating services in the highest rating category for such Exempt Obligation; provided, however, that: the term "Defeasance Security" shall not include (x) any interest in a unit investment trust or mutual fund; or (y) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

Excess Earnings means, with respect to an 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 or any political subdivision, agency, authority, public benefit corporation or instrumentality of any such state or territory, the interest on which is excludable from gross income under Section 103 of the Code and which is not a "specific 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 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 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 rating services; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency or instrumentality approved by the Authority 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 rating services; (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

FHA means the United States Secretary of Housing and Urban Development, acting through the Federal Housing Commissioner or his authorized agents.

FHA Cash Lock Agreement means, with respect to an Applicable Series of Bonds, the agreement of FHA pursuant to which it agrees that Mortgage Insurance Benefits payable in respect of a default under a Mortgage will be paid in the form of cash and not FHA debentures.

FHA Debenture Agreement means, with respect to an Applicable Series of Bonds, a letter agreement of FHA pursuant to which it agrees that Mortgage Insurance Benefits payable in respect of a default under a Mortgage will be paid in the form of FHA debentures, which FHA will not redeem prior to maturity, except as set forth in said agreement.

FHA Documents means, with respect to an Applicable Series of Bonds, the Commitment, Mortgage, Note, Security Agreement, Regulatory Agreement, FHA Debenture Agreement, if applicable, FHA Cash Lock Agreement, if applicable, and Building Loan Agreement, if applicable, and any amendments, modifications or allonges thereto; the term “FHA Documents” shall also mean and include the National Housing Act, as amended, and all rules and regulations of FHA applicable to such act and the written programmatic requirements of FHA.

Final Endorsement means, with respect to an Applicable Series of Bonds, the final endorsement of the Applicable Note by FHA for insurance under the National Housing Act, as amended.

Financial Consultant means a firm of investment bankers, a financial consulting firm, or a firm of certified public accountants, satisfactory to the Authority, which is experienced in the preparation of cash flow analyses in connection with obtaining ratings for FHA insured tax-exempt financings similar to the Bonds.

Floor-Ceiling Agreement means, with respect to an Applicable Series of Bonds, a Floor-Ceiling Agreement, if any, executed by and among the Authority, the Applicable Trustee and a Qualified Financial Institution and approved by the Applicable Bond Insurer prior to its distribution to potential bidders (which approval shall be deemed to have been given unless the Authority is notified to the contrary, in writing, within three (3) days of submission of the Floor-Ceiling Agreement to such Applicable Bond Insurer), which Agreement provides for: (i) the investment of amounts on deposit in investment securities of the nature permitted by the terms and conditions of Section 6.06 hereof; and (ii) the protection of principal and/or yield, as applicable, with respect to the amounts invested pursuant to clause (i) above;

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 such Project or the Mortgaged Property or any part of either.

HVHC Resolution means the Hudson Valley Hospital Center FHA–Insured Mortgage Hospital Revenue Bond Resolution adopted by the members of the Authority on July 25, 2007 as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

Initial Endorsement means, with respect to an Applicable Series of Bonds, (i) the initial endorsement of the Note by FHA for Mortgage Insurance under the National Housing Act, as amended, and (ii) the endorsement of the Note by FHA for Mortgage Insurance under the National Housing Act, as amended, in connection with FHA insurance programs where a Note is endorsed once for FHA insurance benefits equal to the full face amount of such Note.

Insurance and Condemnation Account means each such account authorized to be created pursuant to the HVHC Resolution in each Construction Fund and so designated and established by the Applicable Series Resolution.

Interest Payment Date means, unless otherwise provided in the Applicable Series Resolution or the Applicable Bond Series Certificate, February 15 or August 15.

Investment Agreement means, with respect to an Applicable Series of Bonds: (i) an agreement for the investment of moneys held by the Applicable Trustee pursuant to this Resolution and the Applicable Series Resolution with a Qualified Financial Institution (including the entity acting as Applicable Trustee, if such Trustee constitutes a Qualified Financial Institution) and approved by the Applicable Bond Insurer prior to its distribution to potential bidders (which approval shall be deemed to have been given unless the Authority is notified to the contrary, in writing, within three (3) days of submission of the Investment Agreement to such Applicable Bond Insurer); and (ii) a Floor-Ceiling Agreement;

Investment Income Account means each such account authorized to be created pursuant to the HVHC Resolution in each Construction Fund and so designated and established by the Applicable Series Resolution.

Investment Income Account Requirement means, unless such Requirement is otherwise defined in the Applicable Series Resolution or the Applicable Bond Series Certificate with respect to an Applicable Series of Bonds, as determined on the date of delivery of such Bonds and on each Interest Payment Date thereafter to and including the Interest Payment Date next preceding commencement of amortization of the Note (the “Outside Date”), the aggregate of the difference for the period from the date of delivery of such Series of Bonds to the first Interest Payment Date and for each six (6) month period thereafter through the Outside Date, and the period from the Outside Date to the commencement of amortization of the Applicable Note between: (i) the interest to accrue on the Bonds from the date of determination to the date of commencement of amortization of the Note, and (ii) the sum of (A) the interest to accrue on the Note computed at the rate set forth in the Note on the aggregate amount advanced under the Note as Mortgage proceeds as of the date of determination; (B) the earnings to accrue on the Investment Agreement relating to the Mortgage Account as of the date of determination; and (C) the earnings to accrue on the Investment Agreement relating to the balance in the Reserve Account as of the date of determination.

Letter of Credit means, with respect to an Applicable Series of Bonds, an irrevocable letter of credit, or as appropriate, a confirmation or confirming letter of credit or surety bond, issued in favor of the Authority or the Applicable Trustee, as the case may be, in form and substance satisfactory to the Authority and the Applicable Bond Insurer or the Applicable Trustee, as the case may be.

Mortgage means a mortgage granted by the Institution to the Authority in connection with the issuance of an Applicable Series of Bonds to secure the Mortgage Loan evidenced by a Note, in form and substance satisfactory

to the Authority and in conformance with the Act, on the Mortgaged Property mortgaged in connection therewith, as such Mortgage may be amended or modified.

Mortgage Account means each such account authorized to be created pursuant to the HVHC Resolution in each Construction Fund and so designated and established by the Applicable Series Resolution.

Mortgage Insurance means the insurance of the Note and Mortgage pursuant to Section 242, Section 241, Section 232, Section 223(f), Section 223(a)7/241 or Section 223(a)7/242 of the National Housing Act, as amended, or any other section of the National Housing Act providing comparable insurance benefits.

Mortgage Insurance Benefits, FHA Mortgage Insurance Benefits or FHA mortgage insurance benefits means, with respect to an Applicable Series of Bonds, cash, debentures or combination thereof paid by FHA in the event of a default under the Applicable Note and Mortgage and assignment thereof to FHA.

Mortgage Loan means the loan or loans made, funded or refunded by the Authority to the Institution from an Applicable Series of Bonds pursuant to the HVHC Resolution and the Applicable Series Resolution with respect to a Project. Mortgage Loan shall also mean any subsequent increase to the initial Mortgage Loan for a Project for the purpose of financing the completion, amendment or supplement of or improvements or replacements or any Capital Additions to such Project.

Mortgaged Property means, except as may be provided in the Applicable Series Resolution, with respect to an Applicable Series of Bonds, the land described in the Mortgage and the buildings and improvements thereon or hereafter erected thereon and the fixtures, furnishings and equipment owned by the Institution and now or hereafter located therein or thereon.

Mortgage Servicer means, with respect to an Applicable Series of Bonds, the corporation or other such entity, and its successors and assigns, which has entered into an agreement with the Authority to service the Mortgage and perform other duties as set forth in a Servicing Agreement.

Mortgage Advances means, with respect to an Applicable Series of Bonds, any amounts advanced by the Authority as mortgagee under the Mortgage, or by the Mortgage Servicer pursuant to the Servicing Agreement, on behalf of the mortgagee under the Mortgage, to or for the account of the Institution, which advances are secured by the Mortgage.

Net Condemnation Proceeds shall have the meaning as defined in Appendix D under the heading “Application of Proceeds of Condemnation Compensation”.

Net Insurance Proceeds shall have the meaning as defined in Appendix D under the heading “Application of Proceeds of Hazard Insurance”.

Non-Asset Bonds means an amount of Bonds of an Applicable Series equal to the difference between (i) the principal amount of such Bonds Outstanding, less the amount on deposit in the Applicable Reserve Account of the Applicable Debt Service Reserve Fund and the applicable Mortgage Account and (ii) the outstanding principal amount of the Note.

Non-Asset Bond Prepayment means the amount, if any, required to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds such that after giving effect to such redemption, the Non-Asset Bond Ratio remains the same, as nearly as may be practicable, as before such payment.

Non-Asset Bond Ratio means the ratio that the principal amount of the Bonds Outstanding of an Applicable Series (less the amount on deposit in the Reserve Account of Debt Service Reserve Fund and Redemption Account to be applied to pay the principal of, redemption price or interest on the Bonds that are no longer Outstanding) bears to the outstanding principal amount of the Applicable Note and the balance on deposit in the Mortgage Account or such other ratio as may be required pursuant to a Cash Flow Statement.

Note means, with respect to an Applicable Series of Bonds, the mortgage note executed and delivered by the Institution concurrently with the delivery of such bonds in the principal amount set forth in the Applicable Series Resolution as it may from time to time be amended or supplemented.

Official Statement means an official statement or other offering document relating to and in connection with the sale of Bonds.

Outstanding when used in reference to Bonds of an Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered hereunder and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Applicable Trustee at or before such date; (ii) any such Bond deemed to have been defeased; and (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the HVHC Resolution.

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

Permitted Collateral means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to an Applicable Series of Bonds, 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 rating service; (C) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized rating service no lower than in the second highest rating category; and (D) has a readily determinable market value acceptable to the Authority; 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 Best's Insurance Guide or a nationally recognized rating service in the highest rating category

Permitted Investments means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds 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 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 shall mean such project with respect to which the Authority has authorized the making of a federally insured Mortgage Loan to the Institution pursuant to the provisions of the Act, which loan or portion thereof shall be evidenced by the Loan Agreement, Mortgage and a Note insured for Mortgage Insurance by FHA.

Qualified Financial Institution means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000: (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation; and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers; and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this

paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds; (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds; (iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds; (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, the Student Loan Marketing Association, or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or (v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above, and provided further, that in the case of any entity described in (i) (ii), (iii) or (v) 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: (A) if no Bond Insurance Policy has been issued with respect to a Series of Bonds, have been assigned a credit rating by the Rating Service(s) rating the Bonds which is not lower than the rating then assigned by such Rating Service (i.e., at the time an Investment Agreement is entered into or Letter of Credit is delivered) to the Outstanding Bonds of the Series of Bonds with respect to which such Investment Agreement has been entered into or Letter of Credit is delivered: or (B) if a Bond Insurance Policy has been issued by an Applicable Bond Insurer then the Applicable Bond Insurer and the Authority shall approve such entity.

Rating Service means Fitch, Inc., Moody's, Standard & Poor's or any other nationally recognized rating service which shall have assigned a rating on any Bonds Outstanding as requested by or on behalf of the Authority, and which rating is then currently in effect.

Redemption Price, when used with respect to a Bond of an Applicable Series, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof.

Refunding Bonds means all Bonds, issued pursuant to the HVHC Resolution to refund outstanding Bonds.

Regulatory Agreement means with respect to an Applicable Series of Bonds, the Regulatory Agreement, executed and delivered by and between the Institution and FHA relating to the construction of the Project and the insuring by FHA of advances of funds secured by the Mortgage, as amended from time to time.

Requisition means (i) an Application for Insurance of Advance of Mortgage Loan Proceeds and any supporting documentation, submitted by the Institution as a request for advance of moneys from the Construction Fund which will be insured by FHA, and (ii) such other forms of documents which are required, either by FHA or the Authority, and are submitted by the Institution as a request for advance of moneys from the Construction Fund.

Reserve Account means the account so designated and established by the Applicable Series Resolution pursuant to the HVHC Resolution.

Reserve Account Requirement means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate and subject to the limitations of the Code, as of any particular date of computation, with respect to Bonds of an Applicable Series, an amount equal to not less than the sum of (i) the maximum Principal Amount of the Bonds of such Series constituting Serial Bonds and interest thereon anticipated to come due in any twelve (12) month period; (ii) an amount equal to the maximum amount of interest on the Bonds of such Series constituting Term Bonds coming due in any twelve (12) month period; and (iii) the greater of (A) one month's principal and interest on the Applicable Note or (B) one month's interest only calculated at the interim mortgage rate on the face amount of the Applicable Note.

Securities means (i) moneys or (ii) Permitted Investments.

Security Agreement means, with respect to an Applicable Series of Bonds, the Security Agreement by and between the Institution and the Authority, as it may from time to time be further amended or supplemented, granting to the secured party thereunder a first lien on certain fixtures and equipment in the Mortgaged Property.

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the HVHC 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 HVHC Resolution.

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds.

Servicing Agreement means, with respect to an Applicable Series of Bonds, the Servicing Agreement between the Authority and the Mortgage Servicer, as amended from time to time.

Servicing Fee means, with respect to an Applicable Series of Bonds, the fee payable to the Mortgage Servicer under the Servicing Agreement.

Sinking Fund Installment means, with respect to any Series of Bonds, an amount of principal of the Bonds paid on an Interest Payment Date prior to maturity in accordance with a Sinking Fund Redemption.

Sinking Fund Redemption means, with respect to an Applicable Series of Bonds, an amount of Bonds of such Series subject to redemption pursuant to and to the extent of moneys available therefor on each Interest Payment Date under the HVHC Resolution at the principal amount thereof.

Special Mandatory Redemption means, with respect to an Applicable Series of Bonds, the mandatory redemption of Bonds from the moneys deposited in the Redemption Account upon completion of the Project all in accordance with the HVHC Resolution and as may otherwise be provided in the Applicable Bond Series Certificate.

Supplemental Resolution means any resolution amending or supplementing the HVHC Resolution, any Applicable Series Resolution or any Supplemental Resolution.

Surety Bond means, with respect to an Applicable Series of Bonds, the surety bond or bonds, if any, issued by the Applicable Bond Insurer with respect to the potential difference between the FHA Mortgage Insurance Benefits and debt service requirements on the Applicable Series of Bonds.

Surplus Account means each such account authorized to be created pursuant to the HVHC Resolution in each Debt Service Fund and so designated and established by the Applicable Series Resolution.

Threshold Amount means hazard insurance proceeds received that exceed one percent of net plant, property and equipment as shown on the Institution's audited financial statements for its most recent fiscal year.

Trust Revenues means all moneys, securities and instruments received or held by the Applicable Trustee pursuant to the HVHC Resolution, the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Note deposited in the Debt Service Fund (other than the Purchase Account), the Construction Fund

(other than the Equity Account and the Insurance and Condemnation Account and subject to the restrictions of the HVHC Resolution), the Debt Service Reserve Fund and the Redemption Account, all payments of principal and interest on the Applicable Note (less the Servicing Fee and any Mortgagee Advances), all Mortgage Insurance Benefits paid by FHA with respect to such Note and Mortgage and deposited in the Applicable Debt Service Fund, less any Mortgagee Advances, all insurance proceeds and condemnation awards which are to be applied pursuant to the provisions of the HVHC Resolution and the Applicable Loan Agreement to the reduction of the outstanding principal balance of such Note and investment income on the foregoing (subject to the restrictions of the HVHC Resolution).

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APPENDIX B

FINANCIAL STATEMENTS OF THE HOSPITAL CENTER

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**Hudson Valley
Hospital Center**
Financial Statements
December 31, 2006 and 2005

Hudson Valley Hospital Center
Index
December 31, 2006 and 2005

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Report of Independent Auditors

To the Board of Directors of
Hudson Valley Hospital Center

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

As discussed in Note 2 to the financial statements, in 2005, the Hospital applied the provisions of FASB Interpretation No. 47, and changed its method of reporting conditional asset retirement obligations.

PricewaterhouseCoopers LLP

March 20, 2007

Hudson Valley Hospital Center
Balance Sheets
December 31, 2006 and 2005

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 13,453,657	\$ 9,544,764
Investments	24,790,172	17,665,267
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$4,450,000 in 2006 and \$4,240,000 in 2005	13,263,456	12,317,650
Other receivables	702,860	1,516,119
Supplies and prepaid expenses	<u>1,937,606</u>	<u>1,744,525</u>
Total current assets	54,147,751	42,788,325
Interest in the Foundation of Hudson Valley Hospital Center	7,366,284	5,947,723
Assets whose use is limited - externally restricted	6,983,666	6,692,714
Long-term investments	1,674,619	1,674,619
Property, plant and equipment, net	32,281,093	32,436,683
Other assets	<u>6,057,285</u>	<u>1,785,804</u>
Total assets	<u>\$ 108,510,698</u>	<u>\$ 91,325,868</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 760,188	\$ 645,349
Current portion of capital lease obligations	921,844	904,412
Accounts payable and accrued expenses	7,933,177	6,419,826
Accrued salaries and benefits	6,712,033	6,089,351
Estimated payable to third party payors	<u>920,664</u>	<u>1,761,172</u>
Total current liabilities	17,247,906	15,820,110
Long-term debt	17,545,820	17,321,911
Capital lease obligations	1,571,551	1,839,810
Estimated payable to third-party payors, malpractice and other liabilities	<u>15,431,964</u>	<u>14,883,123</u>
Total liabilities	<u>51,797,241</u>	<u>49,864,954</u>
Net assets		
Unrestricted	48,600,848	34,245,544
Temporarily restricted	6,437,990	5,540,751
Permanently restricted	<u>1,674,619</u>	<u>1,674,619</u>
Total net assets	<u>56,713,457</u>	<u>41,460,914</u>
Total liabilities and net assets	<u>\$ 108,510,698</u>	<u>\$ 91,325,868</u>

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

Hudson Valley Hospital Center
Statements of Operations
Years Ended December 31, 2006 and 2005

	2006	2005
Operating revenues		
Net patient service revenue	\$ 98,289,988	\$ 89,517,295
Other operating revenue	2,074,555	2,342,573
Total operating revenues	<u>100,364,543</u>	<u>91,859,868</u>
Operating expenses		
Salaries	41,157,101	37,531,888
Physician fees	2,821,028	1,918,099
Fringe benefits	8,252,670	7,580,312
Supplies and other expenses	31,218,312	27,366,422
Provision for bad debts	2,594,010	1,775,068
Interest	1,326,715	1,341,181
Depreciation and amortization	5,623,532	4,488,172
Total operating expenses	<u>92,993,368</u>	<u>82,001,142</u>
Operating income	7,371,175	9,858,726
Investment income	1,659,737	806,560
Loss on transfer	-	(477,840)
Excess of revenues over expenses	9,030,912	10,187,446
Change in net unrealized gains and losses on investments	1,227,306	(75,897)
Net assets released from restriction for capital	4,097,086	-
Increase in unrestricted net assets before cumulative effect of a change in accounting principle	<u>14,355,304</u>	<u>10,111,549</u>
Cumulative effect of a change in accounting principle	-	(146,854)
Increase in unrestricted net assets after cumulative effect of a change in accounting principle	<u>\$ 14,355,304</u>	<u>\$ 9,964,695</u>

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

Hudson Valley Hospital Center
Statements of Changes in Net Assets
Years Ended December 31, 2006 and 2005

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, December 31, 2004	\$ 24,280,849	\$ 5,313,105	\$ 669,163	\$ 30,263,117
Changes in net assets				
Excess of revenues over expenses	10,187,446	-	-	10,187,446
Cumulative effect of a change in accounting principles	(146,854)	-	-	(146,854)
Change in net unrealized gains and losses on investments	(75,897)	-	-	(75,897)
Endowment transfer	-	-	1,005,456	1,005,456
Change in the interest in net assets of the Foundation of Hudson Valley Hospital Center	-	227,646	-	227,646
Total changes in net assets	<u>9,964,695</u>	<u>227,646</u>	<u>1,005,456</u>	<u>11,197,797</u>
Balances, December 31, 2005	34,245,544	5,540,751	1,674,619	41,460,914
Changes in net assets				
Excess of revenues over expenses	9,030,912			9,030,912
Change in net unrealized gains and losses on investments	1,227,306			1,227,306
Hospital's interest in net contributions of the Foundation of Hudson Valley Hospital Center		4,994,325		4,994,325
Net assets released for capital expenditures	4,097,086	(4,097,086)		-
Total changes in net assets	<u>14,355,304</u>	<u>897,239</u>	<u>-</u>	<u>15,252,543</u>
Balances, December 31, 2006	<u>\$ 48,600,848</u>	<u>\$ 6,437,990</u>	<u>\$ 1,674,619</u>	<u>\$ 56,713,457</u>

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

Hudson Valley Hospital Center
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 15,252,543	\$ 11,197,797
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,623,532	4,488,172
Provision for bad debts	2,594,010	1,775,068
Realized gains and losses and change in net unrealized gains and losses on investments	(1,657,519)	(69,703)
Hospital's interest in net contributions of the Foundation of Hudson Valley Hospital Center	(4,994,325)	(227,646)
Cumulative effect of a change in accounting principle	-	146,854
Endowment transfer	-	(1,005,456)
Changes in operating assets and liabilities		
Patient accounts receivable	(3,539,816)	(3,435,555)
Other receivables, supplies and prepaid expenses and other assets	(2,077,190)	(1,569,271)
Accounts payable and accrued expenses	1,214,396	(432,487)
Accrued salaries and benefits	622,682	867,308
Estimated payable to third-party payors, malpractice and other liabilities	(291,667)	2,979,235
Net change in due from the Foundation of Hudson Valley Hospital Center	(521,322)	(406,972)
Net cash provided by operating activities	<u>12,225,324</u>	<u>14,307,344</u>
Cash flows used in investing activities		
Acquisition of property, plant and equipment	(4,372,987)	(4,302,565)
Net purchase of investments and assets whose use is limited	(5,784,338)	(9,610,279)
Loan to related party	(1,574,113)	-
Net cash used in investing activities	<u>(11,731,438)</u>	<u>(13,912,844)</u>
Cash flows used in financing activities		
Principal payments on long-term debt and capital lease obligations	(3,214,679)	(2,379,907)
Proceeds from long-term debt refinancing	2,532,600	-
Restricted contributions for capital	4,097,086	-
Proceeds from endowment transfer	-	1,005,456
Net cash provided by (used in) financing activities	<u>3,415,007</u>	<u>(1,374,451)</u>
Net (decrease) increase in cash and cash equivalents	3,908,893	(979,951)
Cash and cash equivalents		
Beginning of year	<u>9,544,764</u>	<u>10,524,715</u>
End of year	<u>\$ 13,453,657</u>	<u>\$ 9,544,764</u>
Supplemental information and non-cash transactions		
Cash paid for interest	\$ 1,326,715	\$ 1,389,547
Capital lease obligations incurred	770,000	1,187,452
Construction related payables	298,955	-

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

Hudson Valley Hospital Center

Notes to Financial Statements

December 31, 2006 and 2005

1. Organization

Hudson Valley Hospital Center (the "Hospital") is an acute care hospital providing healthcare services to residents of Westchester and Putnam Counties in the State of New York. The Hospital is organized under the not-for-profit corporation law of the State of New York and is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The sole member of the Hospital is Westchester Putnam Health Management Systems, Inc. ("Health Management"), a State of New York not-for-profit organization, which is also exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Health Management is also the sole member of the Foundation of Hudson Valley Hospital Center (the "Foundation"), a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, and is the sole stockholder of Hudson Valley Ventures, Inc., A.C. Ventures, Inc., and KNOWA Ventures, Inc., New York for-profit corporations.

On November 10, 1997, Health Management, Riverside Healthcare System, Inc. and Sound Shore Health System, Inc. entered into a healthcare alliance. As a result, Pinnacle Healthcare, Inc. ("Pinnacle") was formed for the charitable purpose of benefiting and supporting the healthcare alliance. Pinnacle was incorporated under Section 102(a)(5) of the State of New York Not-for-Profit Corporation Law and is the sole member of each of the three healthcare systems.

The financial statements of the affiliated organizations are not included in the Hospital's financial statements.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the 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 reported period. The most significant estimates relate to the allowance for uncollectible accounts and amounts due from or due to third party payors. Actual results may differ from those estimates.

Interest in Foundation

In accordance with Statement of Financial Accounting Standard No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, the Hospital recognizes its accumulated interest in net assets held by the Foundation as Interest in the Foundation of Hudson Valley Hospital Center. The periodic changes in such interest are reflected in the statements of operations and changes in net assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid short-term investments with original maturity dates of three months or less from date of acquisition, which are not included in assets whose use is limited.

Inventories

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

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

Investments

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

Assets Whose use Is Limited

Assets whose use is limited ("AWUIL") primarily includes funds externally restricted under bond indenture agreements for plant replacement and escrow funds deposited in connection with capital lease agreements.

Property, Plant and Equipment

Property, plant and equipment, including certain revenue producing equipment purchases are carried at cost and those acquired by gifts and bequests are carried at appraised or fair market value established at date of contribution. Capitalized leases are recorded at present value at the inception of the leases. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred. The Hospital provides for depreciation of property, plant and equipment including revenue producing equipment, on a straight-line basis over their estimated useful lives as follows:

Land improvements	20 years
Buildings	40 years
Fixed and movable equipment	3-15 years

Cost of Borrowing

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

Temporarily and Permanently Restricted Net Assets

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Hudson Valley Hospital Center

Notes to Financial Statements

December 31, 2006 and 2005

Charity Care

The Hospital provides a significant amount of partially or totally uncompensated patient care to patients who are unable to compensate the Hospital for their treatment either through third-party coverage or their own resources. Patients who meet certain criteria under the Hospital's charity care policy are provided care without charge or at amounts less than established rates. Because charity care amounts are not expected to be paid, they are not reported as revenue. The amount of charges foregone for total uncompensated care (includes uncompensated care reported as bad debt expense), based on established rates provided under the Hospital's policy for the years ended December 31, 2006 and 2005 was approximately \$8,371,000 and \$7,528,000, respectively.

Excess of Revenues over Expenses

Transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenue and expenses and are included in excess of revenues over expenses, which is the performance indicator. Peripheral or incidental transactions, excluded from the performance indicator, include cumulative effect of a change in accounting principle, net assets released from restrictions for capital expenditures and change in net unrealized gains and losses on investments other than trading securities.

Accounting Pronouncements

In March 2005, the FASB issued FASB interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which is effective for the Hospital as of and for the year ended December 31, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations". FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the Hospital determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

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

Upon initial application of FIN 47 in 2005, the Hospital recognized \$146,854 as the cumulative effect of a change in accounting principle in the statement of operations. As of December 31, 2006 and 2005, \$856,555 and \$850,000, respectively, of conditional asset retirement obligations are included within other liabilities in the balance sheet.

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

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

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

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

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

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

- **Medicare.** Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.
- **Non-Medicare Payments.** The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payers are billed at hospitals established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Adjustments to current and prior years' rates for these payers will continue to be made in the future.

Revenue from the Medicare and Medicaid programs accounted for approximately 37 percent and 4 percent and 35 percent and 5 percent, respectively, of the Hospital's net patient service revenue for the years ended December 31, 2006 and December 31, 2005, respectively.

Hudson Valley Hospital Center

Notes to Financial Statements

December 31, 2006 and 2005

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

The Hospital has established estimates, based on information presently available, of amount due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2004.

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

Effective July 1, 2004 the Hospital implemented a discount policy and began providing discounts to uninsured patients. Historically, these patients were charged for services at the Hospital's standard gross charges. Prior to the implementation of the discount policy, a significant portion of the gross charges were written down through the allowance for uncollectible accounts. Under the new policy, the discount offered to uninsured patients is reflected as a reduction to net patient service revenue at the time the uninsured billings are recorded.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Federal and state regulations provide for certain retrospective adjustments to current and prior years' payment rates based on industry-wide and hospital-specific data. The Hospital has estimated the potential impact of such retrospective adjustments based on information presently available and adjustments are accrued on an estimated basis in the period the services are rendered and are adjusted in future periods as additional information becomes available or final settlements are determined.

The 2006 and 2005 net patient service revenue increased approximately \$0.5 million and \$3.4 million, respectively due to the net result of receivables collected in excess of amounts previously estimated and increases in allowances in excess of amounts previously estimated.

As discussed above, the current Medicaid and Medicare programs are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes that it is in compliance with all applicable laws and regulations.

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2006 and 2005, was as follows:

	2006	2005
Medicare	25 %	28 %
Medicaid	8	6
Blue Cross	11	9
Managed Care	13	15
Other third-party payors	22	25
Self-pay patients	21	17
	<u>100 %</u>	<u>100 %</u>

4. Concentration of Credit Risk

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

5. Investments and Assets Whose Use is Limited

The carrying value of investments and long-term investments at December 31, 2006 and 2005 are stated at fair value and consist of the following:

	2006	2005
Short-term investments	\$ 7,546,817	\$ 8,765,220
Stocks	9,855,479	3,971,824
United States government securities	7,129,339	5,869,116
Corporate bonds and notes	796,815	725,224
Mutual funds	1,136,341	8,502
	<u>\$ 26,464,791</u>	<u>\$ 19,339,886</u>

The carrying value of investments reported as assets whose use is limited due to financing agreements and a capital lease escrow account agreement are stated at fair value at December 31, 2006 and 2005 and consist of the following:

	2006	2005
Cash and cash equivalents	\$ 60,182	\$ 39,681
United States government securities	6,792,092	6,538,775
Escrow account	55,431	56,197
Accrued interest receivable	75,961	58,061
	<u>\$ 6,983,666</u>	<u>\$ 6,692,714</u>

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

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

	2006	2005
Income		
Interest income	\$ 1,229,524	\$ 800,366
Realized gains on sale of investments	430,213	6,194
	<u>\$ 1,659,737</u>	<u>\$ 806,560</u>
Other changes in unrestricted net assets		
Change in unrealized gains (losses) on investments	\$ 1,227,306	\$ (75,897)

6. Property, Plant and Equipment

Property, plant and equipment at December 31, 2006 and 2005, consists of the following:

	2006	2005
Land	\$ 945,544	\$ 945,544
Land improvements	3,158,138	3,158,138
Buildings	34,646,634	34,225,920
Fixed and movable equipment	54,065,598	51,193,829
Total property, plant and equipment	92,815,914	89,523,431
Less: Accumulated depreciation and amortization	63,451,766	57,888,008
	29,364,148	31,635,423
Construction in progress	2,168,904	-
Deferred financing costs, net of amortization	748,041	801,260
Net property, plant and equipment	<u>\$ 32,281,093</u>	<u>\$ 32,436,683</u>

Assets acquired through capital leases are included with property, plant and equipment at December 31, 2006 and 2005. The related amortization expense is included in depreciation and amortization expense in the statement of operations. Substantially all of the buildings, improvements and equipment under capital leases have been collateralized under various mortgage and lease agreements.

Construction in progress is made up of certain projects started but not completed at December 31, 2006. The estimated cost to complete these projects is approximately \$92 million.

7. Capital Lease Obligations

The Hospital capitalized certain lease agreements which are accounted for in accordance with the accounting principles included in Statement of Financial Accounting Standards No. 13. The Hospital's capital lease obligations are collateralized by the underlying equipment and bear interest at rates between 4.2% to 8.1%.

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

The future minimum lease payments under the capital lease obligations, together with the present value of the minimum lease payments as of December 31, 2006, are as follows:

Year	Amount
2007	\$ 1,055,652
2008	952,220
2009	461,360
2010	254,564
2011	<u>30,938</u>
	2,754,734
Less: Amount representing interest	<u>261,339</u>
Present value of net minimum lease payments	2,493,395
Less: Current portion	<u>921,844</u>
	<u>\$ 1,571,551</u>

The interest expense applicable to these leases was \$167,246 and \$193,990 in 2006 and 2005, respectively.

8. Long-Term Debt

A summary of the Hospital's long-term debt at December 31, 2006 and 2005 is as follows:

Dormitory Authority of the State of New York ("DASNY")

In 1997, the Hospital completed a \$23 million expansion and renovation project (the "Project"). The Project's financing was sponsored by DASNY which, in October 1993, issued Hospital and Nursing Home Insured Revenue Bonds (1993 Series D) to raise capital for the Project. In conjunction with sale of the 1993 Series D, the Hospital entered into a mortgage agreement with DASNY. The mortgage bears interest at the rate of 6.35% and is insured by the Federal Housing Administration. As of December 31, 2006, the Hospital has yet to receive final endorsement on the mortgage; however, such endorsement is expected to mature in November 2020.

In accordance with the finance agreement, associated with the issuance of the 1993 Series D, the Hospital has established an Irrevocable Letter of Credit with HSBC totaling \$550,000 as collateral. The letter of credit is collateralized by certain investments.

At December 31, 2006 and 2005, the outstanding DASNY mortgage payable was \$15,773,408 and \$16,556,617, respectively.

Union State Bank

In July 1999, the Hospital, AC Ventures, Inc. and Hudson Valley Ventures, Inc. entered into a mortgage agreement with Union State Bank. The mortgage carries a fixed interest rate of 7.5% and matures on July 1, 2009. The mortgage is secured by the assets of the three entities, who collectively act as the mortgagor under the agreements.

At December 31, 2006 and 2005, the outstanding Union State Bank mortgage payable was \$0 and \$1,410,643, respectively.

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

Putnam County Savings Bank

In December 2006, the Hospital and Hudson Valley Ventures, Inc. refinanced with Putnam County Savings Bank their previous mortgage agreement with Union State Bank. The mortgage carries a fixed interest rate of 6.0% and matures in January 2017. The mortgage is secured by the assets of the two entities, who collectively act as the mortgagor under the agreement. At December 31, 2006, the outstanding Putnam County Savings Bank mortgage payable was \$2,532,600.

Line of Credit

The Hospital has a \$1,000,000 line of credit with Wachovia available for general operating purposes. The Hospital did not borrow against the line of credit during 2006. At December 31, 2006 and 2005, the line of credit remains at \$1,000,000, respectively.

Under the terms of the Hospital's debt agreements, the Hospital is required to satisfy certain measures of financial performance including current ratio, debt service coverage, and days in accounts payable.

Scheduled principal payments on debt for the next five years and thereafter are as follows:

Year	Amount
2007	\$ 760,188
2008	874,949
2009	892,778
2010	911,707
2011	931,803
Thereafter	<u>13,934,583</u>
	18,306,008
Less: current portion	<u>760,188</u>
	<u>\$ 17,545,820</u>

9. Commitments and Contingencies

The Hospital maintains a commercial claims-made policy for its medical malpractice insurance. The policy does not represent a transfer of risk for claims and incidents incurred but not reported ("IBNR") to the insurance carrier. Therefore, the Hospital has recorded an estimated malpractice liability related to IBNR of approximately \$2.1 million and \$2.9 million at December 31, 2006 and December 31, 2005, respectively.

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

10. Pension Plan

The Hospital provides pension coverage for its eligible employees through a defined contribution pension plan (the "Plan"). Under the Plan, the Hospital contributes 4.0% - 5.5% of each eligible employee's annual compensation for each Plan year. The Hospital recorded pension expense of \$1,449,566 and \$1,691,941 in 2006 and 2005, respectively.

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

11. Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including general acute care with a full range of inpatient and outpatient services. Expenses related to providing these services for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Health care services	\$ 78,114,429	\$ 68,880,959
General and administrative	<u>14,878,939</u>	<u>13,120,183</u>
	<u>\$ 92,993,368</u>	<u>\$ 82,001,142</u>

12. Related Party Transactions

Foundation of Hudson Valley Hospital Center

The Hospital incurred various expenses and performed services on behalf of the Foundation. Such amounts aggregated \$535,188 and \$419,374 in 2006 and 2005, respectively. Amounts owed to the Hospital at December 31, 2006 and 2005 was \$928,294 and \$406,972, respectively.

As of December 31, 2006 and 2005, the Foundation owed the Hospital \$6,437,990 and \$5,540,741 for cumulative contributions not yet paid by the Foundation to the Hospital.

Hudson Valley Ventures, Inc.

Hudson Valley Ventures, Inc. ("Ventures") is a for-profit corporation incorporated in 1991. Ventures subleases office building space to the Hospital. For the years ended December 31, 2006 and 2005, rental payments aggregated \$29,823 and common charges aggregated \$34,367.

As of December 31, 2006 and 2005, Ventures owed the Hospital \$162,027 and \$200,651, respectively. These amounts represent various expenses incurred by the Hospital on behalf of Ventures, and are included in other assets in the balance sheets.

A.C. Ventures, Inc.

A.C. Ventures, Inc. ("A.C.") is a for-profit corporation incorporated in 1994. The corporation was formed to purchase and lease office space to various physicians in Cold Spring, New York.

A.C. subleases office building space to the Hospital. For the years ended December 31, 2006 and 2005, rental payments aggregated \$206,066.

As of December 31, 2006 and 2005, A.C. owed the Hospital \$1,716,756 and \$53,504, respectively. These amounts represent various expenses incurred by the Hospital on behalf of A.C., including approximately \$1.6 million relating to a note receivable for cash provided to A.C. to pay off its outstanding portion of the Union State Bank mortgage. These amounts are included in other assets in the balance sheets.

KNOWA Ventures, Inc.

KNOWA Ventures, Inc. ("KNOWA") is a for-profit corporation incorporated in 1995. The corporation was formed to lease and sub-lease office space to various physicians in Yorktown, New York. During 1997 and 1996, the Hospital loaned KNOWA approximately \$1,105,000 to pay for the lease rental and renovations to the office space.

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

KNOWA subleases office building space to the Hospital. For the years ended December 31, 2006 and 2005, rental payments aggregated \$44,373 and \$44,373, respectively.

As of December 31, 2006 and 2005, KNOWA owed the Hospital \$433,714 and \$78,278, respectively. These amounts represent various expenses incurred by the Hospital on behalf of KNOWA, and are included in other assets in the balance sheets.

Westchester Putnam Health Management Systems, Inc.

As of December 31, 2006 and 2005, Health Management owed the Hospital \$198,082 and \$183,722, respectively. These amounts represent various expenses incurred by the Hospital on behalf of Health Management, and are included in other assets in the balance sheets.

Yorktown Imaging Ventures, Inc.

As of December 31, 2006 and 2005, Yorktown Imaging owed the Hospital \$682,422 and \$223,527, respectively. These amounts represent various expenses incurred by the Hospital on behalf of Yorktown Imaging, and are included in other assets in the balance sheets.

13. Temporarily and Permanently Restricted Net Assets

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

	2006	2005
Capital asset acquisition	<u>\$ 6,437,990</u>	<u>\$ 5,540,751</u>

The capital asset acquisition is supported primarily by the Foundation. The Foundation's principal activity is the solicitation, receipt, holding, investment and administration of gifts, contributions and grants primarily for the benefit and support of the Hospital and other not-for-profit entities affiliated with the Hospital.

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

	2006	2005
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as investment income)	<u>\$ 1,674,619</u>	<u>\$ 1,674,619</u>

14. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments

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

Hudson Valley Hospital Center
Notes to Financial Statements
December 31, 2006 and 2005

Assets Whose Use is Limited

These assets consist primarily of cash and long-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value.

Accounts Payable and Accrued Expenses

The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

Fair values of the Hospital's revenue bonds are based on current traded value. The carrying value of the Hospital's remaining long-term debt approximates fair value. The fair value of the Hospital's long-term debt at December 31, 2006, was \$22,300,995.

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**SUMMARY OF CERTAIN PROVISIONS
OF THE HVHC RESOLUTION**

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**SUMMARY OF CERTAIN PROVISIONS
OF THE
HVHC RESOLUTION**

The following is a summary of certain provisions of the HVHC Resolution. Such summary does not purport to be complete and reference is made to the HVHC Resolution for all its provisions. Defined terms used in this Appendix C will have the meanings ascribed to them in Appendix A. Unless otherwise indicated, references to section numbers herein refer to sections in the HVHC Resolution.

HVHC Resolution, the Series Resolutions, and the Bonds Constitute Separate Contracts

The HVHC Resolution authorizes the issuance by the Authority, from time to time, of its Bonds in one or more Series, for the benefit of the Institution. Each such Series will be authorized by a separate Series Resolution and, *inter alia*, will be separately secured from each other Series of Bonds. The Holders of Bonds of one Series will not be entitled to the rights and benefits conferred upon the Holders of any other Series.

The pledge and assignment made in the HVHC Resolution and the covenants and agreements to be performed by or on behalf of the Authority will be for the equal and ratable benefit, protection and security of such Holders, all of which will be of equal rank without preference, priority or distinction of any Bonds of one Series over any other Bonds of such Series except as expressly provided in the HVHC Resolution or permitted by the HVHC Resolution or by a Series Resolution.

(Section 1.03)

Negotiability, Exchange and Registration of Transfer of Bonds

All Bonds issued under the HVHC Resolution will be negotiable as provided in the Act. The Authority will maintain with the Applicable Trustee books for the registration and registration of transfer of such Bonds. The Authority will also make all necessary provisions to permit the exchange of such Bonds at the principal corporate trust office of the Trustee.

The transfer of any Bond may be registered only upon the books kept for the registration of and registration of transfers of Bonds upon surrender thereof to the Applicable Trustee at its principal corporate trust office together with a written instrument of transfer, duly executed by the registered owner or his duly authorized attorney in such form as shall be satisfactory to the Applicable Trustee. Upon any such transfer the Authority shall cause to be issued in the name of the transferee a new Bond or Bonds, of the same aggregate principal amount, Series and maturity as the surrendered Bond.

The Authority and the Applicable Trustee may deem and treat the person in whose name any such Bond shall be registered upon the books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment on such Bond and for all other purposes whatsoever, and all such payments so made to any such person or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums paid, and neither the Authority nor the Applicable Trustee shall be affected by any notice to the contrary.

(Sections 3.04 and 3.05)

Authorization for Establishment of Funds and Accounts

Unless otherwise provided by a Series Resolution, the following accounts and subaccounts are established, held and maintained for each Series by the Trustee:

Construction Fund:

Mortgage Account;
Equity Account;
Insurance and Condemnation Account;
Investment Income Account;
Cost of Issuance Account;
Prepayment Account;

Debt Service Fund:

Debt Service Account;
Surplus Account;
Redemption Account;
Purchase Account;

Debt Service Reserve Fund:

Reserve Account;
Collateral Account; and

Arbitrage Rebate Fund.

Accounts and sub-accounts within each of the foregoing funds may from time to time be established upon the direction of the Authority. All moneys at any time deposited in any such fund or account, other than the Applicable Arbitrage Rebate Fund, will be held in trust for the benefit of the Holders of the Series of Bonds to which such moneys relate and will be disbursed, allocated and applied solely in connection with such Series for the uses and purposes provided in the Resolution unless otherwise provided in the Series Resolution.

(Section 5.02)

Pledge of Trust Revenues

(a) In order to secure each Series of Bonds issued and Outstanding under the HVHC Resolution, the payment of the principal or Redemption Price thereof and the interest thereon, and the performance and observance of the agreements made in the HVHC Resolution, in the Applicable Series Resolution and the Bonds, the Authority pledges and assigns to the Applicable Trustee, in trust upon the terms of the HVHC Resolution for the equal and ratable benefit and security of the Holders of the Bonds, all of the Authority's right, title and interest in and to the following Trust Revenues relating to such Series of Bonds:

(1) all moneys, securities and instruments received or held from time to time by the Applicable Trustee pursuant to the HVHC Resolution, the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Note which are required pursuant to the HVHC Resolution to be deposited in the following Applicable Funds and Accounts: the Debt Service Fund (other than the Purchase Account), the Construction Fund (other than the Equity Account and the Insurance and Condemnation Account and subject to subdivision (e) and (f) under the heading "Remedies under Mortgage and FHA Mortgage Insurance"), the Debt Service Reserve Fund and the Redemption Account; and

(2) investment income on the foregoing (less any fees of the Qualified Financial Institution issuing the Floor-Ceiling Agreement), other than investment income on moneys deposited by the Institution in the Applicable Insurance and Condemnation Account of the Construction Fund.

However, Trust Revenues shall not include (a) any payments received by the Applicable Trustee on behalf of the Authority which are to be applied by the Authority pursuant to paragraphs (9)(c)(I) or (II) of the Mortgage, (b) any other funds of the Institution held by the Applicable Trustee on behalf of the Authority or the Mortgage Servicer pursuant to the FHA Documents to the extent such funds are required to be paid to FHA at its direction upon an assignment of the Note and Mortgage to FHA for mortgage insurance benefits, and (c) any payments to the Applicable Trustee for deposit to the Applicable Arbitrage Rebate Fund.

(b) The Authority also pledges and grants to the Applicable Trustee, in connection with each Series of Bonds, a security interest in the Applicable FHA Documents except for the Regulatory Agreement. Notwithstanding the foregoing pledge of the Applicable Note and the other Applicable FHA Documents, so long as no Event of Default with respect to an Applicable Series of Bonds as defined in paragraphs (c) or (e) under the heading “Events of Default” by reason of a default by the Authority in the performance of its obligations under the headings “Maintenance of Corporate Existence and FHA Mortgage Status”, “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage”, “Remedies under Mortgage and FHA Mortgage Insurance”, “Application of FHA Mortgage Insurance Benefits” and “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note” hereof has occurred, the Authority shall retain all rights and obligations as mortgagee under such FHA Documents, and may give any consents or approvals permitted or required to be given by, and exercise all rights granted to the mortgagee under the Applicable FHA Documents, subject in all respects to the provisions of the HVHC Resolution.

The pledge made shall be valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Applicable Trust Revenues, and all funds and accounts authorized under the HVHC Resolution and established pursuant to the Applicable Series Resolution which are pledged under the HVHC Resolution and pursuant to the Applicable Series Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds of each Applicable Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Applicable Trust Revenues, and the funds and accounts authorized hereby and established pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Payments from Construction Fund

The following provisions apply to each Applicable Project, the Applicable FHA Documents, and the Applicable Construction Fund, Mortgage Account, Equity Account, Insurance and Condemnation Account, Investment Income Account, Prepayment Account and Costs of Issuance Account, authorized under the HVHC Resolution and established under and pursuant to a Series Resolution.

(a) The Applicable Trustee shall hold the Construction Fund for the payment of the Costs of the Project or the Costs of Issuance in accordance with the HVHC Resolution, and shall hold the Construction Fund, including the Mortgage Account, the Equity Account, the Investment Income Account, the Prepayment Account and the Costs of Issuance Account, in accounts separate and apart from all other funds and accounts established under the HVHC Resolution and the Applicable Series Resolution and from all other moneys of the Applicable Trustee. The Applicable Trustee shall hold for the account of the Authority, as mortgagee under the Mortgage, the Equity Account, which shall be funded by the Institution in the amount set forth in the Bond Series Certificate, in such form as may be approved by FHA, being the amount specified in the Commitment as being required, in addition to the proceeds of the Note, for completion of the Project, less any prepaid expenses in respect of the Project approved by FHA and not drawn out of the Mortgage Account.

(b) With respect to any Series of Bonds, upon the submission of a written request to the Authority and upon approval by FHA of each Requisition and upon compliance with the applicable provisions of the Note, the Mortgage, the Building Loan Agreement, the Loan Agreement and the Servicing Agreement, the Applicable Trustee shall make disbursements from the Mortgage Account and the Equity Account to or upon the order of the Institution

for payment or reimbursement of Costs of the Project and from the Mortgage Account upon the order of the Authority to the Costs of Issuance Account to pay Costs of Issuance. The Applicable Trustee shall notify the Authority and the Mortgage Servicer of all disbursements made from such Construction Fund. To the extent permitted by FHA, the Institution may designate the portion, if any, of any Requisition to be paid from a Mortgage Account or Equity Account. If no such designation is made by the Institution, the Applicable Trustee shall pay such Requisition from the Equity Account. The Authority agrees that there shall be credited to the reduction of any Letter of Credit held in the Equity Account any Costs of the Project paid by the Institution from funds other than Bond proceeds to the extent that evidence of such prior payment satisfactory to the Authority and the Applicable Trustee and of FHA approval thereof is furnished by the Institution to the Authority and the Applicable Trustee. In any month, the Institution may include an amount to pay interest on the Note utilizing moneys in the Mortgage Account, but only to the extent that FHA has approved a Requisition for such amount of interest due on the Note. If a Requisition covering any interest due on the Note and approved by FHA shall not have been delivered to the Applicable Trustee by the 25th day of the month next following the month with respect to which the interest covered by such Requisition shall have accrued, then the Institution shall immediately pay in cash the full amount of interest due on the Note for such month, but unless such payment is not made by the 30th day of such month, the Institution shall not be deemed in default under the Note for the purposes of the Resolution and shall not be liable for any penalty or late charge. The Applicable Trustee shall reimburse the Institution for such interest payments made by it in cash to the extent that a Requisition covering such interest is approved by FHA. The portion of each construction advance from the Mortgage Account representing interest on the Note (less the Servicing Fee, which shall be remitted to the Mortgage Servicer within three (3) days of approval of such Requisition or receipt of such interest payment by the Trustee) shall be credited to (but not deposited in) on or prior to the last day preceding commencement of amortization of the Note, the Investment Income Account and thereafter, the Debt Service Account, if the moneys were withdrawn from the Mortgage Account but otherwise may be paid to the Institution by the Applicable Trustee to the extent the Institution has made such payments.

(c) To the extent set forth in the Applicable Series Resolution or the Applicable Bond Series Certificate moneys deposited to the Costs of Issuance Account shall be disbursed by the Trustee at the instruction of the Authority to pay Costs of Issuance.

(d) On the last Business Day preceding each Interest Payment Date until the commencement of amortization of the Note and Final Endorsement of the Note, the Applicable Trustee shall transfer from the Investment Income Account to the Debt Service Account such amount as may be required, together with the amount then on deposit in the Debt Service Account (other than amounts received with respect to principal payments on the Note which are deposited in the Debt Service Account), to pay the interest becoming due on the Bonds on the next succeeding Interest Payment Date; provided, however, the amounts shall be drawn for such purpose, first, from funds not invested under an Investment Agreement, second, from funds which are invested under an Investment Agreement, and third, from the proceeds of any Letter of Credit deposited in such Account. On the last Business Day preceding each Interest Payment Date prior to Final Endorsement of the Note, upon which the amount in the Investment Income Account has been reduced by any transfer to the Debt Service Account pursuant to the preceding sentence, the Applicable Trustee shall redetermine the Investment Income Account Requirement and shall reduce the Investment Income Account Letter of Credit to the extent it exceeds such Investment Income Account Requirement as so redetermined and, if any amount remains on deposit in or credited to the Investment Income Account (other than any Letter of Credit in the Investment Income Account and any other amounts necessary to satisfy the Investment Income Account Requirement as redetermined together with any amount previously designated pursuant to clause (z) below) then, except as set forth in the Applicable Bond Series Certificate, the excess shall be transferred to the Surplus Account to cause the amount on deposit in the Surplus Account to equal at least such amount as may be set forth in the Series Resolution; and if there is still an excess balance in the Investment Income Account, at the option of the Institution, such excess amount shall be applied to any of the following: (x) for transfer to the Collateral Account to reduce the Collateral Account Letter of Credit; (y) to reimburse the Institution either for amounts applied by the Institution to the reimbursement to the appropriate Qualified Financial Institution for draws made under the Investment Income Account Letter of Credit or for amounts deposited in the Costs of Issuance Account which were used to pay Costs of Issuance; or (z) as a credit against future payments of interest on the Note, provided that any such credit shall not be treated as an advance under the Building Loan Agreement and the Institution shall not be entitled to reimbursement from the Mortgage Account for any amount so credited; provided, however, that no application may be made under (x), (y) or (z) unless the excess balance on deposit in the Investment Income Account and the Debt Service Account following such applications

equals in the aggregate the amount as set forth in the Applicable Series Resolution or Applicable Bond Series Certificate, and; provided further, however, that no such transfer shall be made if the Institution is in default under the FHA documents. Notwithstanding the foregoing the Applicable Trustee shall draw upon the Letter of Credit held in the Investment Income Account when instructed to do so by the Authority.

(e) If a default under the Note and Mortgage shall occur as a result of which the Note and Mortgage are to be assigned to FHA, the Applicable Trustee shall, concurrently with the Authority's giving of notice to FHA of such default and its intention to make such assignment, liquidate any Letter of Credit held in or for the account of the Investment Income Account, transfer from the Investment Income Account: (i) to the Debt Service Account such amount as may be required, together with the amount then on deposit in the Debt Service Account, to pay interest on the Bonds on each February 15 and August 15 prior to receipt of all FHA mortgage insurance benefits; and (ii) upon receipt of all FHA mortgage insurance benefits, to the Redemption Account any balance remaining in the Investment Income Account, such amount subject to the provisions of the HVHC Resolution, to be applied to the Extraordinary Mandatory Redemption of Bonds.

(f) If insurance or condemnation proceeds are received with respect to the Project and are deposited in the Construction Fund, such proceeds shall be disbursed in the manner set out in the Loan Agreement.

(g) In the event Net Insurance Proceeds or Net Condemnation Proceeds are required to be applied to prepayment or reduction of the Note in accordance with the Loan Agreement, such amounts shall be transferred to the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds.

(h) In the event that any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair, reconstruction or replacement of the Mortgaged Property, in accordance with applicable FHA Documents and pursuant to the Loan Agreement, and such amounts are greater than the Threshold Amount such amounts shall be disbursed by the Applicable Trustee, upon receipt of the approval of FHA, if required, and pursuant to the provisions of the HVHC Resolution.

(i) In the event (i) any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair, reconstruction or replacement of the Mortgaged Property, and such amounts are equal to or less than the Threshold Amount, or (ii) such amounts constitute Net Condemnation Proceeds and the Authority has determined that the efficient utilization of the Mortgaged Property has not been impaired in accordance with the Loan Agreement, notwithstanding paragraph (h) above, such amounts shall be disbursed by the Applicable Trustee at the written direction of the Authority and with the approval of FHA, if required, to the Bond Insurer to the extent of any amounts owing the Bond Insurer with respect to payments made under the Applicable Bond Insurance Policy or the Authority or the Applicable Trustee to the extent of any unpaid fees and expenses, with any balance thereafter applied to or upon the order of the Institution.

(j) When required by the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance" hereinbelow, the Trustee shall transfer amounts in the Construction Fund to the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of the Applicable Series of Bonds.

(k) The Applicable Trustee shall draw the full amount of any Letter of Credit deposited to the credit of the Investment Income Account of the Construction Fund (i) immediately upon receipt of notice from the applicable Qualified Financial Institution following an event of default under the reimbursement agreement; (ii) within sixty (60) days of a downgrade of the Qualified Financial Institution providing such Letter of Credit to a rating less than "A" by the Rating Services; or (iii) at least fifteen (15) days or such lesser number of days as shall be acceptable to the Applicable Trustee, prior to its expiration date, unless in the case of (iii) such Letter of Credit has been renewed or the Investment Income Account Requirement on such expiration date would be zero, or the Institution has deposited Available Moneys or a substitute Letter of Credit in the Investment Income Account in an amount equal to the Investment Income Account Requirement.

(Section 5.04)

Procedure Upon Completion of Project

The following provisions shall apply to each Applicable Project, the Institution, the Applicable FHA Documents, and each fund and account established pursuant to a Series Resolution.

(a) Upon the completion of the Project in accordance with the Building Loan Agreement and Final Endorsement, the Authority shall cause the Institution to furnish to the Applicable Trustee and the Mortgage Servicer the certificate of the Institution provided for in the Loan Agreement. The Applicable Trustee shall thereupon apply any moneys remaining in the Construction Fund as follows, and in the following order of priority:

FIRST: from the Mortgage Account an amount equal to the excess, if any, of the insured principal amount of the Note, as approved by FHA at Final Endorsement, over the aggregate of all amounts theretofore disbursed from the Mortgage Account, shall be applied to the payment of such Costs of the Project as are approved by FHA as the final advance under the Building Loan Agreement;

SECOND: any balance remaining in the Mortgage Account shall be transferred to the Redemption Account and applied to the Special Mandatory Redemption of Bonds;

THIRD: from the Investment Income Account, there shall be transferred to the Debt Service Account the amount, if any, determined by the Applicable Trustee to be needed, together with (i) amounts then on deposit in the Debt Service Account and payments of principal and interest scheduled to be received on the Note through the next succeeding date which is 30 days prior to the next Interest Payment Date, and (ii) interest earnings to be transferred from the Debt Service Reserve Fund to the Debt Service Account in accordance with the HVHC Resolution (A) to pay the interest and maturing principal amounts, if any, on the Applicable Series of Bonds becoming due on the earlier of the next succeeding February 15 or August 15 and (B) to redeem by Sinking Fund Redemption on the earlier of the next succeeding February 15 or August 15 an amount of such Series of Bonds which would reduce the Bonds Outstanding to the sum of the principal amount of the Note at Final Endorsement plus the principal amount on deposit in the Reserve Account (prior to giving effect to any redemption made in connection with the reduction of the amount of the Note);

FOURTH: from the Investment Income Account, there shall be transferred to the Institution or to the issuer of any Letter of Credit, an amount not to exceed the amount drawn on the Letter of Credit on deposit in the Investment Income Account plus any interest thereon, all as provided in the written direction of the Authority;

FIFTH: in the event that the Institution is obligated to reduce or make a prepayment on the Note in connection with the Project cost certification process, the Applicable Trustee shall apply toward such reduction or prepayment any balance remaining in the Construction Fund (in cash, investments or letters of credit), drawing first from the Investment Income Account and second from the Equity Account, and shall deposit the amount so applied as a reduction or prepayment on the Note in the Redemption Account, for application to the Special Mandatory Redemption of Bonds;

SIXTH: any amount remaining in the Equity Account after payment of all fees and expenses of the Authority, shall be paid to the Institution; and

SEVENTH: any amounts remaining in the Investment Income Account (excluding the Letter of Credit) shall be transferred to the Redemption Account and applied to the Special Mandatory Redemption of Bonds.

(b) In the event that the amount applied to the reduction or prepayment of the Note is less than that portion of the Note the Institution is obligated to prepay or reduce in connection with the Project cost certification process, the Authority shall take all action required by FHA to cause the Institution to pay to the Authority the amount of such deficiency pursuant to the Loan Agreement. Any such prepayments on or reductions of the Note received by the Authority, whether or not received prior to Final Endorsement, shall be deposited in the Redemption Account and applied to the Special Mandatory Redemption of Bonds.

(Section 5.05)

Arbitrage Rebate Fund

The Applicable Trustee shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of the HVHC Resolution, shall transfer, in accordance with the directions of the Authority, moneys on deposit in any other funds held by the Applicable Trustee under the Applicable Series Resolution at such times and in such amounts as set forth in such directions; provided that, moneys shall not be transferred from the Applicable Debt Service Reserve Fund unless such Reserve Account Requirement will be met after such transfer.

Moneys on deposit in the Applicable Arbitrage Rebate Fund shall be applied by the Applicable Trustee in accordance with the direction of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which the Authority determines to be in excess of the amount required to be so rebated shall be deposited to the Applicable Debt Service Fund or such other Applicable Fund or Account in accordance with the directions of the Authority.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Applicable Series of Bonds and direct the Applicable Trustee to (i) transfer from any other of the funds and accounts held by the Applicable Trustee under the HVHC Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to each 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 5.06)

Collection of Trust Revenues

The following provisions shall apply to the collection and application of Trust Revenues in connection with each Applicable Series of Bonds, the Applicable FHA Documents, each Applicable Mortgage Servicer and each Applicable Trustee.

(a) So long as the Mortgage Servicer is not in default under the Servicing Agreement, the Mortgage Servicer shall collect all amounts payable by the Institution under the Note and the Mortgage and after deduction of the Servicing Fee (to the extent payable under the Note) and Mortgagee Advances, the Mortgage Servicer shall transfer all payments of principal and interest on the Note and other amounts paid under the Note to the Applicable Trustee and apply all amounts collected under the Applicable Note and Mortgage in accordance with the Applicable Mortgage. Such amounts, when received by the Mortgage Servicer, shall be credited as paid under the Note or the Mortgage, as the case may be. If the Authority terminates the Servicing Agreement the Authority (as mortgagee under the Mortgage) shall collect or cause to be collected all amounts payable under the Note and the Mortgage and shall apply such moneys in the same manner and the Authority shall otherwise comply with the obligations of the Mortgage Servicer set forth in the Servicing Agreement.

(b) All payments on the Note (less any Servicing Fee or Mortgagee Advances) shall be paid to the Applicable Trustee and, together with all other Trust Revenues received by the Trustee, shall be applied as follows for the periods indicated:

(i) During the period commencing with the date of delivery of the Applicable Series of Bonds and ending on the last day preceding commencement of amortization of the Note (except as provided in paragraphs (iii) and (iv) below):

(A) Income received on the investment of moneys in (i) any account of the Construction Fund (except the Equity Account) or Debt Service Reserve Fund (except the portion, if any, of the Collateral Account representing the Institution's contribution to such account, whether in the form of cash originally deposited by the Institution or other Available Moneys on deposit in the Collateral Account) shall upon receipt be deposited in the

Investment Income Account and (ii) any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to the HVHC Resolution) shall upon receipt be retained therein;

(B) Income received on the investment of moneys in the Equity Account of the Construction Fund and on the portion, if any, of the Collateral Account representing the Institution's contribution to such account or other Available Moneys on deposit in the Collateral Account shall, after payment of all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, be disbursed in accordance with a written direction of an Authorized Officer of the Authority;

(C) Disbursements from the Mortgage Account of the Construction Fund for payment of interest on the Note, as reflected on each Requisition (after deducting and paying any applicable Servicing Fee) pursuant to paragraph (b) under the heading "Payments From Construction Fund" hereof, shall be credited or deposited in the Investment Income Account; and

(D) Payments on the Note, to the extent not made pursuant to subparagraph (C) above and any amounts attributable to payments of principal on the Note, shall be deposited in the Debt Service Account.

(ii) Commencing on the date of commencement of amortization of the Note and thereafter so long as any Bonds remain Outstanding:

(A) Payments on the Note (after deducting and paying any applicable Servicing Fee), income received on the investment of moneys in the Construction Fund (except the Equity Account), if any, and income received from the investment of moneys in the Debt Service Reserve Fund (except moneys on deposit in the Collateral Account) and payments received from the Institution on the Note required under the Loan Agreement, shall be deposited in the Debt Service Account;

(B) Income received on the investment of moneys in the Collateral Account, whether in the form of cash originally deposited by the Institution or other Available Moneys on deposit in the Collateral Account and the Equity Account, shall after payment of all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer be disbursed at least semi-annually in accordance with a written direction of the Authority;

(C) Income received on the investment of moneys in any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to the HVHC Resolution) shall upon receipt be deposited in the Surplus Account up to the sum required to be on deposit therein as set forth in the Applicable Series Resolution or Bond Series Certificate; and

(D) Disbursements from the Mortgage Account of the Construction Fund for payment of interest on the Note, as reflected in each Requisition (after deducting and paying any applicable Servicing Fee) pursuant to paragraph (b) under the heading "Payments from Construction Fund", shall be credited or deposited in the Debt Service Account;

(iii) Trust Revenues attributable to hazard insurance or condemnation proceeds which are to be applied to reduction of the outstanding principal balance of the Note in accordance with applicable FHA Documents and pursuant to the Loan Agreement shall be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds as provided in the Loan Agreement and in the HVHC Resolution.

(iv) Prepayments of principal on the Note, together with any Non-Asset Bond Prepayments, or premium, if any, shall be deposited in the Redemption Account; and

(v) FHA Mortgage Insurance Benefits shall be applied under the heading "Application of FHA Mortgage Insurance Benefits".

(Section 6.01)

Debt Service Fund

The following provisions shall apply to each Applicable Debt Service Fund and account thereunder:

(a) Subject to the provisions of the HVHC Resolution with respect to the application of FHA Mortgage Insurance Benefits, on the last Business Day preceding an Interest Payment Date for Outstanding Bonds, the Applicable Trustee shall apply the moneys then on deposit, subject to subsection (d) of this heading in the Debt Service Account as follows:

FIRST: to the payment of interest due on the Bonds Outstanding on the next succeeding Interest Payment Date by transfer of the amount so due to the Paying Agent;

SECOND: to the payment of the maturing Principal Amount of the Bonds, if any, by transfer of the amount so due to the Paying Agent;

THIRD: If the Note and Mortgage have not been assigned to FHA pursuant to the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance", to the payment of the semi-annual fees of the Applicable Trustee and the Authority and, if required, deposited into the Surplus Account to the extent the amount on deposit in the Surplus Account is less than the amount to be deposited therein pursuant to the Applicable Series Resolution or the Applicable Bond Series Certificate;

FOURTH: if the Note and Mortgage have been assigned to FHA pursuant to the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance", to the payment (in semiannual installments) of the Applicable Trustee's Annual Fee and then, if the revised Cash Flow Statement prepared in connection with such assignment demonstrates that sufficient funds are available, to the Authority for the payment of its fees and expenses pursuant to a certificate of an Authorized Officer of the Authority;

FIFTH: to the extent of any remaining moneys, for transfer to the Redemption Account to be applied to the Sinking Fund Redemption of Bonds as provided in the HVHC Resolution; and

SIXTH: to the extent the Authority receives cash from FHA in an amount sufficient, together with all other available funds, to pay the Principal Amount of and accrued interest on all of the Bonds Outstanding, for transfer to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Bonds.

Any balance remaining in the Debt Service Account shall be retained therein for application as aforesaid on the last Business Day preceding the next succeeding Interest Payment Date and, if directed by the Authority, applied as a credit against subsequent payments due on the Applicable Note.

(b) Unless the Note and Mortgage have been assigned to FHA pursuant to the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance" hereof, all income from the investment of moneys in any account of the Debt Service Fund (i) shall upon receipt be deposited in the Surplus Account to the extent the amount in the Surplus Account is less than the amount to be deposited therein pursuant to Applicable Series Resolution or Applicable Bond Series Certificate; or (ii) upon the written direction of the Authority applied as a credit against subsequent payments due on the Applicable Note, provided that all fees and expenses of the Trustee and Authority shall have been provided for and all amounts under clauses FIRST, SECOND, THIRD and FIFTH under paragraph (a) above shall have been made. On the last Business Day preceding each Interest Payment Date for an Applicable Series of Bonds, to the extent moneys are not available from other sources, any moneys on deposit in the Surplus Account shall be applied first to the payment (in semiannual installments) of the Applicable Trustee's Annual Fee and then, to the extent of money available, to all fees and expenses of the Authority pursuant to a certificate of an Authorized Officer of the Authority. Unless the Note and Mortgage have been assigned to FHA pursuant to the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance" in which event the provisions of the last sentence of this subsection shall apply, the foregoing fees and expenses of the Authority shall not be paid from any other fund or account held pursuant to the HVHC Resolution, other than the Surplus Account. If on the last Business Day preceding any such Interest Payment Date the amount in the Surplus Account remaining after the payments described in the preceding sentence exceeds the sum set forth in the Applicable Series Resolution

or Bond Series Certificate or as the Authority shall specify (but in no event less than the Authority's estimated fees and expenses for the forthcoming six (6) months and one-half (1/2) of the Applicable Trustee's Annual Fee (together with any amounts theretofore unpaid from any previous period)), such excess shall be transferred to the Debt Service Account for application in accordance with paragraph (a) above and, if directed by the Authority, applied as a credit against subsequent payments due on the Applicable Note. Notwithstanding the foregoing, in the event the Note and Mortgage are assigned to FHA, any amount in the Surplus Account shall be used: first, to pay hazard insurance premiums, mortgage insurance premiums or other FHA charges, which amounts may become due prior to the date of such assignment, unless payment of such amounts is waived by FHA; second, to reimburse any Mortgagee Advances; third, to pay the Applicable Trustee's Annual Fee; fourth, to pay the Authority's Annual Administrative Fee; and fifth, to pay any fees and expenses, including legal fees, incurred by the Authority, the Applicable Trustee, the Mortgage Servicer or the Financial Consultant in connection with the assignment of the Note and Mortgage and the claim for FHA mortgage insurance benefits.

(c) In lieu of redeeming Bonds through Sinking Fund Installments as provided in the HVHC Resolution, at the direction of the Authority, the Applicable Trustee shall apply moneys from time to time on deposit in the Debt Service Account or the Redemption Account to the purchase of an equal principal amount of the Series of Bonds (of the maturity and in amounts then expected to be subject to Sinking Fund Installments) at prices not higher than the principal amount to be redeemed plus accrued interest, provided that firm commitments to sell Bonds are received at least five (5) days before the notice of redemption would otherwise be required to be given. In the event of purchases at purchase prices less than the principal amount to be redeemed plus accrued interest, the difference between the amount in the Debt Service Account representing the principal amount of the Bonds purchased and the purchase price (exclusive of accrued interest) shall be retained in the Debt Service Account for application pursuant to paragraph (a) above. Prior to any such purchase, the Applicable Trustee shall give notice to the Authority of the terms of the proposed purchase, and the Authority shall give written directions to the Trustee to purchase such Bonds for such terms. All Bonds so purchased shall be immediately cancelled. The provisions of this paragraph do not apply to purchases made in lieu of redemption of Bonds pursuant to the provisions of the HVHC Resolution.

(d) Notwithstanding anything in the HVHC Resolution to the contrary, the Applicable Trustee shall, at the direction of the Authority, pursuant to the provisions of the HVHC Resolution deposit funds received for the purchase in lieu of redemption of Bonds of an Applicable Series in the Applicable Purchase Account for the purchase of Bonds of such Applicable Series in whole or in part pursuant to the terms and conditions of the Applicable Series Resolution or Applicable Bond Series Certificate. All Bonds so purchased shall not be cancelled.

(e) For purposes of this heading, any payment of principal and interest on the Note due the first day of February or August shall be treated as received after the 15th of such February or August and shall be applied as provided in subdivision (a) under this heading on the day prior to the next succeeding Interest Payment Date.

(Section 6.02)

Debt Service Reserve Fund

The following provisions shall apply to each Applicable Debt Service Reserve Fund and accounts thereunder:

(a) If a payment default occurs under the Note or the Mortgage, on each succeeding Interest Payment Date, unless and until such default is waived as described in the second paragraph of paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance", the Applicable Trustee will draw upon any Letter of Credit and liquidate any investments held for the account of the Collateral Account and make transfers from the Debt Service Reserve Fund (first from the Collateral Account and second from the Reserve Account) to the Debt Service Account on the second Business Day preceding each Interest Payment Date in an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest on the Bonds Outstanding and the principal amount of Bonds maturing (if any).

(b) If the Institution fails to make all payments which become due under the Note (except for those payments to be applied in accordance with the provisions of paragraph (e) under the heading "Debt Service Fund" without regard to any grace period relating thereto) by each date 15 days in advance of an Interest Payment Date, (i) the Applicable Trustee will immediately give notice to the issuer of the Investment Agreement that the Applicable

Trustee intends to withdraw funds under such Investment Agreement and, if the Floor Ceiling Agreement is then the Investment Agreement in place, the Applicable Trustee will immediately give notice to the bank thereunder of the sale of securities in an amount sufficient, together with moneys then on deposit in the Debt Service Account (including amounts transferred from the Collateral Account pursuant to subparagraph (a) under this heading and the Investment Income Account pursuant to the provisions described under subdivision (e) under the heading "Payments from Construction Fund"), to pay the interest becoming due on the Bonds on the next succeeding Interest Payment Date and the principal amount of Bonds maturing, if any, on such date; and (ii) unless the Institution makes such payment under the Note or Mortgage by the last Business Day preceding the next Interest Payment Date and cures, in accordance with the second paragraph under the heading "Remedies under Mortgage and FHA Mortgage Insurance", any other defaults under the FHA Documents (in which event the Applicable Trustee will immediately cancel the withdrawal of funds under such Investment Agreement), then the Applicable Trustee will immediately withdraw funds from the Reserve Account in such amount and deposit the same in the Debt Service Account.

(c) In accordance with the provisions described under the heading "Application of FHA Mortgage Insurance Benefits", to the extent such provisions direct that amounts on deposit in the Debt Service Reserve Fund are to be applied to the Extraordinary Mandatory Redemption of Bonds, any investments deposited to the credit of the Reserve Account and the Collateral Account of the Debt Service Reserve Fund shall be liquidated and the amounts thus obtained shall be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds.

(d) The Applicable Trustee shall draw the full amount of any Letter of Credit deposited to the credit of the Collateral Account (i) immediately upon receipt of notice from the applicable Qualified Financial Institution following an event of default under the reimbursement agreement; (ii) within sixty (60) days of a downgrade of the Qualified Financial Institution providing such Letter of Credit to a rating less than "A" by the Rating Services; and (iii) at least fifteen (15) days or such lesser number of days as shall be acceptable to the Applicable Trustee prior to its expiration date, unless in the case of clause (iii) such Letter of Credit has been renewed or the Collateral Account Requirement on such expiration date would be zero, or the Institution has deposited Available Moneys or a substitute Letter of Credit in the Collateral Account in an amount equal to the Collateral Account Requirement.

(e) Except as provided in paragraph (d) above, the Applicable Trustee will not draw on any Letter of Credit in the Debt Service Reserve Fund and will not transfer any such moneys to any other fund under the HVHC Resolution until the Authority has given, or caused there to be given, notice to FHA of a default under the Note and Mortgage pursuant to the provisions described under the heading "Remedies under Mortgage and FHA Mortgage Insurance."

(f) Except as otherwise provided under this heading and under the heading "Collections of Trust Revenues" above, the Applicable Trustee shall transfer amounts on deposit in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement to the Redemption Account.

(Section 6.03)

Redemption Account

The following provisions shall apply to each Applicable Redemption Account:

(a) The Applicable Trustee will cause any optional prepayments and premium payments on the Note and Mortgage made from any source (other than prepayments described in paragraph (c) of this heading), together with any Non-Asset Bond Prepayment made in connection with an Optional Redemption of Bonds, deposited in the Redemption Account pursuant to the provisions of subdivision (b)(iv) under the heading "Collection of Trust Revenues" to be applied to the optional redemption of Bonds at the times and Redemption Prices set forth in the Bond Series Certificate or to the purchase of Bonds by the Applicable Trustee at prices not in excess of the optional redemption price applicable on the next succeeding optional redemption date plus accrued interest.

(b) The Applicable Trustee will cause any moneys transferred to the Redemption Account from the Debt Service Fund pursuant to the fifth clause of paragraph (a) under the heading "Debt Service Fund" to be applied to the Sinking Fund Redemption of Bonds, on the next succeeding Interest Payment Date, at a Redemption Price equal to the principal amount of the Bonds to be redeemed.

(c) The Applicable Trustee will also transfer from the Insurance and Condemnation Account of the Construction Fund to the credit of the Redemption Account amounts derived from Net Insurance Proceeds and Net Condemnation Proceeds which are applied to the prepayment of the Note and Mortgage as provided in the Applicable Provisions of the Loan Agreement, together with any Non-Asset Bond Prepayment made in connection with such prepayment. The Applicable Trustee shall cause all such amounts to be applied to the Extraordinary Mandatory Redemption of Bonds, at the earliest practicable redemption date, in accordance with the provisions of the HVHC Resolution and the Applicable Series Resolution.

(d) The Applicable Trustee will cause amounts deposited in the Redemption Account derived from: (i) the Debt Service Reserve Fund; (ii) the Investment Income Account; (iii) the Construction Fund; (iv) the funds available for Extraordinary Mandatory Redemption; and (v) amounts received upon payment of FHA mortgage insurance benefits, to be applied to the Special Mandatory Redemption or Extraordinary Mandatory Redemption of Bonds.

(Section 6.04)

Procedure When Funds are Sufficient to Pay all Bonds

The following procedures shall apply with regard to each Applicable Series of Bonds:

If at any time following the date of Final Endorsement the amounts held by the Applicable Trustee in the funds established pursuant to the HVHC Resolution (except for the Equity Account, the Collateral Account, the Insurance and Condemnation Account and the Arbitrage Rebate Fund) are sufficient to pay the principal or Redemption Price of, and interest on all Bonds Outstanding on the next succeeding Interest Payment Date therefor, together with any amounts due the Authority and the Applicable Trustee, the Applicable Trustee will notify the Authority, the Mortgage Servicer and the Institution to that effect and thereafter the Applicable Trustee will apply, subject to any applicable FHA requirements, the amounts in such funds first to the payment of such principal or Redemption Price and interest, and second, to the payment of any amounts due to itself and the Authority, and, unless the Note and Mortgage have been assigned to FHA, the Authority will credit such payments to prepayment of the Note and the Mortgage, in accordance with the prepayment provisions of the Note and Mortgage, and the redemption provisions of the Bonds.

(Section 6.05)

Deposit and Investment of Funds

The following provisions shall apply to the deposits and investment of funds held in connection with each Series of Bonds:

(a) All moneys received by the Applicable Trustee for deposit in any fund or account established under the HVHC Resolution shall, except as otherwise provided, be deposited with the Applicable Trustee until expended or invested as provided in this heading.

(b) Any moneys received by the Applicable Trustee on behalf of the Authority as mortgagee under the Mortgage which are required to be deposited in escrow accounts or other accounts under the Mortgage will be invested subject to applicable FHA regulations.

(c) Moneys held by the Applicable Trustee in any fund or account described above under the heading "Authorization for Establishment of Funds and Accounts", will, as nearly as may be practicable, be invested by the Applicable Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, in (i) Government Obligations or (ii) Federal Agency Obligations, or (iii) Exempt Obligations and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under the HVHC Resolution any other Permitted Investments; provided that each such investment will 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 HVHC Resolution.

(d) Moneys held in any fund or account with respect to an Applicable Series of Bonds authorized under the HVHC Resolution may be pooled for purposes of investment only, and such moneys may be invested as one account; provided that the Applicable Trustee will keep records of the amount of principal and accrued investment income (on a pro rata basis) of each fund or account which is pooled for investment purposes pursuant to this paragraph. Moneys in the Mortgage Account in the Construction Fund to be transferred to the Investment Income

Account to pay interest on the Note (less the Servicing Fee) pursuant to provisions found under the sections “Payments from the Construction Fund” or “Collection of Trust Revenues” will remain invested under the Applicable Investment Agreement under this heading unless such moneys are required to be used to pay interest on the Bonds as described below. Transfers from the Investment Income Account to the Debt Service Account to pay interest on the Bonds pursuant to subdivision (d) under the heading “Payments from Construction Fund” will be made semiannually on the last Business Day preceding each Interest Payment Date. Accrued interest, if any, payable on the initial investment of the Reserve Account may be paid from the Debt Service Account or the Mortgage Account provided the amount so paid is redeposited in the appropriate account upon receipt of the first income on such investments.

(Section 6.06)

Valuation of Funds

The Applicable Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, and (iii) upon the request of the Institution, but not more frequently than once a calendar month, will compute the value of the assets of each fund and account authorized to be established under the HVHC Resolution and established by each Applicable Series Resolution. Additionally, the Applicable Trustee will (i) calculate the Reserve Account Requirement and the Collateral Account Requirement at the end of each calendar month and (ii) at Final Endorsement, compute the value of the assets of the Debt Service Reserve Fund, after taking into account any deposits to, and payments and transfers from, any fund or account made under the HVHC Resolution or the Applicable Series Resolution. The Applicable Trustee will provide a written computation to the Authority and the Institution of the amount of the Reserve Account Requirement and the Collateral Account Requirement (after giving effect to any redemption made pursuant to the provisions under the heading “Procedure Upon Completion of the Project”). The Applicable Trustee will, to the extent of any decrease in the Collateral Account Requirement (a) with the consent of the Authority reduce any Letter of Credit deposited to the credit of the Collateral Account by the amount of the decrease in the Collateral Account Requirement and/or (b) at the written direction of the Authority remit to the Institution (provided there is no default under the Applicable Mortgage or Note, and there is no deficiency in the Debt Service Reserve Fund, and in the event of a deficiency, transfer such excess to the Debt Service Reserve Fund) any cash originally deposited by the Institution or other Available Moneys on deposit in the Collateral Account in excess of the reduced Collateral Account Requirement. In addition, in the case of a deficiency in the Collateral Account Requirement or the Reserve Account Requirement, the Applicable Trustee will promptly notify the Institution of the amount of such deficiency. Such investments will be valued at the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, except for any amounts invested pursuant to an Investment Agreement, which will be valued at cost. Promptly after each such computation, the Applicable Trustee will give notice thereof to the Institution and the Authority.

The Authority, in its discretion, may direct the Applicable Trustee to, and the Applicable Trustee will, sell, present for redemption or exchange any Securities held pursuant to the HVHC Resolution by the Applicable Trustee and the proceeds thereof may be reinvested as provided under this heading.

(Section 6.07)

Additional and Refunding Bonds and Additional Obligations

Additional Bonds may be issued under the HVHC Resolution for the purpose of financing all or a portion of the Cost of other Projects or refunding all or any portion of outstanding Bonds of one or more Series, or all or any portion of other outstanding obligations issued by the Authority for the benefit of the Institution.

The Authority reserves the right to issue other bonds, notes or any obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or any obligations or such indebtedness are not, entitled to a charge or lien prior to the charge or lien created by the HVHC Resolution or an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of a Series of Bonds or with respect to the moneys pledged under the HVHC Resolution or an Applicable Series Resolution.

(Article II)

Creation of Liens

The Authority will not create or cause to be created any lien or charge prior or equal to that of the Bonds of each Series on the proceeds from the sale of such Bonds, the Applicable Trust Revenues pledged for such

Applicable Series of Bonds, the rights of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Applicable Trustee, the Applicable FHA Documents (except as allowed pursuant to the HVHC Resolution) or the fund authorized by the HVHC Resolution and established pursuant to the Applicable Series Resolution. Nothing contained in the HVHC Resolution will, however, prevent the Authority from issuing bonds, notes or other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior to the charge or lien created by the HVHC Resolution.

(Section 7.06)

Notice as to Event of Default Under Loan Agreement

The Authority will notify the Applicable Trustee in writing that an “Event of Default” under the Loan Agreement, as such term is defined in the Loan Agreement, has occurred and is continuing, which notice will be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Maintenance of Corporate Existence and FHA Mortgagee Status

The Authority will use its best efforts to maintain and renew its corporate existence and all its rights, powers and privileges under the Act for so long as any Bonds of a Series are Outstanding, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements and directions of any legislative, executive, administrative or judicial body. The Authority will use its best efforts to maintain at all times its status in good standing as an FHA-approved mortgagee.

(Section 7.13)

Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage

With respect to each Applicable Series of Bonds:

(a) The Authority will enforce, and will cause the Mortgage Servicer to enforce, the full and punctual performance by the Institution of all covenants, agreements and obligations on the part of the Institution to be performed under the FHA Documents, including, without limitation, the Note, the Mortgage, and the Security Agreement. The Authority will enforce the full and punctual performance by the Mortgage Servicer of all covenants, agreements and obligations on the part of the Mortgage Servicer to be performed under the Servicing Agreement.

(b) The Authority may consent to any amendment to the FHA Documents which has also been consented to by FHA, including an amendment to the interest rate on the Note at Final Endorsement (or a reduction in principal payments in connection with a prepayment of the Note upon satisfaction of the requirements therefor as set forth in the HVHC Resolution and in the Loan Agreement or in connection with the issuance of Refunding Bonds), provided, however, that no such amendment may be made which would extend or delay the commencement of amortization payments due under the Note or adversely affect the timely receipt of interest and principal payments thereon without the consent of the Holders of 100% of the aggregate principal amount of the Bonds Outstanding or the Applicable Bond Insurer.

(c) The Authority, as mortgagee under the Mortgage, may consent to the Institution’s incurring indebtedness in addition to the Applicable Note, secured by the Mortgaged Property, provided the Authority and the Applicable Trustee shall first have received:

(i) if the purpose for which such additional debt is being incurred is to pay or to complete the payment of the costs of a Capital Addition, a certificate of the Institution stating (1) the estimated cost of completion of such Capital Addition, (2) that the proceeds of such additional debt, together with any funds to be provided by the Institution, will be sufficient to pay such costs, (3) that no Event of Default under the FHA Documents or the Loan Agreement has occurred and is continuing and (4) the written consent of FHA to such Capital Addition;

(ii) if such additional debt is to be insured by FHA and secured by the Mortgage; (A) executed evidence of an increase in the Mortgage Insurance to cover any such increase in the principal amount of the indebtedness secured by the Mortgage; (B) executed or certified counterparts of amendments or supplements to the Applicable Note given by the Institution evidencing such additional debt as required by FHA and the Authority; and (C) an amendment or supplement to the Applicable Mortgage as required by FHA and the Authority evidencing and securing such additional debt;

(iii) if such additional debt is to be insured by FHA and secured by a supplemental mortgage; (A) evidence that such supplemental mortgage shall be eligible for insurance by FHA under the provisions of the National Housing Act, as amended; (B) executed or certified counterparts of the supplemental note given by the Institution evidencing such additional debt as required by FHA and the Authority; and (C) executed or certified counterparts of the supplemental mortgage securing such additional debt as required by FHA and the Authority;

(iv) if such additional debt is not to be insured by FHA, the consent of FHA to the incurrence of such additional debt, the security therefor and the terms thereof, as required by the Regulatory Agreement, which terms may include to the extent approved by FHA and the Authority, the release, subordination or the granting of a parity interest in any fixtures, furnishings or equipment located in or on or used in connection with any Mortgaged Property or any other security interest granted to the Authority pursuant to the Security Agreement or the Mortgage;

(v) if required by FHA, an executed counterpart of an amendment or supplement to the Mortgage or any supplemental mortgage providing that a default under such additional debt will constitute an event of default under the Mortgage;

(vi) executed counterparts of any other instruments given or agreements made by the Institution for the security of such additional debt, which, with the Authority's written permission, may provide that any default thereunder will constitute a default under the Mortgage, together with an opinion of Counsel to the Institution that (1) any amendments to the Note and Mortgage and all such other amendments, instruments or agreements are duly authorized, executed and delivered by the Institution and are legal, valid and binding obligations, enforceable in accordance with their terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights generally and (2) any consents or approvals of any governmental authorities required in connection with the issuance and related transactions have been obtained; and

(vii) such other documents, assurances and provisions, which Bond Counsel, the Authority, FHA or the Applicable Trustee may reasonably require default under the Mortgage.

(d) In connection with the incurring of additional indebtedness secured by the Mortgage or any supplemental mortgage pursuant to paragraph (c) above or an amendment to the interest rate on the Note pursuant to paragraph (b) above, the Applicable Trustee will give or cause to be given to each Rating Service, (1) at least thirty (30) days' prior written notice of the proposed incurrence of such additional indebtedness or amendment to the interest rate on the Note and (2) a Cash Flow Statement if required by the Authority or a Rating Service, showing that the incurrence of additional indebtedness or amendment to the interest rate on the Note will not adversely affect the sufficiency of Trust Revenues (including FHA mortgage insurance benefits) for the payment of debt service on the Bonds Outstanding; and

(e) The Authority will not consent to the release of any cash or letters of credit held pursuant to the FHA Documents for the benefit of the Mortgagor without the consent of the FHA.

(Section 7.14)

Tax Exemption; Rebates

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds of each Series, the Authority will comply with the provisions of the Code applicable to such Bonds.

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.

The Authority's failure to comply with the provisions of the Code applicable to the Bonds of a Series will not entitle the Holder of Bonds of any other Applicable Series, or the Applicable Trustee on its behalf, to exercise any right or remedy provided to Bondholders under the HVHC Resolution based upon such failure.

(Section 7.15)

Events of Default

An event of default will exist under the HVHC Resolution and under an Applicable Series Resolution (called "event of default" in the HVHC Resolution) if:

(a) With respect to the Applicable Series of Bonds, payment of the principal or Redemption Price of any such Bond is not made by the Authority when the same is due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond is not made by the Authority when the same is due and payable; or

(c) The Authority files a petition under Chapter 9 of the Federal Bankruptcy Code; or

(d) With respect to the Applicable Series of Bonds, default by the Authority in the due and punctual performance of the covenants contained in the HVHC Resolution as described under the caption "Tax Exemption; Rebates" above 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

(e) With respect to the Applicable Series of Bonds, default by the Authority in the due and punctual performance of any other covenant, condition, agreement or provision for the benefit of the holders of such Bonds contained in the HVHC Resolution or in the Bonds or in the Applicable Series Resolution to be performed by the Authority and such default will continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied will have been given to the Authority by the Applicable Trustee, which may give such notice in its discretion and will give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of Outstanding Bonds of the Applicable Series.

An Event of Default under the HVHC Resolution in respect to an Applicable Series of Bonds will not in and of itself be or constitute an Event of Default in respect of any other Series of Bonds.

(Section 8.02)

Acceleration and Annulment Thereof

(a) If any Event of Default as described in paragraph (a) or (b) under the heading "Events of Default" occurs, the Applicable Trustee may, and upon request of the Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series, shall, by notice in writing to the Authority, declare the principal amount of all Bonds Outstanding of the Applicable Series and all payments to be made by the Institution therefor (but, except as described hereinbelow under the heading "Remedies under Mortgage and FHA Mortgage Insurance", solely pursuant to the provisions of the Loan Agreement), and accrued interest on the foregoing, to be immediately due and payable, whereupon the same will become due and payable immediately without any further notice or action, anything in the HVHC Resolution, the Applicable Series Resolution, the Loan Agreement or in the Bonds to the contrary notwithstanding.

(b) If, after any declaration of acceleration of the principal amount of a Series of Bonds, all arrears of interest upon such Bonds and all other outstanding Events of Default (other than the nonpayment of principal and interest due and payable solely by reason of such declaration) have been cured or provision deemed adequate by the Applicable Trustee have been made therefor, and all required payments by the Institution under the Loan Agreement have been made and the Authority and the Institution also perform all other things in respect to which they or any of them may have been in default under the HVHC Resolution or under the FHA Documents, all in accordance with

the second paragraph of subdivision (a) hereinbelow under the heading “Remedies under Mortgage and FHA Mortgage Insurance”, and provision is made for payment of reasonable charges of the Applicable Trustee and the Mortgage Servicer and if all claims under the FHA Mortgage insurance have been withdrawn without payment, then, and in every such case, the Applicable Trustee, by notice to the Authority, may annul such declaration and its consequences. Any such annulment shall be binding upon the Applicable Trustee and upon all holders of the Applicable Series of Bonds, but no such annulment will extend to or affect any subsequent default or impair any right or remedy consequent thereon.

(Section 8.03)

Remedies under Mortgage and FHA Mortgage Insurance

The following remedies apply in connection with each Series of Bonds issued under the HVHC Resolution, the Applicable Mortgage and the Institution; provided however a default in connection with one Series of Bonds shall not in and of itself be or constitute a default in respect of any other Series of Bonds:

(a) If the Institution fails to make any payment in full required under the Note or Mortgage and such failure continues for a period of thirty (30) days (the “Grace Period”), or if following a default by such Institution in the performance of any covenant in the Regulatory Agreement or the Mortgage, including but not limited to a default under the Mortgage or Regulatory Agreement caused by a cross-default provision therein or in a mortgage or regulatory agreement of the Institution securing a separate Applicable Series of Bonds, but only to the extent required or consented to by FHA, FHA shall have requested and the Authority shall have declared an acceleration of the unpaid principal balance of the Note, the Authority will immediately give, or cause the Mortgage Servicer to give, written notice to FHA, the Applicable Trustee, and the Rating Service(s) of (i) the occurrence of the default, (ii) the acts or omissions giving rise to the default, (iii) the time period, if any, available to cure such default, (iv) a schedule of remaining Interest Payments Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds, (v) a schedule of the funds available to make payments as they become due on the Bonds, (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds, (vii) the Authority’s election to assign the Note and the Mortgage to FHA, and (viii) the Authority’s intention and election to file a claim for Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement, or FHA Cash Lock Agreement, as and if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice the Authority or the Mortgage Servicer shall request (a) such forms and instructions relating to an assignment of the Note and Mortgage and (b) an endorsement of the Mortgagee’s title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions the Authority will submit legal documentation for review to the Office of the General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit (by no later than thirty days after the date of recordation of the assignment to FHA) in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, and the FHA Debenture Agreement or the FHA Cash Lock Agreement as and if applicable, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority’s election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice in the manner provided in paragraph (i) under this heading to all Bondholders of the Applicable Series of the occurrence of the default by the Institution and the Authority’s intent to file such claim with FHA. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Outstanding Bonds of the Applicable Series within twenty (20) days of the date notice of the Authority’s election to assign the Note and Mortgage to FHA was sent to FHA, the Authority will, except as hereinbelow provided, take all actions necessary to assign the Note and the Mortgage to FHA and to recover such claim under the FHA mortgage insurance; provided that, the Authority shall use its best efforts to complete the assignment of the Note and Mortgage no later than the last Business Day preceding the 30th day following the giving of notice to FHA; provided further however that in the event such assignment will be completed later than the last Business Day preceding the 30th day following the giving of notice to FHA, notice thereof will be given by the Authority to each Rating Service.

If, prior to the date the Note and Mortgage are assigned to FHA (pursuant to this subdivision or subdivision (b) below under this heading) the Institution (x) pays all amounts due under the Note, Mortgage and Loan Agreement and cures any other defaults thereunder and (y) delivers to the Applicable Trustee funds which are not less than the principal amount, if any, which has been withdrawn as provided under the heading “Debt Service

Reserve Fund” from the Collateral Account and the Reserve Account, or delivers to the Applicable Trustee investment obligations meeting the requirements of the HVHC Resolution in a form and amount which are satisfactory to the Authority and the Applicable Trustee, then notwithstanding the provisions of this subdivision and subdivision (b) below, the Authority shall withdraw its notice of assignment to FHA; provided, the Authority, and Applicable Trustee have first received (i) written confirmation from FHA that the withdrawal of the Authority’s claim will not adversely affect the FHA insurance of the Note, or be construed as a waiver or reduction thereof, (ii) agreement from a Qualified Financial Institution providing an Investment Agreement that such moneys can be reinvested at the same rate or rates as were applicable prior to such withdrawal or other comparable arrangements satisfactory to the Authority, and the Rating Agencies were provided, (iii) Cash Flow Statements will have been provided evidencing that the failure to assign the Note and Mortgage to FHA as provided above under this heading will not adversely affect the sufficiency of Trust Revenues for the payment of debt service on the Applicable Series of Bonds, (iv) the respective amounts on deposit in the Reserve Account and the Collateral Account are not less than the Reserve Account Requirement and the Collateral Account Requirement, respectively and (v) an unqualified opinion of nationally recognized bankruptcy Counsel satisfactory to the Applicable Trustee to the effect that the amounts paid by the Institution pursuant to clause (x) and (y) above will not constitute an avoidable preference or be subject to the automatic stay provisions of Section 547(b) or 362(a), respectively, of the Federal Bankruptcy Act in the event that a case in bankruptcy is commenced by or against the Institution.

(b) If a non-monetary default by the Institution under the terms of the Mortgage has occurred (including a default as a result of cross-default provisions included therein), the Authority will, within (i) thirty (30) days after the occurrence of such default or (ii) such other grace period as will be established under applicable FHA regulations, give notice of such default to FHA and the Rating Service(s) and on the basis of its determination as to which course of action will be in the best interest of the Bondholders, either:

(1) declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Institution. Immediately upon such declaration the Authority will give, or cause the Mortgage Servicer to give, within one Business Day after the end of the applicable grace period, written notice to FHA, the Applicable Trustee, the Bond Insurer and the Rating Service(s) of (i) the occurrence of such default, (ii) the acts or omissions giving rise to the default, (iii) the time period, if any, available to cure such default, (iv) a schedule of remaining Interest Payment Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds, (v) a schedule of the funds available to make payments as they come due on the Bonds, (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds, (vii) the Authority’s election to assign the Note and the Mortgage to FHA and (viii) the Authority’s intention and election to file a claim for the Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement or FHA Cash Lock Agreement, as and if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer will request (a) such forms and instructions relating to the assignment of the Mortgage and (b) an endorsement of the Mortgagee’s title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority will submit or cause to be submitted the legal documentation for review by the Office of General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit or cause to be completed and submitted (by no later than thirty days after the date of recordation of the assignment to FHA unless an extension of such time period is approved in writing by FHA), in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority’s election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice as provided in paragraph (a) under this heading to all Bondholders of such Applicable Series of the occurrence of such default and of the Authority’s intent to file such claim and promptly certify to the Authority that it has mailed such notice to all such Bondholders, which certificate will be conclusive evidence that such notice was given in the manner required by the HVHC Resolution. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Bonds Outstanding within twenty (20) days of the date such notice was given to FHA and mailed to the Bondholders or unless such default has been cured as provided in the second paragraph of subdivision (a) under this heading, the Authority will take all actions necessary to assign the Note and Mortgage to FHA and recover such claim on the FHA mortgage insurance; or

(2) give, or cause the Mortgage Servicer to give, written notice to FHA of the occurrence of such default and enter into an agreement with the Institution, approved by FHA, extending the time for curing such default; provided that the Authority will not execute any such agreement unless the Authority: (a) has notified the Rating Service(s) then rating the Applicable Series of Bonds that the time for curing such default is being extended and (b) has received written confirmation from each such Rating Service that its rating on the Bonds will not be adversely affected as a result of such agreement.

(c) Until the Note and Mortgage have been assigned to FHA pursuant to subdivision (a) or (b) under this heading, the Applicable Trustee will pay upon written request of the Authority and the Mortgage Servicer, from amounts in the Surplus Account, any hazard insurance premiums or mortgage insurance premiums which may become due prior to the date of assignment; unless payment of such mortgage insurance premiums is waived by FHA.

(d) The Authority will or will cause the Mortgage Servicer to proceed with due diligence to obtain payment of the FHA Mortgage insurance on the earliest practicable date.

(e) In the event an FHA Cash Lock Agreement is in effect with respect to a Series of Bonds, payment of FHA Mortgage Insurance Benefits therefor will be requested in cash and not in FHA debentures.

(f) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, the Applicable Trustee will, upon receipt of notice from the Authority that it has received a direction from FHA pursuant to 24 C.F.R. Section 207.258(b)(5) or any other applicable regulation, pay to FHA any amounts which are required to be paid to FHA which remain on deposit in the Construction Fund. If by the date the assignment of the Note and Mortgage to FHA is completed, FHA has not directed the Authority to pay over the undisbursed balance in the Construction Fund, the Authority will direct the Applicable Trustee to, within two (2) Business Days, transfer such amounts to the Redemption Account and apply the same to the Extraordinary Mandatory Redemption of Bonds, provided the Authority has first given written notice to FHA that the Authority intends to apply the undisbursed balance in the Construction Fund to such redemption and the Authority has received written confirmation from FHA that it will not require payment of the undisbursed balance of the Construction Fund pursuant to 24 C.F.R. Section 207.258(b)(5) (or any successor regulation thereto).

(g) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, if at any time prior to final payment of all mortgage insurance benefits, the Authority determines that there will not be sufficient moneys available in the Debt Service Fund and the Debt Service Reserve Fund for payment of the principal amount of and interest on the Applicable Series of Bonds becoming due on the next Interest Payment Date, the Authority will, not later than 30 days prior to such Interest Payment Date, give written notice to FHA of such deficiency and request immediate payment in cash of all mortgage insurance benefits in an amount necessary to avoid an Event of Default under the HVHC Resolution.

(h) Upon payment of a claim for FHA mortgage insurance, the Authority will assign and transfer such insurance benefits to the Applicable Trustee immediately upon the receipt thereof. In the event such benefits are received in the form of FHA debentures, the Applicable Trustee will deposit such debentures upon receipt to the credit of the Debt Service Account and will apply all such debentures as described hereinbelow under the heading "Application of FHA Mortgage Insurance Benefits". In the event such benefits are received in the form of cash, the Applicable Trustee will deposit such cash in the Debt Service Account and apply such moneys as described hereinbelow under the heading "Application of FHA Mortgage Insurance Benefits".

(Section 8.04)

Application of FHA Mortgage Insurance Benefits

The following provisions apply in connection with any receipt of FHA Mortgage Insurance Benefits in connection with an Applicable Series of Bonds:

(a) Upon receipt of the final payment of mortgage insurance benefits from FHA, the Applicable Trustee will calculate the "Funds Available for Extraordinary Mandatory Redemption", being the sum of: (i) all Mortgage Insurance Benefits paid in cash ("Cash Proceeds"); (ii) all uninvested moneys held in all funds and accounts (other than the Mortgage Account and the Equity Account of the Construction Fund and the Arbitrage Rebate Fund) established under the Applicable Series Resolution including any unused portion of any Letter of Credit held in such funds and accounts ("Cash on Hand"); and (iii) the amount which could be realized from the sale of all investments

(not including FHA debentures) deposited to the credit of all funds and accounts (other than the Mortgage Account, the Equity Account and the Rebate Fund) established under the Series Resolution (“Investments on Hand”).

In the event that all mortgage insurance proceeds are paid by FHA in cash and the Funds Available for Extraordinary Mandatory Redemption are sufficient in reliance upon a certification made or verified by a Financial Consultant to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption on the first practicable date such redemption can be made in accordance with Article IV of the HVHC Resolution, the Applicable Trustee will sell all Investments on Hand and deposit the proceeds of sale, together with all Cash Proceeds and Cash on Hand, in the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of such Bonds.

(b) In the event that all Mortgage Insurance Benefits, Cash on Hand and proceeds which could be realized from the sale of Investments on Hand are not sufficient to pay the principal or Redemption Price of and interest on all Bonds Outstanding of the Applicable Series in the manner described in subsection (a) above, and the Applicable Trustee and the Authority have received a cash flow statement showing such insufficiency (copies of which will be sent to the Rating Service(s)), then, all such Investments, will be sold and the proceeds of such sale, together with all cash on hand (except the Arbitrage Rebate Fund), shall be applied to the extent available: first, to the Extraordinary Mandatory Redemption of the Bonds, second, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee, and third, to pay the fees and expenses of the Authority and the Applicable Trustee; provided, that, if such moneys are insufficient to provide for the Extraordinary Mandatory Redemption of all the Bonds of such Series, then such amounts will be applied, as will be recommended by the Authority, to a *pro rata* Extraordinary Mandatory Redemption of all such Bonds without preference or priority of one Bond of such over another, except as otherwise provided in the HVHC Resolution in the case of claims for interest extended or transferred apart from the Bonds after maturity.

(c) In the event that all Mortgage Insurance Benefits are to be paid in cash pursuant to a Cash Lock Agreement and pending final payment from FHA a partial cash payment of Mortgage Insurance Benefits is received, and it is determined, based on Cash Flow Statements to be prepared or verified by a Financial Consultant that is a firm of certified public accountants, that such payment, together with all other cash payments to be received from FHA, all immediately available funds held by the Trustee and the Investments on Hand (without regard to reinvestment), will, upon final payment by FHA, provide a cash flow sufficient upon final payment by FHA to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee and to pay the fees and expenses of the Authority and the Applicable Trustee, then, after depositing to the Debt Service Account such portion, if any, of the partial payment of the Mortgage Insurance Benefits received as is deemed necessary to pay the principal, Sinking Fund Installments and interest becoming due on such Bonds pending final payment of the Mortgage Insurance Benefits from FHA, the Applicable Trustee shall apply any remaining balance from such partial payment of Mortgage Insurance Benefits to the Extraordinary Mandatory Redemption of a portion of the Applicable Series of Bonds Outstanding, the selection of the principal amounts and maturities of which shall be made in accordance with the HVHC Resolution. If, however, the Cash Flow Statements prepared in accordance with the preceding sentence show that said partial payment of Mortgage Insurance Benefits, together with all other cash payments to be received from FHA, all immediately available funds held by the Trustee and the Investments on Hand (without regard to reinvestment), will, upon final payment by FHA, be insufficient upon final payment by FHA to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee and to pay the fees and expenses of the Authority and the Applicable Trustee, then such payment received shall, after depositing to the Debt Service Account such portion, if any, of the partial payment of the Mortgage Insurance Benefits received as is deemed necessary to pay the principal, Sinking Fund Installments and interest becoming due on such Bonds pending final payment of the Mortgage Insurance Benefits from FHA, be applied to the pro rata or as otherwise directed by the Authority, based on Cash Flow Statements prepared by a Financial Consultant, Extraordinary Mandatory Redemption of Bonds of the Applicable Series Outstanding in accordance with subdivision (b) under this heading of such final payment.

(Section 8.05)

Monetary Defaults Prior to the End of the No Call Period or When a Prepayment Premium is Payable Under the Note.

The following procedures shall apply in connection with a monetary default by the Institution:

(a) In lieu of the provisions of subdivision (a) under the heading “Remedies under Mortgage and FHA Mortgage Insurance,” in the event of a monetary default under the Note and the Mortgage prior to the date set forth in the Applicable Bond Series Certificate or during the period when a prepayment premium in excess of one percent (1%) is payable under, the Note, within one (1) Business Day following the lapse of the thirty (30) day grace period, the Authority will, or will cause the Mortgage Servicer to (1) notify FHA and the Rating Service(s) of the default and of the fact that the Mortgage was given to secure an issue of tax-exempt bonds rated by the Rating Service(s), such notice to be accompanied by a schedule of funds available to make payments as they become due, (2) file with the Central Office a request for a three (3) month extension of the time to file its notice of intention and election to file a claim for mortgage insurance in connection with such default, and (3) file a copy of such extension request with the Authority and the Rating Service(s). In filing such notice, the Authority will, or will cause the Mortgage Servicer to, state that it intends to request priority processing of the mortgage insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice and request, the Authority will, or will cause the Mortgage Servicer to request forms and instructions relating to the assignment of the Note and Mortgage, and within five Business Days of the receipt of such forms and instructions, the Authority will, or will cause the Mortgage Servicer to, submit legal documentation for review to Office of General Counsel of FHA. During the extension period approved by FHA (which, except as provided in subdivision (f) of this heading, will be not longer than three months), the Authority will, or will cause the Mortgage Servicer to follow the directions in subdivision (b) under this heading. If the request by the Authority for the extension is not approved, the Authority will, or will cause the Mortgage Servicer to file with FHA notice of the Authority’s intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the receipt of the decision from FHA and thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subdivision (a) under the heading “Remedies under Mortgage and FHA Insurance.” A copy of the intention and election filed with FHA will also be filed with the Authority and the Rating Service(s).

(b) If an extension period is granted, during the extension period approved by FHA, the Authority will take the following actions, as appropriate:

(i) assist the Institution in arranging a refinancing of the Note to cure the default and avert the filing of the claim for mortgage insurance;

(ii) report to FHA on a monthly basis the progress, if any; in arranging the refinancing;

(iii) cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the mortgage insurance claim;

(iv) if thirty (30) days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Applicable Series of Bonds, notify FHA of such deficiency and request the immediate payment of FHA mortgage insurance benefits in cash; and

(v) if a determination is made by the Authority that the refinancing of the Note is not feasible, (i) file a request with the Central Office of FHA for its concurrence in such determination, (ii) submit to FHA a notice of intention and election to file a claim for mortgage insurance, (iii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s), and (iv) proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in the heading “Remedies under Mortgage and FHA Mortgage Insurance.”

(c) The Authority agrees that it will not request more than one additional extension of the initial extension period approved by FHA and that it will not make such request until it receives written confirmation from the Rating Service(s) that the rating for the Applicable Series of Bonds will not be adversely affected by such request for extension. If the conditions for such further extension are not met, the Authority will proceed with processing the

mortgage insurance claim in a timely fashion in the manner described in the heading “Remedies under Mortgage and FHA Mortgage Insurance.”

(d) Anything under this heading to the contrary notwithstanding, simultaneous with the Authority’s efforts to refinance the Note, the Authority will follow the procedures set forth in the heading “Remedies under Mortgage and FHA Mortgage Insurance” such that if the Note is not refinanced the Authority will be able to file its notice of intention and election to file a mortgage insurance claim within two (2) Business Days after the expiration of the approved extension period and proceed with the processing of the mortgage insurance claim in a timely fashion.

(e) To the extent a refinancing is arranged and approved by FHA, the Note will be prepaid, in whole or in part, and the proceeds will be applied to the Extraordinary Mandatory Redemption of the Bonds as provided in paragraph (d) under the heading “Redemption Account”; provided, however, that the Authority will not consent to such refinancing until it has received written confirmation from each Rating Service that the rating for the applicable Series of Bonds will not be adversely affected by such refinancing; provided further, that such refinancing will result in a prepayment of the Note prior to the expiration of the approved extension period (which, except as provided in subdivision (f) under this heading in no event will be longer than three (3) months).

(f) To the extent a refinancing is not approved by FHA, the Authority will or will cause the Mortgage Servicer to (i) file with FHA its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Trustee and the Rating Service(s) and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described under the heading “Remedies under Mortgage and FHA Mortgage Insurance.” To the extent a refinancing cannot be completed within the approved extension period, the Authority will or will cause the Mortgage Servicer to (i) file with FHA its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s), and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described under the heading “Remedies under Mortgage and FHA Mortgage Insurance”; provided, however, that at the option of the Authority, if a refinancing has been arranged and approved within the approved extension period, and such refinancing can be completed within an additional thirty (30) days, at the Authority’s sole discretion, the refinancing will be accepted by the Authority, as mortgagee, if (a) confirmation is received from the Rating Service(s) that the rating on the Applicable Series of Bonds will not be adversely affected, and (b) the Note and Mortgage have not been assigned to FHA. During the period when the Authority can exercise the right set forth in the prior sentence to accept a refinancing, it will not in any way delay the filing and processing of the mortgage insurance claim during the additional thirty (30) day period.

(g) To the extent there is a partial prepayment of the Note pursuant to a refinancing approved in accordance with the provisions described under this heading, the Authority will consent to any subordinate or parity liens on the Mortgaged Property which may be required.

(h) Notwithstanding any other provisions of the HVHC Resolution, to the extent (i) FHA does not immediately pay a claim as requested by the Authority pursuant to subdivision (b)(4) under this heading, (ii) FHA does not process a claim made pursuant to subdivision (b)(5) under this heading, (iii) the Authority does not receive confirmation from the Rating Service(s) that the rating on the Applicable Series of Bonds is not adversely affected as provided in subdivisions (e) and (f) under this heading, or (iv) the processing of the mortgage insurance claim does not proceed in the fashion set forth under this heading, then the Authority will proceed in a manner to preserve the mortgage insurance of the Note and the Mortgage, and otherwise protect the interest of the Bondholders.

(Section 8.06)

Legal Proceedings by Applicable Trustee

(a) If an Event of Default as defined in paragraph (c) under the heading “Events of Default” has occurred, or if an Event of Default as defined in paragraph (e) under the heading “Events of Default” has occurred by reason of a default by the Authority in the performance of its obligations described herein under the headings “Maintenance of Corporate Existence and FHA Mortgagee Status”, “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage”, “Remedies under Mortgage and FHA Mortgage Insurance” and “Monetary

Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note”, the Applicable Trustee will immediately record the assignment of the FHA Documents referred to in subdivision (b) under the heading “Pledge of Trust Revenues”, notify FHA of such assignment and will thereupon succeed to all duties and obligations of the Authority under the terms of such FHA Documents, and all duties and obligations of the Authority with respect to such FHA Documents under the HVHC Resolution and the Applicable Series Resolution, including without limitation the obligations described herein under the headings “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage”, “Remedies under Mortgage and FHA Mortgage Insurance”, “Application of FHA Mortgage Insurance Benefits” and “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note”. The Applicable Trustee may not declare the principal amount of the Bonds of such Series then Outstanding to be due and payable if an Event of Default if an Event of Default as defined in paragraphs (c), (d) or (e) under the heading “Events of Default” has occurred.

(b) If any Event of Default has occurred and is continuing (other than an Event of Default as defined in paragraphs (c), (d) and (e) under the heading “Events of Default” resulting from a default under the Mortgage), or if any event of default occurs in the Institution’s performance of any of its obligations under the Loan Agreement, the Applicable Trustee in its discretion may, and upon the written request of the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds of the Applicable Series then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(i) by suit, action or proceeding at law or in equity, enforce all rights of the Bondholders; and

(ii) if an Event of Default defined in paragraph (a) or (b) under the heading “Events of Default” has occurred and is continuing, bring suit upon the Series of Bonds.

(c) If any proceeding taken by the Applicable Trustee on account of any default is discontinued or is determined adversely to the Applicable Trustee, the Authority, the Institution, the Applicable Trustee and the Holders of the Applicable Series of Bonds shall be restored to their former positions and rights under the Resolution as though no such proceeding had been taken.

(d) The Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series will have the rights, subject to the prior written approval of FHA when necessary, to direct the method and place of conducting all remedial proceedings by the Applicable Trustee, provided such direction will be in accordance with law or the provisions of the HVHC Resolution and the Applicable Trustee will have the right to decline to follow any such direction which in the opinion of the Applicable Trustee would be prejudicial to Bondholders not parties to such direction.

(Section 8.07)

Limitations of Rights of Individual Bondholders

No Holder of any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the HVHC Resolution or under any Series Resolution, or for any other remedy under the HVHC Resolution unless such Holder of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series, or, in the case of an event of default specified in subdivision (c) under the heading “Events of Default,” the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series, shall have made written request to the Applicable Trustee after the right to exercise such powers or right of action, shall have accrued, and shall have afforded the Applicable Trustee a reasonable opportunity either to proceed to exercise the powers granted by the HVHC Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Applicable Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Applicable Trustee shall have refused or neglected to comply with such request within a reasonable time. Under the HVHC Resolution, such notification, request and offer of indemnity are declared in every such case, at the option of the Applicable Trustee, to be conditions precedent to the execution of the powers and trusts of the HVHC Resolution or for any other remedy under the HVHC Resolution.

(Section 8.08)

Modification and Amendment Without Consent

The Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, effective upon the filing with the Applicable Trustee of a certified copy thereof by the Authority:

- (a) To provide for the issuance of a Series of Bonds pursuant to the provisions hereof and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;
- (b) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of any Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the HVHC Resolution;
- (c) To provide for additional security for the payment of the Bonds including, but not limited to, provisions to allow a Bond Insurer to confirm its obligations under a Bond Insurance Policy or Surety Bond;
- (d) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;
- (e) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the HVHC 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 HVHC Resolution;
- (f) 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 HVHC Resolution, or any Applicable Series Resolution, the Applicable Trust Revenues, or any pledge of any other moneys, Securities or funds;
- (g) To modify any of the provisions of the HVHC Resolution or any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modifications will not be effective with respect to any Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution;
- (h) With the consent of any Applicable Trustee, to cure any ambiguity or defect or inconsistent provision in the HVHC Resolution or to insert such provisions clarifying matters or questions arising under the HVHC Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the HVHC Resolution as theretofore in effect, or to modify any of the provisions of the HVHC Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modification will not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect; or
- (i) To amend a Series Resolution previously adopted by the Authority to provide for the issuance of an additional series of bonds under such Series Resolution for the purpose of financing a Capital Addition; provided, however, that such additional bonds may only be issued upon (i) compliance with the provisions of the HVHC Resolution; (ii) written notification from all Rating Service(s) that issuance of such additional series of bonds will not negatively effect the rating for Outstanding Bonds and (iii) to the extent such additional series of bonds are secured by the Mortgage or Note, a Cash Flow Statement shall be prepared.

(Section 10.02)

Supplemental Resolutions Effective With Consent of Bondholders

All other modifications of the HVHC Resolution and a Series Resolution may be made only with at least two-thirds (two-thirds of bonds effected in the case of modification to the amount or date of any sinking fund installment) in principal amount of each Series of Bonds affected thereby except that certain of the modifications relating to changes in the maturity or interest rate on any Bond, among other things, may be made only with the consent of each Holder affected thereby.

(Section 10.03 and Article XI)

Amendment of Loan Agreement

No amendment to the Loan Agreement will be effective between the parties thereto until approved in writing by the Applicable Trustee, who will give such approval if it reasonably determines (in reliance upon an opinion of Counsel, if so required by the Applicable Trustee) that such amendment or supplement is not inconsistent with the HVHC Resolution and would not impair the security of the Applicable Series of Bonds. In the event the Applicable Trustee has made no written response to any such request for approval of an amendment or supplement to a Loan Agreement by the close of business on the 30th day after confirmed receipt by a Trust Officer, the Trustee shall be deemed to have given its approval.

(Section 10.06)

Defeasance

(a) If the Authority will pay or cause to be paid to the Holders of the Bonds of any Series the Applicable principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated in said Bonds, in the HVHC Resolution, and the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Applicable Trust Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the HVHC Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Loan Agreement, the Note, the Mortgage and the Trust Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, will release the lien of the HVHC Resolution and Applicable Series Resolution, but only with respect to such Applicable Series except as it covers moneys and securities provided for the payment of such Bonds, will cancel the Applicable Note and endorse the Applicable Mortgage for cancellation and return the same to the Institution together with a release of the Mortgage in proper form for recordation (unless the Note and Mortgage have been assigned to FHA or pledged for the benefit of the holders of any indebtedness authorized pursuant to the HVHC Resolution or indebtedness issued or incurred to refund the Applicable Series of Bonds in which latter case the Applicable Trustee will deliver and assign such Note and Mortgage to such person as the Institution will direct), and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and will turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds 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 including any amounts due under the Applicable Servicing Agreement; provided that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with the HVHC Resolution or irrevocable instructions to mail such notice shall have been given to the Applicable Trustee.

(b) Bonds of an Applicable Series for which moneys have been set aside and shall be held in trust by the Applicable Trustee for the payment or redemption thereof (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Applicable Trustee, irrevocable instructions to provide notice of redemption on said date of such Bonds, (b) there has been deposited with the Applicable Trustee either moneys, in an amount which will be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Applicable Trustee at the same time, will be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority will have given the Applicable Trustee, irrevocable instructions to provide notice to the Holders of such Bonds, by first class mail, postage prepaid to the registered owners of Bonds of the Applicable Series which are to be redeemed, at their last known address, if any, appearing on the registration

books of the Authority not more than ten (10) Business Days prior to the date such notice is given that the deposit required by (b) above has been made with the Applicable Trustee and that such Bonds are deemed to have been paid in accordance with the provisions under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority will give written notice to the Applicable Trustee of its selection of the maturity for which payment will be made in accordance with the provisions under this heading including the Schedule of Sinking Fund Installments to be set forth in the Bond Series Certificate as the same may be amended by the Authority from time to time. In the event of a redemption of less than all the Outstanding Bonds of an Applicable Series and maturity, the Applicable Trustee will select which Bonds of such Series and maturity, payment of which will be made in accordance with the provisions under this heading in the manner provided in the HVHC Resolution.

(Section 12.01)

**SUMMARY OF CERTAIN PROVISIONS
OF THE LOAN AGREEMENT**

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**SUMMARY OF CERTAIN PROVISIONS
OF THE
LOAN AGREEMENT**

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete and reference is made to the Loan Agreement for all of its provisions. Defined terms used in this Appendix D will have the meanings ascribed to them in Appendix A. Unless otherwise indicated references to section numbers herein refer to sections in the Loan Agreement.

Project Financing

The Authority agrees to use its best efforts to authorize, issue, sell and deliver the Bonds in an aggregate principal amount not exceeding the amount set forth in the Series Resolution. The proceeds of the Bonds shall be applied as specified in the HVHC Resolution, the Series Resolution and the Bond Series Certificate relating to such Bonds.

(Section 4)

Project Construction; Institution's Role

The Institution hereby agrees that it has undertaken and will continue to undertake the acquisition, construction and installation of the Project in accordance with, and subject to, the terms, provisions and covenants of the Building Loan Agreement and the documents executed in connection therewith or required thereby, including, without limiting the foregoing, the plans and specification as approved by FHA, and it will continue to do so until the completion thereof.

(Section 5)

Application of Bond Proceeds

(a) The Authority shall deposit in the Mortgage Account, from the proceeds of the sale of the Bonds an amount equal to the original principal amount of the Note. The Institution shall deposit in the Equity Account the amount equal to the equity, if any, required pursuant to the Applicable FHA documents, less any approved equity advances in the form of cash, a Letter of Credit or any combination thereof as set forth in the Loan Agreement.

(b) The Authority shall deposit in the Reserve Account, from the proceeds of the sale of the Bonds, an amount equal to the Reserve Account Requirement. The Institution shall deposit in the Collateral Account Available Moneys, a Letter of Credit or any combination thereof in an amount equal to the Collateral Account Requirement, if any.

(c) The Authority shall deposit in the Costs of Issuance Account, from the proceeds of the sale of the Bonds initially deposited into the Mortgage Account and from any other source, an amount as specified in the Bond Series Certificate.

(d) The Authority agrees that there shall be remitted to the Institution any sums payable to the Institution from the Construction Fund and the Debt Service Reserve Fund in the amounts and as otherwise provided in the HVHC Resolution. The Authority further agrees that there shall be credited or applied to the reduction of the Letter of Credit deposited to the credit of the Collateral Account, if any, and to interest payments due from the Institution under the Note, and to prepayments of the Note, such sums as are to be so credited or applied at the times and in the manner provided in the HVHC Resolution.

(Section 6)

Payments from Construction Fund

(a) Payments from the Construction Fund shall be made only in accordance with the provisions of the Loan Agreement, the HVHC Resolution, the Series Resolution, the Building Loan Agreement and the Servicing Agreement. Until the conditions for disbursement from the Construction Fund have been met, as specified in the Loan Agreement and in the HVHC Resolution, the Construction Fund shall be held for the benefit of the owners of the Bonds, subject to the provisions of the HVHC Resolution in the event the Note and Mortgage are in default and assigned to FHA.

(b) To the extent not paid from the Construction Fund, the Institution shall pay (i) to the Authority upon its written request, the Costs of Issuance, and (ii) to the Trustee, upon approval of the Authority, its reasonable fees and expenses.

(c) Upon the approval of FHA and an Authorized Officer of the Authority and upon compliance with the applicable provisions of the Building Loan Agreement and the Servicing Agreement, disbursements from the Equity Account and the Mortgage Account of the Construction Fund shall be made by the Trustee to pay directly or to reimburse the Institution for Costs of the Project as directed by Requisitions signed on behalf of the Institution by an Authorized Officer.

(d) The estimated cost of the Project and the Institution's equity contribution are set forth in the Loan Agreement. The Institution will provide for a deposit to the Collateral Account of the Debt Service Reserve Fund and a deposit to the Investment Income Account of the Construction Fund in the amounts set forth in the Loan Agreement. Unless otherwise provided in the Loan Agreement or the HVHC Resolution, the Institution further agrees and certifies that the moneys to be provided by it pursuant to the provisions described under this heading and to it pursuant to the Building Loan Agreement shall be deposited in the Construction Fund and used solely for completing the construction, reconstruction, renovation, equipping and financing of the Project (for such purposes and in such amounts as described in the Loan Agreement), including all necessary and incidental expenditures related thereto, as approved by FHA.

(e) The Authority's obligations to make advances to the Institution under the Building Loan Agreement are governed by the terms of the Building Loan Agreement and other applicable agreements and are not limited by the terms of the Loan Agreement.

(Section 7)

Institution to Complete Payment for Project

No funds of the Authority, other than the proceeds of the Bonds available therefor as provided in the HVHC Resolution, shall be available to pay Costs of the Project. If the moneys in the Mortgage Account available for payment of the Costs of the Project, together with moneys held in the Equity Account, are not sufficient therefor, the Institution shall complete the Project at its own expense unless the Authority, in its sole discretion, has determined to finance such excess Costs by the issuance and sale of additional bonds. The Authority makes no warranty, expressed or implied, that the moneys held in the Construction Fund will be sufficient to pay the Costs of the Project. Whether or not the Institution shall pay any portion of the Costs of the Project pursuant to the provisions described under this heading, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee, the Mortgage Servicer or the Holders of any of the Bonds, nor shall the Institution be entitled to any diminution in or postponement of the payments required to be made by it under the Loan Agreement and under the Note. Notwithstanding anything in the Loan Agreement to the contrary, the provisions described under this heading are not in any way intended to limit or waive any rights of the Authority to the proceeds of any performance bonds or payment bonds to be used to complete the Project.

(Section 8)

Procedure upon Completion of the Project

(a) Upon the completion of the Project in accordance with the Building Loan Agreement and applicable FHA regulations, and the Final Endorsement by the FHA of the Note, the Institution shall furnish to the Trustee, the Mortgage Servicer and the Authority, a certificate of an Authorized Officer certifying that the Project has been substantially completed so as to permit its efficient use in the operations of the Institution, that all insurance required by the Commitment, the Mortgage and the Loan Agreement, is in full force and effect, and that all Costs of the Project have been paid, or stating the amounts to be reserved for the payment of any unpaid Costs.

(b) In the event that the Institution is obligated by the FHA to prepay or reduce the Note in connection with the Project cost certification process and the amounts available in the Construction Fund for application to such prepayment or reduction are less than the amount which the Institution is so obligated to prepay or reduce, the Institution shall promptly pay the amount of such deficiency to the Authority. Any such payment by the Institution whether or not received prior to Final Endorsement, shall together with the amounts available in the Construction Fund be credited as a prepayment or reduction of the principal outstanding amount of the Note and deposited in the Redemption Fund and applied to the Special Mandatory Redemption of Bonds as provided in the HVHC Resolution.

(Section 9)

Prepayments under the Note; Redemption of Bonds

(a) The Institution agrees that, with respect to certain prepayments hereunder and/or certain prepayments of the Note, the following requirements apply. However, the requirements shall not apply if (i) such prepayment is to be made with Net Insurance Proceeds or Net Condemnation Proceeds; (ii) such prepayment is made with borrowed funds, including one or more draws on a letter of credit, which are required by the terms thereof to be applied to such prepayment; (iii) such prepayment is made with the proceeds of refunding bonds; or (iv) the prepayment is to be made pursuant to and in accordance with a final non-appealable order of the United States Bankruptcy Court.

(i) At least one hundred twenty-three (123) days prior to the date on which the redemption of Bonds is to be made from a prepayment of either the Note or the Loan Agreement, the Institution shall (A) give written notice of the proposed prepayment to the Authority, the Trustee and the Mortgage Servicer, specifying the prepayment date and amount to be prepaid, (B) deposit with the Trustee an amount equal to the principal amount of the Note to be prepaid, which deposit shall not be credited as a prepayment of the Note until the redemption date for the Bonds, (C) deposit with the Trustee an amount equal to the premium, if any, required to be paid in connection with any prepayment of the principal of the Note, (D) deposit with the Trustee the Non-Asset Bond Prepayment, if any, sufficient to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds such that, after giving effect to such redemption, the ratio of (i) the aggregate principal amount of Bonds Outstanding less the Reserve Account Requirement to (ii) the outstanding principal amount of the Note is the same, as nearly as practicable, as such ratio immediately prior to such redemption, and (E) deliver an opinion of nationally recognized counsel experienced in bankruptcy matters, addressed to the Authority and the Trustee, to the effect that any payment to the Holders of moneys deposited pursuant to clauses (B), (C), or (D) above would not constitute a transfer which may be avoided under Section 547 or Section 550 of the United States Bankruptcy Code in the event of an Act of Bankruptcy

(ii) The Institution shall deliver to the Trustee a certificate stating that the Institution is not insolvent and that no bankruptcy or insolvency proceedings have been commenced by or against the Institution, and that no threat has been made concerning the commencement of any such proceedings. The certificate shall be dated, signed and delivered not less than ninety (90) days following the date the deposits described in clauses (B), (C) and (D) of subparagraph (i) above are made and at least one day prior to the date the notice of redemption is given; and

(iii) On the redemption date, if the foregoing conditions are satisfied, (A) the deposits made pursuant to clause (B) and clause (C) of subparagraph (i) above shall be credited as a prepayment of principal of and premium on the Note and shall be applied to the reduction of succeeding payments due

under such Note (as recast in the manner provided in the Note over the remaining term thereof), (B) subject to the provisions of the HVHC Resolution, Bonds selected and called for redemption from the prepayment shall be redeemed and (C) any interest and income received upon the investment of the deposits made pursuant to subparagraph (i) above shall be credited to such person as the Institution directs, subject to the requirements of the HVHC Resolution.

(b) If the available amounts in the funds and accounts established under the HVHC Resolution and the Series Resolution are insufficient for the payment of the Redemption Price of the Applicable Series of Bonds called for redemption, including accrued interest on such Bonds to the redemption date and expenses of giving notice and other expenses of such redemption, the Institution shall pay to the Trustee the amount of such deficiency in immediately available funds.

(Section 10)

Payments by the Institution

(a) The Institution covenants to make all payments under the Note on a timely basis.

(b) If at any time and for any reason amounts received by the Authority (as mortgagee under the Mortgage), or by the Mortgage Servicer on account of the payments due under the Note, less the Servicing Fee payable pursuant to the Servicing Agreement, together with all other moneys held by the Trustee and then available under the terms of the HVHC Resolution are not sufficient to pay when due (i) the Trustee's Annual Fee and other fees and expenses and (ii) the Authority's Annual Administrative Fee and other fees and expenses, the Institution will pay to the Trustee the amounts required to make up any such deficiencies as to amounts under clause (i) above and as to the Authority, the amounts required to make up any deficiencies as to the amounts under clause (ii) above.

(c) The Institution shall pay the Authority's Annual Administrative Fee to the Authority. The Institution shall pay promptly to the Trustee the Trustee's Annual Fee to the extent that moneys in the Surplus Account are insufficient therefor.

(d) Within thirty (30) days after notice from the Paying Agent, the Institution shall pay to the Paying Agent or the Co-Paying Agent its reasonable fees and expenses.

(e) The Institution shall pay on or before the date of delivery of the Bonds, the Authority Fee as set forth in the Loan Agreement.

(f) The Institution shall pay, or provide for payment, on or before the date of delivery of the Bonds, the Costs of Issuance of the Bonds and other costs in connection with the issuance of the Bonds.

(g) The Institution shall pay promptly after notice from the Authority, but in any event not later than 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 any expenses or liabilities incurred pursuant to certain indemnity provisions of the Loan Agreement, (iii) to reimburse the Authority for any costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of the Project, including, but not limited to costs and expenses of insurance, auditing and arbitrage analysis and (iv) for the costs and expenses incurred to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement, the Servicing Agreement, the FHA Documents, the Series Resolution and the HVHC Resolution in accordance with the terms thereof, and (v) for the fees and expenses of the Trustee and any Paying Agent in connection with the performance of its duties under the HVHC Resolution and Series Resolution.

(h) In the event the Institution receives notice pursuant to the HVHC Resolution, that as a result of the FHA cost certification process for Final Endorsement the principal amount of the Note is to be reduced in an amount in excess of the amount available in the Construction Fund, the Institution shall promptly pay the Authority the amount necessary to reduce the Note to the amount to be so endorsed.

(i) The Institution shall pay promptly upon demand by the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds or otherwise available therefor under the HVHC Resolution and the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with such Bonds.

(j) In the event the amount or deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Institution shall deposit an amount equal to such deficiency with the Trustee.

(Section 11)

Payments by the Institution; Assignment

As a source of the payments to be made by the Institution under the Loan Agreement, except any payments required under the heading "Payments by the Institution", the Institution shall deliver or cause to be delivered to the Authority the FHA Documents. The Institution also consents to the assignment by the Authority to the Trustee, as provided in the HVHC Resolution, of any or all of the Authority's right, title and interest in and to the Loan Agreement, except for the rights of the Authority to amend the Loan Agreement and to give consents, receive notices and receive indemnity against claims and payment of its fees and expenses. The Institution covenants to fully perform, in timely fashion, all of its agreements and obligations under the Loan Agreement and the FHA Documents.

(Section 12)

Funding of the Equity Account, Collateral Account and the Investment Income Account

In the event that the Authority is required to make a deposit to the Equity Account, the Collateral Account or the Investment Income Account established under the HVHC Resolution and the Series Resolution, the Institution agrees to satisfy such required deposits with Available Moneys or Letters of Credit. To the extent that the Institution provides such Letters of Credit it shall also provide an opinion of counsel acceptable and addressed to the Authority and the Trustee to the effect that such Letters of Credit are valid and enforceable obligations of the issuer thereof and covering such other matters as are required for such purpose. In the event the Institution determines to satisfy such obligations with cash, such cash must constitute Available Moneys. Any such obligation may be met by any combination of Letters of Credit or Available Moneys which satisfy the requirements under this heading.

(Section 13)

Compliance with Governmental Requirements

The Institution shall comply and where applicable shall cause any operator of the Project to comply, with all Governmental Requirements with respect to the Mortgaged Property and the Project, or any part thereof, and the construction, operation, maintenance, repair and replacement thereof and any requirement of an insurance company writing insurance thereon irrespective of the nature of the work required to be done, extraordinary as well as ordinary and foreseen as well as unforeseen. Anything contained under this heading to the contrary notwithstanding, the Institution shall have the right to contest the validity of any Governmental Requirement or the application thereof at the Institution's sole cost and expense. During such contest, compliance with any such contested Governmental Requirement may be deferred by the Institution, provided that prior to commencing any action or proceeding, administrative or judicial, contesting such Governmental Requirement the Institution shall notify the Authority of the Institution's intention to contest such Governmental Requirement and, if the Authority requests, shall furnish to the Authority a surety bond, moneys or other security, reasonably satisfactory to the Authority, securing compliance with the contested Governmental Requirement and payment of all interest, penalties, fines, fees and expenses resulting from or in connection with such contest or the failure of the Institution to comply with the contested Governmental Requirement. Any such action or proceeding instituted by the Institution shall be commenced as soon as is reasonably possible after the assertion of the applicability to the Project or the Mortgaged Property, or any part thereof, of the contested Governmental Requirement by a governmental authority, and shall be prosecuted to final adjudication or other final disposition with reasonable dispatch. Notwithstanding the furnishing of any bond, deposit or other security, the Institution promptly shall comply with any such Governmental Requirement and compliance shall not be deferred if at the time the Mortgaged Property or the Project, or any part thereof, to which such contested Governmental Requirement relates, would in the reasonable judgment of the Authority be in substantial danger by reason of the Institution's noncompliance with such Governmental

Requirement of being sold, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would materially impair (i) the interests or security of the Authority under the Loan Agreement, the HVHC Resolution or the Mortgage; (ii) the ability of the Authority to enforce its rights thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the HVHC Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Mortgage.

(Section 14)

Information Concerning the Institution

The Institution, whenever requested by the Authority, shall provide and certify or cause to be provided and certified: (i) such information concerning the Institution, its finances and other related topics as the Authority reasonably determines to be necessary or desirable, including, but not limited to, such information as in the sole judgment of the Authority is necessary to enable the Authority to complete, execute and deliver an Official Statement relating to and in connection with the sale of the Bonds at the time when the Bonds are to be offered for sale; (ii) that the Institution has reviewed the parts of the Official Statement describing the Institution, the Project, the Mortgaged Property, the sources and uses of the proceeds of the Bonds, and such information as was supplied by the Institution and is contained in the Official Statement; (iii) that as of the dates of sale and delivery of the Bonds such parts of the Official Statement 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 were made, not misleading; (iv) such additional information as the Authority considers necessary to comply with any proposed or promulgated regulations of the Securities and Exchange Commission or the Municipal Securities Rulemaking Board and (v) such additional information as the Authority from time to time reasonably considers necessary or desirable to make any reports or obtain any approvals required by law, governmental regulation or the HVHC Resolution or by the Series Resolution.

(Section 15)

Tax-Exempt Status

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation", as such term is defined in Section 509(a) of the Code; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect and such letter or other notification has not been modified, limited or revoked; (iii) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (iv) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (v) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that: (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project to be used in any manner, or for any trade or business or other non-exempt use unrelated to the purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds if the interest on such Bonds is intended to be excluded from federal gross income.

(Section 16)

Use of Project; Restrictions on Religious Use

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Institution shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Mortgaged Property, (ii) the operation of the Project and all Mortgaged Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Mortgaged Property. All terms of the Regulatory Agreement between the Institution and FHA are incorporated into the Loan Agreement.

The Institution agrees that with respect to the Project or portion thereof financed by the Bonds, so long as the Project or portion thereof exists and unless and until the Project or portion thereof is sold for the fair market

value thereof, the Project or portion thereof financed by the Bonds shall 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 shall not prohibit the free exercise of any religion; and further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof financed by the Bonds to be used without regard to the above stated restriction, said restriction shall not apply to the Project or such portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project, or any portion of real property thereof financed by Bonds, is being used for any purpose proscribed by the Loan Agreement. The Institution further agrees that prior to any disposition of any portion of the Project financed by the Bonds for less than its fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of the portion of such Project to the restriction that (i) so long as such portion of the Project (and, if included in the Project, the real property on or in which such portion of the Project is situated) shall exist and (ii) until such portion of the Project is sold or otherwise transferred to a person who purchases the same for its fair market value at the time of such sale or transfer, such portion of the 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 instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of the Project financed by the Bonds, or, if included in such Project, 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. For the purposes of this heading an involuntary transfer or disposition of the Project or a portion thereof financed by the Bonds, upon foreclosure or otherwise, shall be considered a sale for the fair market value.

(Section 21 and 22)

Insurance

The Institution shall procure and maintain all insurance required by the FHA Documents in accordance with the terms and conditions thereof. In addition, the Institution shall insure against risks normally associated with the operations of similar facilities in the State, including specifically professional liability insurance in an annual aggregate amount of not less than \$2,000,000 and not less than \$1,000,000 per accident or occurrence; general liability insurance in an annual aggregate amount of not less than \$2,000,000 and not less than \$1,000,000 per accident or occurrence; statutory workers compensation and employers liability insurance; fire and extended insurance. In addition to any other form of property insurance, the Institution shall also procure and maintain business income interruption insurance in an amount equal to one year's debt service and extra expense insurance in an amount sufficient to defray extra expenses incurred as a result of a covered loss for a period of not less than 120 days. Boiler and machinery insurance shall also be required if there are any steam heat or pressure vessels used to provide heat to the Project and the vessels are located in or near buildings of the Project. Upon recommendation of an insurance consultant as hereinafter described, the insurance referred to herein may have deductibles and retentions which are deemed to be within the ability of the Institution to self-insure. Subject to the requirements of FHA, no provision described under this heading shall be construed to prohibit the Institution from self-insuring against any risk which might otherwise be covered by insurance at the recommendation of an insurance consultant; provided, however, that the Institution shall provide adequate funding of such self-insurance as directed by such insurance consultant and not objected to by FHA, and no self insurance, other than reasonable deductibles shall be permitted unless approved by the Authority.

The Institution may purchase additional insurance on the Project and the Mortgaged Property for amounts considered adequate by the Institution against direct physical loss or damage from other perils under forms normally available in the State.

The policies procured by the Institution and filed with the Authority shall be open to inspection by the Trustee and the Mortgage Servicer at all reasonable times. Certificates of insurance describing the policies shall be forwarded by the Institution to the Authority at or prior to delivery of the Bonds, and a list describing such policies and certificates as of each June 30 shall be furnished by the Institution to such parties annually, together with a

certificate of an Authorized Officer of the Institution certifying that such insurance meets all the requirements of the Loan Agreement. Neither the Trustee nor the Authority shall have any other responsibilities with respect to any such insurance except as the Institution may be required, at the request of the Authority, to provide copies of such policies and certificates to the Mortgage Servicer for its records.

The Institution agrees to give the Mortgage Servicer, the Authority, FHA and the Trustee written notice of any change in any insurance or insurance policy required by the Loan Agreement or the FHA Documents at least thirty (30) days prior to such change unless a lesser period of notice is expressly approved in writing by the Authority.

On the date of the delivery of the Bonds, the Institution shall designate, with the concurrence of the Authority an insurance consultant, who may be an insurance broker or an insurance agent with whom the Institution, the Mortgage Servicer or the Authority transacts business. The Institution may replace such insurance consultant and appoint a new insurance consultant by giving the Authority at least ten (10) days' written notice, stating the name, address and qualifications of the proposed insurance consultant; and, unless within such ten day period, the Authority shall give the Institution written notice of objection to such appointment, which notice shall state the reasonable grounds upon which it bases such objection, the insurance consultant named in such written notice shall be considered to be acceptable. The insurance consultant shall render, upon the request of the Authority, a report relating to the Institution's compliance with the requirements described under this heading. Such report shall not be required more than once in any one calendar year and shall, upon any such request, be furnished to the Institution, the Trustee and the Mortgage Servicer.

All policies of hazard insurance required by the first paragraph under this heading shall be written in the names of FHA, the Authority (as mortgagee under the Mortgage) and the Institution, as their respective interests may appear, and shall be made payable as provided therein. The policies for such insurance shall not be cancelable without at least 30 days' written notice to the Authority, the Trustee and FHA and shall provide that all losses thereunder which are payable to the Authority shall be paid to the Authority notwithstanding any act or neglect of the Institution or other interested party which might otherwise result in a forfeiture of such insurance.

(Section 25)

Application of Proceeds of Hazard Insurance

(a) Any amounts paid under a contract of hazard insurance paid to the Authority, as mortgagee under the Mortgage shall be applied to the prepayment of the Note if approved in writing by FHA prior to the payment of such proceeds or released for the repairing or replacing of the Mortgaged Property. The Authority shall recover and deliver to the Trustee all proceeds of hazard insurance payable to the mortgagee, for deposit in the Insurance and Condemnation Account of the Construction Fund pending application thereof pursuant to paragraph (c) of this heading.

(b) In the event of any damage to the Project or the Mortgaged Property, the Institution shall immediately notify the Authority, the Trustee, the Mortgage Servicer and FHA, prepare an estimate of the costs of repairing or replacing the damaged property, and (if appropriate) prepare plans and specifications. If the insurance proceeds received exceed one percent of net Plant, Property and Equipment as shown on the Institution's audited financial statements for its most recent fiscal year (the "Threshold Amount"), such estimate and a copy of any such plans and specifications shall be filed with the Authority and FHA.

(c) If, within 90 days from the occurrence of such damage or destruction, the Institution and the Authority agree in writing that the efficient utilization of the Mortgaged Property has not been so impaired that the ability of the Institution, taking into account all financial resources, to make the payments required under the Loan Agreement and the FHA Documents will be materially adversely affected prior to the completion of the replacement or restoration of such property so damaged or destroyed, the proceeds of insurance received by reason of such occurrence (after deducting any reasonable expenses incurred by the Authority or the Institution in collecting the same) and any investment earnings on such proceeds (the "Net Insurance Proceeds") shall, subject to any applicable FHA requirements, be applied to the repair or replacement of the property damaged or destroyed. If no such agreement shall be reached within such 90-day period (or such longer period as the Authority and the Trustee may

agree in writing), all Net Insurance Proceeds shall, subject to the prior written approval of FHA and any other applicable FHA requirements, be credited to prepayment of the principal of the Note in accordance with, and transferred to the Redemption Account for application to the Extraordinary Mandatory Redemption of the Bonds pursuant to the HVHC Resolution. Such Net Insurance Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption.

(d) Notwithstanding the provisions under subdivision (c) above, if at the time of such damage or destruction there are any Non-Asset Bonds Outstanding and the Net Insurance Proceeds are to be applied to the prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee at least 123 days prior to the date on which notice is given for the redemption of Bonds to be made from such prepayment of the Note an amount equal to the Non-Asset Bond Prepayment. The Non-Asset Bond Prepayment shall not be credited as a prepayment of principal of the Note.

(e) If the Net Insurance Proceeds to be applied to the repair or replacement of the property damaged or destroyed exceed the Threshold Amount, such proceeds shall be disbursed by the Trustee from the Insurance and Condemnation Account of the Construction Fund in accordance with the requisition procedure described in the HVHC Resolution upon the approval of FHA, if required. If the Net Insurance Proceeds are equal to or less than the Threshold Amount such proceeds shall, at the request of the Institution and with the approval of the Authority, be paid by the Trustee in accordance with the HVHC Resolution to or upon the order of the Institution, which shall keep them separate from all other funds for application first to pay the costs of repair or replacement of the property damaged or destroyed, second to pay in full any unpaid fees or expenses of the Authority or the Trustee and third subject to any applicable FHA requirements, to any lawful purpose of the Institution. The Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, the repair or replacement of the property damaged or destroyed in accordance with any plans and specifications approved by FHA (if required by the FHA Documents) and shall pay any amounts required for the completion of such repair or replacement if the Net Insurance Proceeds are insufficient therefor.

(Section 26)

Application of Proceeds of Condemnation Compensation

(a) The Mortgage provides that all proceeds of condemnation shall be paid to the Authority (as mortgagee under the Mortgage) to be applied at the option of the Authority and with the prior approval of FHA either to prepayment of the Note or the restoration or repair of the damage to the Mortgaged Property. The Authority (as mortgagee under the Mortgage) shall recover and deliver to the Trustee all condemnation proceeds. Pending the application of such condemnation proceeds pursuant to paragraph (c) below, such condemnation proceeds shall be held by the Trustee in the Insurance and Condemnation Account of the Construction Fund.

(b) Upon the occurrence of any condemnation proceedings with respect to the Mortgaged Property, or any portion thereof, the Institution shall immediately notify the Authority, the Mortgage Servicer and the Trustee.

(c) Any condemnation proceeds (after deducting any reasonable expenses incurred by the Institution, the Mortgage Servicer, or the Authority in collecting the same) and any investment earnings on such proceeds (the "Net Condemnation Proceeds") received from a taking of substantially all of the Mortgaged Property shall subject to any applicable FHA requirements, be applied to prepayment of the principal of the Note.

(d) Any Net Condemnation Proceeds received from a taking of less than substantially all of the Mortgaged Property shall be applied as follows:

(1) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the efficient utilization of the Mortgaged Property has not impaired in any material respect by such taking, then; subject to any applicable FHA documents, all of the Net Condemnation Proceeds shall, whether or not such proceeds are equal to or less than the Threshold Amount, be paid to the Institution;

(2) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the efficient utilization of the Mortgaged Property has been impaired and the repair, rebuilding, restoration, or rearrangement of the Mortgaged Property is not possible so as to restore the operational condition of the Mortgaged

Property to substantially the condition existing immediately preceding such condemnation or if FHA will not permit the Net Condemnation Proceeds to be so applied, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be applied to the prepayment of principal of the Note and transferred by the Trustee to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Bonds pursuant to the HVHC Resolution;

(3) if the Authority (as mortgagee under the Mortgage) in its discretion determines that such repair, rebuilding, restoration or rearrangement is possible and that the efficient utilization of the Mortgaged Property has not been impaired, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be disbursed to the Institution as described in subparagraph (5) below for the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, so as to restore the operational condition thereof, insofar as may be possible, to that existing immediately preceding such condemnation (provided that, if the Net Condemnation Proceeds exceed the Threshold Amount, the estimate of the cost of repair, rebuilding, restoration or rearrangement of the Mortgaged Property and a copy of any plans and specifications prepared in connection therewith shall be filed with the Authority and FHA);

(4) notwithstanding the provisions of subparagraph (2) above, if at the time such Net Condemnation Proceeds are received there are any Non-Asset Bonds Outstanding and the Net Condemnation Proceeds are to be applied to prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee an amount equal to the Non-Asset Bond Prepayment required in connection with the taking or damage in questions, such payment of the Non-Asset Bond Prepayment to be on deposit at least 123 days prior to the date on which notice is given for the redemption of Bonds to be made from such prepayment of the Note. In no event shall the Non-Asset Bond Prepayment be credited as a prepayment of principal of the Note; and

(5) if the Net Condemnation Proceeds are to be applied to the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and if such Net Condemnation Proceeds are greater than the Threshold Amount, such Net Condemnation Proceeds shall be disbursed by the Trustee in accordance with the requisition procedures described in the HVHC Resolution and with the approval of FHA, if required. If such Net Condemnation Proceeds are less than or equal to the Threshold Amount, such Net Condemnation Proceeds shall be paid by the Trustee in accordance with the HVHC Resolution to or upon the order of the Institution and with the approval of the Authority. The Institution shall keep such proceeds separate from all other funds and apply them, first to pay the costs of repair, rebuilding, restoration or rearrangement of the Mortgaged Property, second to full payment of any unpaid fees or expenses of the Authority or the Trustee and third, subject to any applicable FHA requirements, to any lawful purpose of the Institution. In either of such events the Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, such repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and shall pay any amounts required for the completion thereof if the Net Condemnation Proceeds are not sufficient therefor.

(e) Net Condemnation Proceeds to be applied to prepayment of principal of the Note pursuant to paragraph (d) above shall be applied to the reduction of succeeding payments due under the Note (as recast in the manner provided in the Note over the remaining term thereof); provided that such Net Condemnation Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption.

(Section 27)

Defaults and Remedies

Failure by the Institution to observe and perform any covenant, agreement or obligation contained in the Loan Agreement for a period of thirty (30) days after written notice, specifying such failure and requesting the same to be remedied, has been given to the Institution by the Authority or the Trustee, shall constitute an "Event of Default" under the Loan Agreement; provided that if the Authority agrees that such failure is of such nature that it can be corrected within a reasonable time (as determined by the Authority), but not within thirty (30) days, and if the Institution promptly institutes corrective action and is diligently pursuing the same, such failure by the Institution to observe and perform such covenant, agreement or obligation shall not constitute an Event of Default unless it is not cured within such reasonable time (as determined by the Authority).

Upon the occurrence of an Event of Default under the Loan Agreement, in addition to any other rights which the Authority may have under law, the Authority may withhold further performance under the Loan Agreement (including, without limitation withholding further disbursements from the Insurance and Condemnation Account or the Mortgage Account) and may also take whatever action at law or in equity may appear necessary or desirable to enforce the performance and observation by the Institution of any of its obligations, agreements or covenants under the Loan Agreement and to collect any payments due or to obtain other remedies; provided, however, that prior to commencing any action, suit or proceeding under the Loan Agreement against the Institution, the Authority shall have received the prior written consent of FHA, if required by the FHA Documents.

(Sections 35 and 36)

Remedies Cumulative

Subject to the limitations thereon provided in the Loan Agreement, the rights and remedies under the Loan Agreement will be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Institution or to exercise any remedy for any violation thereof will not be taken as a waiver for the future of the right to insist upon strict performance or of the right to exercise any remedy for the violation.

(Section 42)

Arbitrage; Rebate Calculations

The Institution covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or use of the proceeds of the Bonds, which would cause such Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. The Institution shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof to the Department of the Treasury of the United States of America, which shall be subject at all reasonable times to the inspection of the Authority and its agents and representatives, any of whom may make copies thereof. Upon written request therefor from the Authority, the Institution shall as soon as practicable provide the Authority with a copy of any such documents, reports or computations.

(Sections 48 and 49)

Amendments to Loan Agreement and the FHA Documents

The Loan Agreement and the FHA Documents may be amended only in accordance with the HVHC Resolution and any such amendment of any of the foregoing instruments to which the Authority is a party shall be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which shall be filed with the Trustee.

(Section 55)

Termination

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof; provided, however, that the liabilities and obligations of the Institution under the Loan Agreement to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, the Authority shall promptly deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of its duties under the Loan Agreement, including the satisfaction of the Mortgage and the release or surrender of any security interests granted by the Institution to the Authority pursuant thereto.

(Section 57)

FHA Documents Controlling

To the extent that any provision of the Loan Agreement is in conflict with any provision of the FHA Documents, or be in conflict with the National Housing Act or FHA regulations thereunder, the provisions of the FHA Documents or the provisions of the National Housing Act and FHA regulations or written program requirements thereunder, as the case may be, will be controlling.

(Section 58)

**PROPOSED FORM OF APPROVING OPINION OF
BOND COUNSEL TO THE AUTHORITY**

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PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL TO THE AUTHORITY

Upon the delivery of the Series 2007 Bonds, Sidley Austin LLP, Bond Counsel to the Authority, proposes to issue its approving opinion in substantially the following form:

October 11, 2007

Dormitory Authority of the State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by Dormitory Authority of the State of New York (the “Authority”) of its \$75,065,000 principal amount of Hudson Valley Hospital Center FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the “Series 2007 Bonds”).

In such capacity, we have examined the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof, including, but not limited to, the Health Care Financing Consolidation Act and, as incorporated thereby, the New York State Medical Care Facilities Financing Act, being Chapter 392 of the laws of 1973 of the State of New York, as amended (the “Act”), creating the Authority as a body corporate and politic constituting a public benefit corporation of the State of New York. We have also examined a certified record of the proceedings authorizing the execution and delivery of the Loan Agreement (hereinafter mentioned) and showing the adoption on July 25, 2007 of the Dormitory Authority of the State of New York Hudson Valley Hospital Center FHA-Insured Mortgage Hospital Revenue Bond Resolution (the “Bond Resolution”) and of the Dormitory Authority of the State of New York New York Hudson Valley Hospital Center Series Resolution Authorizing Up To \$85,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the “Series 2007 Resolution” and, together with the Bond Resolution, the “Resolutions”), and other such proofs relating to the issuance of the Series 2007 Bonds as we have deemed necessary as a basis for the following opinions.

The Series 2007 Bonds are dated the date of this opinion, mature on February 15 and August 15 of the years and in the respective principal amounts, bear interest, payable on February 15, 2008 and semi-annually thereafter on August 15 and February 15 in each year, at the respective rates per annum and are subject to redemption prior to maturity in the manner and upon the terms and conditions, all as set forth in the Bond Series Certificate of the Authority with respect to the Series 2007 Bonds and in the Resolutions.

The Series 2007 Bonds are secured by the funds and accounts held under the Resolutions and a pledge of revenues received by the Authority under a Loan Agreement, dated as of July 25, 2007 (the “Loan Agreement”), with the Hudson Valley Hospital Center (the “Institution”). The proceeds of the Series 2007 Bonds will be loaned to the Institution to finance the Project, as defined in the Resolutions.

From such examination, 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 bonds, including the Series 2007 Bonds, thereunder.

2. The Bond Resolution and the Series 2007 Resolution have been duly and lawfully adopted by the Authority, and the Series 2007 Resolution is authorized and permitted by and has been adopted in accordance with the provisions of the Bond Resolution. The Resolutions are in full force and effect, and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2007 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2007 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Institution, constitutes the legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

5. The Resolutions validly pledge and assign the revenues received by the Authority under the Loan Agreement, and the monies, securities and funds held or set aside under the Resolutions, subject to the application thereof to the purposes and on the conditions permitted by the Resolutions, including the payments of the principal of and interest on the Series 2007 Bonds.

6. Assuming compliance by the Institution and the Authority with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2007 Bonds is not includable in the gross income of the owners of the Series 2007 Bonds for purposes of federal income taxation under existing law. Interest on the Series 2007 Bonds is not a specific preference item in calculating the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be included in the computation of the alternative minimum tax on corporations imposed by the Code. Failure by the Institution or the Authority to comply, subsequent to the issuance of the Series 2007 Bonds, with its covenants to comply with the provisions of the Code regarding use, expenditure and investment of proceeds of the Series 2007 Bond and the timely payment of certain investment earnings to the United States Treasury may cause interest on the Series 2007 Bonds to be includable in gross income for federal income tax purposes retroactive to their date of issuance. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of such Series 2007 Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income. The Institution and the Authority have covenanted, among other things, not to take any action that would cause interest on the Series 2007 Bonds to be includable in the gross income of the holders thereof for federal tax purposes.

7. Interest on the Series 2007 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions.

We have examined a fully executed Series 2007 Bond and, in our opinion, the form of said Bond and its execution are regular and proper.

The opinions contained in paragraphs 2, 3, 4 and 5 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement and the Series 2007 Bonds against the Authority may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. In rendering the opinion in paragraph 6 above, we have relied upon the representations made by the Institution with respect to certain material facts within the knowledge of the Institution, which facts and representations we have not independently verified and upon the accompanying opinion of Dennett Law Offices, P.C., Great Neck, New York, counsel for the Institution, that the Institution is exempt from federal income taxation under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code. Our opinion in paragraph 6 above with respect to the exclusion from gross income of the interest on the Series 2007 Bonds for federal income tax purposes may not be relied on to the extent that such exclusion is adversely affected as a result of any action taken in reliance upon an opinion of counsel other than this firm delivered subsequent to the issuance of the Series 2007 Bonds. Other than as described herein, we have not addressed and we are not opining on the tax consequences to any investor of the investment in, the ownership or disposition of or receipt of the interest on, the Series 2007 Bonds.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Loan Agreement by the Institution.

Respectfully submitted,

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SPECIMEN INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day, otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

