



\$65,390,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MOUNT SINAI HOSPITAL OBLIGATED GROUP REVENUE BONDS,
SERIES 2011A

Dated: Date of Delivery

Due: July 1, as shown on the inside cover

Payment and Security: The Mount Sinai Hospital Obligated Group Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable from and secured by a pledge of (i) the payments to be made under the Amended and Restated Loan Agreement, dated as of March 31, 2010, as amended and supplemented by Supplement No. 1 to the Amended and Restated Loan Agreement, dated as of September 21, 2011 (collectively, the "Loan Agreement"), between the Authority and The Mount Sinai Hospital (the "Institution"), (ii) the hereinafter defined Series 2011A Obligation, and (iii) the funds and accounts (except the Arbitrage Rebate Fund) authorized by the Authority's Mount Sinai Hospital Obligated Group Revenue Bond Resolution, adopted by the Authority on March 31, 2010 (the "Resolution"), and established under the Authority's Series 2011A Resolution Authorizing Up To \$75,000,000 Mount Sinai Obligated Group Revenue Bonds, Series 2011A adopted on September 21, 2011 (the "Series 2011A Resolution").

Payment of the principal of and interest on the Series 2011A Bonds, when due, is secured by payments to be made pursuant to an obligation (the "Series 2011A Obligation"), issued by the Institution as the sole Member of the Obligated Group pursuant to a Master Trust Indenture, dated as of June 1, 2010 (as supplemented, the "Master Indenture"), by and between the Institution and The Bank of New York Mellon, as Master Trustee. The Institution is currently the sole Member of the Obligated Group established under the Master Indenture.

The Institution's obligations under the Loan Agreement and the Series 2011A Obligation are general obligations of the Institution. The Loan Agreement requires the Institution to pay, in addition to the fees and expenses of the Authority and The Bank of New York Mellon, as Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, or Redemption Price, if any, of and interest on the Series 2011A Bonds, as such payments shall become due, to maintain the Debt Service Reserve Fund for the Series 2011A Bonds at its requirement and to make payments due under the Series 2011A Obligation. At the time of delivery of the Series 2011A Bonds, an amount equal to the Debt Service Reserve Fund Requirement for the Series 2011A Bonds will be deposited into the Debt Service Reserve Fund.

The Series 2011A Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2011A Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2011A Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2012, and will be payable at the principal corporate trust office of The Bank of New York Mellon, as Trustee, by check or draft mailed to the registered owner thereof. See "PART 3 - THE SERIES 2011A BONDS" herein.

The Series 2011A Bonds will be initially issued under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2011A Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2011A Bonds, payments of the principal and Redemption Price of and interest on such Series 2011A 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 2011A BONDS- Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Optional Redemption: *The Series 2011A Bonds are subject to redemption and purchase in lieu of optional redemption prior to maturity as more fully described herein.*

Tax Exemption: In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2011A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Series 2011A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2011A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011A Bonds. See "PART 12 - TAX MATTERS" herein.

The Series 2011A Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2011A Bonds is subject to prior sale or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Institution by Michael G. Macdonald, Esq., its Executive Vice President and General Counsel, and by the Institution's Special Counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Bryan Cave LLP, Kansas City, Missouri. The Authority expects to deliver the Series 2011A Bonds in definitive form in New York, New York on or about October 27, 2011.

Goldman, Sachs & Co.

BofA Merrill Lynch
RBC Capital Markets

Citi
Rice Financial Products Company

\$65,390,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MOUNT SINAI HOSPITAL OBLIGATED GROUP REVENUE BONDS,
SERIES 2011A

Maturity Schedule

<u>Due July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP¹ Number</u>	<u>Due July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP¹ Number</u>
2012	\$ 715,000	3.00%	0.73%	649906LM4	2018	\$1,345,000	5.00%	3.29%	649906LT9
2013	1,075,000	4.00	1.33	649906LN2	2019	1,415,000	5.00	3.63	649906LU6
2014	1,120,000	4.00	1.76	649906LP7	2020	1,485,000	5.00	3.87	649906LV4
2015	1,165,000	5.00	2.20	649906LQ5	2021	1,560,000	4.00	3.98	649906LW2
2016	1,220,000	5.00	2.63	649906LR3	2022	1,625,000	5.00	4.12 ⁺	649906LX0
2017	1,285,000	5.00	2.95	649906LS1	2023	1,705,000	5.00	4.25 ⁺	649906LY8
\$5,615,000 4.50% Term Bonds Due July 1, 2026 Yield 4.65% CUSIP¹ Number 649906LZ5									
\$11,285,000 5.00% Term Bonds Due July 1, 2031 Price 100% CUSIP¹ Number 649906MA9									
\$11,240,000 5.00% Term Bonds Due July 1, 2035 Yield 5.05% CUSIP¹ Number 649906MC5									
\$21,535,000 5.00% Term Bonds Due July 1, 2041 Yield 5.08% CUSIP¹ Number 649906MB7									

¹ 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 2011A 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 2011A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2011A 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 2011A Bonds.

⁺ Yield to first optional call date on July 1, 2021.

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 2011A Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the Institution or the Underwriters.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be an offer, reoffer or sale of the Series 2011A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, reoffer, solicitation or sale.

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

The Institution has reviewed the parts of this Official Statement describing the Institution, the Obligated Group and the Master Indenture, including but not limited to "PART 1 - INTRODUCTION", "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS", "PART 4 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS", "PART 5 - ESTIMATED SOURCES AND USES OF FUNDS", "PART 6 - THE FINANCING PLAN", "PART 7 - THE MOUNT SINAI HOSPITAL", "PART 8 - RISK FACTORS AND REGULATORY CHANGES THAT MAY AFFECT THE OBLIGATED GROUP", "PART 18 - CONTINUING DISCLOSURE" and Appendix B-1 and Appendix B-2. The Institution shall certify as of the dates of offering and delivery of the Series 2011A Bonds that such parts of this Official Statement relating to the Institution do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but none of the Underwriters guarantees the accuracy or completeness of such information.

References in this Official Statement to the Act (as defined herein), the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage (as defined herein), the Master Indenture and the Series 2011A Obligation do not purport to be complete. Refer to the Act, the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture and the Series 2011A Obligation for full and complete details of their provisions. Copies of the Act, the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture and the Series 2011A Obligation are on file with the Authority and the Trustee.

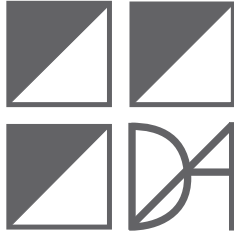
The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2011A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2011A 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
PAUL T. WILLIAMS, JR. - PRESIDENT

515 BROADWAY, ALBANY, N.Y. 12207
ALFONSO L. CARNEY, ESQ. - CHAIR

OFFICIAL STATEMENT RELATING TO
\$65,390,000
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
MOUNT SINAI HOSPITAL OBLIGATED GROUP
REVENUE BONDS, SERIES 2011A

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and inside cover page hereto, is to provide information about the Dormitory Authority of the State of New York (the “Authority”) and The Mount Sinai Hospital (the “Institution”) in connection with the offering by the Authority of \$65,390,000 aggregate principal amount of its Mount Sinai Hospital Obligated Group Revenue Bonds, Series 2011A (the “Series 2011A Bonds”).

The following is a brief description of certain information concerning the Series 2011A 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 2011A Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A and Appendix E hereto.

Purpose of the Issue

The proceeds of the Series 2011A Bonds will be loaned by the Authority to the Institution and, together with other available funds, are expected to be used to provide funds to finance certain health care facilities of the Institution, including the construction, renovation and equipping of certain floors of the Center for Science and Medicine. Proceeds of the Series 2011A Bonds will also be used to make a deposit to the Debt Service Reserve Fund, to pay a portion of the interest on the Series 2011A Bonds and to pay a portion of the Costs of Issuance of the Series 2011A Bonds. See “PART 5 - ESTIMATED SOURCES AND USES OF FUNDS” and “PART 6 - THE FINANCING PLAN.”

Authorization of Issuance

The Series 2011A Bonds will be issued pursuant to the Authority’s Mount Sinai Hospital Obligated Group Revenue Bond Resolution adopted by the Authority on March 31, 2010 (the “Resolution”), and the

Series 2011A Resolution Authorizing Up to \$75,000,000 Mount Sinai Obligated Group Revenue Bonds, Series 2011A adopted by the Authority on September 21, 2011 (the “Series 2011A Resolution”), and the Act.

Additional Bonds may in the future be issued pursuant to the Resolution and each such Series of Bonds shall be separately secured by (i) the funds and accounts established pursuant to the applicable Series Resolution, and (ii) the applicable Obligation (as defined herein) to be issued by the Obligated Group pursuant to the Master Trust Indenture, dated as of June 1, 2010, as supplemented (the “Master Indenture”), by and between the Institution (and any future Members of the Obligated Group) and The Bank of New York Mellon, as Master Trustee (the “Master Trustee”). The Series 2011A Bonds, the Series 2010A Bonds (as defined below) and all additional Series of Bonds hereafter issued pursuant to the Resolution are referred to herein as the “Bonds.” See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS.”

The proceeds of the Series 2011A Bonds will be loaned by the Authority to the Institution pursuant to the Amended and Restated Loan Agreement, dated as of March 31, 2010, as supplemented by Supplement No. 1 to the Amended and Restated Loan Agreement, dated as of September 21, 2011 (collectively, the “Loan Agreement”), each by and between the Authority and the Institution. The repayment obligations of the Institution under the Loan Agreement are secured by the hereinafter defined Series 2011A Obligation issued by the Institution as the sole Member of the Obligated Group under the Master Indenture.

The Series 2011A Bonds

The Series 2011A Bonds will be dated their date of delivery, and will accrue interest from their date at the rates, and will mature at the times, as set forth on the inside cover page hereof. Interest on the Series 2011A Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2012. See “PART 3 - THE SERIES 2011A BONDS - Description of the Series 2011A Bonds.”

The Authority

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

The Institution

The Mount Sinai Hospital is an acute care teaching hospital located on the Upper East Side of Manhattan. Founded in 1852 as Jews’ Hospital to serve New York’s Jewish population, Mount Sinai opened its doors to other groups during the Civil War and has since remained a nonsectarian hospital. In June 1999, the Institution purchased substantially all of the assets of Astoria General Hospital, Inc. d/b/a Western Queens Community Hospital. This facility is now known as The Mount Sinai Hospital of Queens and is a division of the Institution, operating under the Institution’s operating certificate. The Institution is a stand-alone, tax-exempt New York not-for-profit corporation.

The Institution is the sole Member of the Obligated Group under the Master Indenture. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Obligations under the Master Indenture.” Subject to the conditions thereto set forth in the Master Indenture, in the future additional entities may become Members of the Obligated Group.

See “PART 7 - THE MOUNT SINAI HOSPITAL”, “Appendix B-1 – Consolidated Financial Statements of The Mount Sinai Hospital as of December 31, 2010 and 2009 and for the years then ended” and “Appendix B-2 – Unaudited Consolidated Financial Statements of The Mount Sinai Hospital as of June 30, 2011 and 2010 and for the six-month periods then ended.”

Payment of the Bonds

The Series 2011A Bonds and all Series of Bonds previously or hereafter issued under the Resolution are and will be special obligations of the Authority payable solely from the applicable Revenues. The Revenues include certain payments to be made by the Institution under the Loan Agreement or to be made by the Institution, as the sole Member of the Obligated Group, on the Obligations of the Obligated Group issued under the Master Indenture, which payments are pledged and assigned to the Trustee. The Institution's payment obligations under the Loan Agreement with respect to the Series 2011A Bonds are general obligations of the Institution and are secured by the Series 2011A Obligation. The Series 2011A Obligation is secured by a security interest in the Gross Receipts of the Institution on a parity with all the Prior Obligations (as defined herein) and any other Obligations issued under the Master Indenture. The Series 2011A Obligation will also be secured by the 2011A Mortgage (as hereinafter defined) on the Institution's "core" hospital facilities as of the date of issuance of the Series 2011A Bonds. Pursuant to the Master Indenture, all Obligations issued thereunder will be secured a mortgage, with all proceeds realized from such security to be applied, proportionally and ratably, to all Obligations issued under the Master Indenture. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Payment of the Series 2011A Bonds," and "- Obligations under the Master Indenture."

Security for the Bonds

Each Series of the Bonds is and will be separately secured by the pledge and assignment made by the Authority pursuant to the Resolution to the Trustee of the Revenues applicable to such Series and all funds and accounts authorized by the Resolution and established under the respective Series Resolution (with the exception of the Arbitrage Rebate Fund), which includes a separate Debt Service Reserve Fund for the Series 2011A Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Security for the Series 2011A Bonds" and "Obligations under the Master Indenture - The Mortgage" and "Appendix E - Summary of Certain Provisions of the Master Indenture."

In addition, payment when due on the Series 2011A Bonds, and payment when due of the payment obligations of the Institution to the Authority under the Loan Agreement, is secured by an Obligation (the "Series 2011A Obligation") issued pursuant to the Master Indenture and the applicable Supplemental Indenture thereto. The Master Indenture constitutes a joint and several obligation of each Member of the Obligated Group to repay all obligations issued under the Master Indenture (each an "Obligation"), including the Series 2011A Obligation. **The Institution is currently the sole Member of the Obligated Group.** The obligation of the Institution and any future Member of the Obligated Group to make the payment required by the Master Indenture with respect to the Series 2011A Obligation and all other Obligations are secured by a security interest in the Gross Receipts of the Institution and any future Member of the Obligated Group and by the Mortgage. Gross Receipts do not include, among other things, revenue derived from property that does not constitute "Health Care Facilities" (*i.e.*, "Excluded Property"), as such terms are defined in the Master Indenture. The Series 2011A Obligation will be registered in the name of the Authority and shall be assigned to the Trustee upon (i) the occurrence of an Event of Default under the Resolution (other than an Event of Default resulting from a default by the Authority in the due and punctual performance of the tax covenants contained in the Resolution) and (ii) the written request of the Trustee. The issuance of future Obligations is subject to the satisfaction of certain financial covenants set forth in the Master Indenture which bind all Members of the Obligated Group, as described in "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Obligations under the Master Indenture" and "Appendix E - Summary of Certain Provisions of the Master Indenture."

Pursuant to the terms of the Master Indenture, the Institution has previously issued (i) its Obligation No. 1 (the "Series 2010A Obligation") to secure its payment obligations to the Authority with respect to the Authority's Mount Sinai Hospital Obligated Group Revenue Bonds, Series 2010A (the "Series 2010A Bonds") originally issued and currently outstanding in the aggregate principal amount of \$331,195,000 and (ii) its Obligation No. 2 (the "2010 Taxable Obligation," together with the Series 2010A Obligation, the "Prior

Obligations””) to secure its payable obligations with respect to the Institution’s The Mount Sinai Hospital Taxable Bonds, Series 2010 (the “2010 Taxable Bonds”) originally issued in the aggregate principal amount of \$28,495,000 and currently outstanding in the aggregate principal amount of \$13,242,000.

The Institution and any future Members of the Obligated Group, upon compliance with the terms and conditions and for the purposes described in the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a joint and several obligation of the Institution and any future Member of the Obligated Group on a parity with the Series 2011A Obligation and all other Obligations outstanding under the Master Indenture with respect to the Gross Receipts and the Mortgage. See “Appendix E - Summary of Certain Provisions of the Master Indenture.” Such other Indebtedness, if not so evidenced by an Obligation issued under the Master Trust Indenture, would constitute a debt solely of the individual Member of the Obligated Group incurring such Indebtedness, and not a joint and several obligation of the entire Obligated Group and, therefore, would not be entitled to the benefits of the Master Indenture. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Obligations under the Master Indenture” and “Appendix E - Summary of Certain Provisions of the Master Indenture.”

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds issued pursuant to the Resolution for the benefit of the Institution and any other future Members of the Obligated Group. The holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the holders of Bonds of any other Series. Each Series of Additional Bonds shall be secured by a separate Obligation issued under the Master Indenture. For a more complete discussion of the security for the Series 2011A Bonds, see “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Security for the Series 2011A Bonds.”

The Series 2011A Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

The Mortgage

Upon the issuance of the Series 2011A Obligation, a mortgage will be granted to the Master Trustee to secure the Series 2011A Obligation. All indebtedness under the Master Indenture is secured by the Institution’s primary hospital facilities and, pursuant to the terms of the Master Indenture, all Obligations issued under the Master Indenture are secured on a parity, regardless of the order of recording or priority of any of the various mortgages granted to secure such Obligations.

The Institution’s payment obligations on the Obligations issued under the Master Indenture, including the Series 2011A Obligation, are secured by a mortgage and a security interest in certain fixtures, furnishings and equipment now or hereafter owned by the Institution and located on or at property mortgaged thereunder or used in connection with such mortgage. Pursuant to the Master Indenture, future Obligations issued thereunder will be secured by a new mortgage or an amendment to a mortgage granted to secure then existing Obligations, with all proceeds realized from mortgages granted under the Master Indenture to be applied proportionally and ratably to all Obligations issued under the Master Indenture. In addition, the Master Trustee is permitted to release or subordinate certain portions of the Mortgaged Property from the lien of a mortgage under certain conditions set forth in the Master Indenture; provided, that so long as the Series 2011A Bonds are outstanding, the Master Trustee (i) may not amend the 2011A Mortgage (as hereinafter defined) or release or subordinate the 2011A Mortgage in whole or in part without the consent of the Authority, and (ii) will, upon the direction of the Authority, consent to the release or subordination, in whole or in part, of the 2011A Mortgage as the Authority deems reasonably necessary or appropriate; provided, further, however, Mortgaged Property that constitutes “Health Care Facilities” at the time of the proposed release may not be released in whole or in part (other than with respect to Permitted Liens under the Master Indenture) from the lien of the 2011A Mortgage required under the Supplemental Indenture for the Series 2011A Obligation

without the prior written consent of the holders of fifty-one percent (51%) of the principal amount of the then Outstanding Series 2011A Bonds under such Supplemental Indenture and, for so long as the Series 2011A Obligation and/or the Series 2011A Bonds remain Outstanding, the Authority. See “PART 2 SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS Obligations under the Master Indenture - The Mortgage” and “Appendix E - Summary of Certain Provisions of the Master Indenture - Supplemental Provisions relating to the Series 2011A Obligation and the Taxable Bonds Obligation - Mortgages.”

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2011A Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture and the Series 2011A Obligation. Copies of the Act, the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture and the Series 2011A Obligation are on file with the Authority and the Trustee. See also “Appendix C - Summary of Certain Provisions of the Loan Agreement,” “Appendix D - Summary of Certain Provisions of the Resolution” and “Appendix E - Summary of Certain Provisions of the Master Indenture”, for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2011A Bonds

The Series 2011A Bonds issued under the Resolution are special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the Series 2011A Bonds are payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established by the Series 2011A Resolution. The Revenues consist of the payments required to be made by the Institution under the Loan Agreement or to be made by the Obligated Group under the Series 2011A Obligation to be issued with respect to the Series 2011A Bonds on account of the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2011A Bonds and to maintain the Debt Service Reserve Fund at its requirement. The Revenues have been assigned by the Authority to the Trustee for the benefit of the holders of the Series 2011A Bonds.

The Institution’s obligations under the Loan Agreement and under the Series 2011A Obligation are general obligations of the Institution. The Authority has directed the Institution, and the Institution has agreed, to make the payments under the Loan Agreement directly to the Trustee. Any payments made on the Series 2011A Obligation shall also be made directly to the Trustee. The Loan Agreement obligates the Institution to make payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the Series 2011A Bonds thirty (30) days before they become due, and to make any payments due under the Series 2011A Obligation. Each semi-annual interest payment is to be equal to the interest coming due on the next succeeding interest payment date. Each annual payment of principal and Sinking Fund Installments is to be equal to the principal and Sinking Fund Installment coming due on the next succeeding principal or sinking fund payment date. See “PART 3 - THE SERIES 2011A BONDS - Redemption and Purchase in Lieu of Optional Redemption Provisions.”

Security for the Series 2011A Bonds

The Series 2011A Bonds will be secured by the payments described above to be made under the Loan Agreement, all funds and accounts authorized under the Resolution and established by the Series 2011A Resolution (with the exception of the Arbitrage Rebate Fund), and payments to be made by the Obligated Group under the Series 2011A Obligation. Pursuant to the terms of the Resolution, the funds and accounts established and pledged by the Series 2011A Resolution secure only the Series 2011A Bonds, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. See “Appendix D - Summary of Certain Provisions of the Resolution.”

Debt Service Reserve Fund

The Series 2011A Resolution establishes a separate Debt Service Reserve Fund to be funded at the time of the delivery of the Series 2011A Bonds. The Debt Service Reserve Fund is to be funded in an amount equal to the Debt Service Reserve Fund Requirement for the Series 2011A Bonds. See “Appendix A – Certain Definitions” for the definition of the Debt Service Reserve Fund Requirement. The Debt Service Reserve Fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the Series 2011A Bonds. Any payments to be made by the Institution to restore the Debt Service Reserve Fund are to be made directly to the Trustee for deposit to the Debt Service Reserve Fund. See “Appendix D - Summary of Certain Provisions of the Resolution.”

Moneys in the Debt Service Reserve Fund are to be withdrawn and deposited in the Debt Service Fund whenever the amount in the Debt Service Fund, on the fourth (4th) Business Day prior to an interest or principal payment date for the Series 2011A Bonds, is less than the amount that is necessary to pay the principal and Sinking Fund Installments of and interest on the Series 2011A Bonds payable on such interest or principal payment date and Redemption Price or purchase price of such Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption. The Resolution requires that the Institution restore the Debt Service Reserve Fund to its requirement by paying the amount of any deficiency to the Trustee within five (5) days after receiving notice of a deficiency. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement may be withdrawn and applied in accordance with the Resolution. See “Appendix D - Summary of Certain Provisions of the Resolution - Debt Service Reserve Fund.”

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

The Series 2011A Obligation

Payment of the principal of, redemption price of or purchase price in lieu of optional redemption and interest on the Series 2011A Bonds when due, and payment when due of the obligations of the Institution to the Authority under the Loan Agreement, will be secured by payments made by the Institution pursuant to the Series 2011A Obligation. The Series 2011A Obligation will be issued to the Authority, which will assign all payments under the Series 2011A Obligation to the Trustee for the benefit of the Bondholders. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS - Obligations under the Master Indenture” herein.

Events of Default and Acceleration under the Resolution

The following constitute events of default under the Resolution with respect to the Series 2011A Bonds: (i) a default by the Authority in the payment when due of the principal, Sinking Fund Installments or Redemption Price, if any, of or interest on any Series 2011A Bond; (ii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the Series 2011A Bonds or in the Resolution or in the Series 2011A Resolution which continues for thirty (30) days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee’s discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof); (iii) a default by the Authority in the due and punctual performance of any applicable tax covenant which results in the loss of the exclusion of interest on the Series 2011A Bonds from gross income under the Code; or (iv) an “Event of Default,” as defined in the Loan Agreement, shall have occurred and is continuing and all sums payable by the

Institution under the Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of the Institution to make payment under the Loan Agreement shall not constitute an Event of Default under the Loan Agreement if timely payment of the Series 2011A Obligation is made by the Obligated Group in place of the payment due under the Loan Agreement. If the Obligated Group defaults under the Master Trust Indenture or under any Obligation issued thereunder, such default shall constitute an Event of Default under the Loan Agreement. Unless all sums payable by the Institution under the Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an event of default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default occurs and continues (except with respect to a default described in clause (iii) above), the Trustee shall, upon the written request of the holders of not less than 25% in principal amount of the Series 2011A Bonds, by written notice to the Authority, declare the principal of and interest on the Series 2011A Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of such notice, such principal, Sinking Fund Installments and interest shall become immediately due and payable. The Trustee shall, with the written consent of the holders of not less than 25% in principal amount of Series 2011A Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the holders within thirty (30) days, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, Sinking Fund Installment or Redemption Price of, or interest on, any of the Series 2011A Bonds, the Trustee shall be protected in withholding such notice thereof to the holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the holders of the Series 2011A Bonds.

Additional Bonds

In addition to the Series 2011A Bonds, the Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other specified purposes including refunding Outstanding Bonds or other notes or bonds issued on behalf of any Member of the Obligated Group.

Obligations under the Master Indenture

General

In addition to other sources of payment described herein, principal of, redemption price of, purchase price in lieu of optional redemption, and interest and any redemption premium on the Series 2011A Bonds will be payable from moneys paid by the Institution and any other future Members of the Obligated Group pursuant to the Series 2011A Obligation. The Series 2011A Obligation will be issued to the Authority, which will assign all payments under the Series 2011A Obligation to the Trustee as security for the payment of the principal of, redemption price of, purchase price in lieu of optional redemption, and interest on the Series 2011A Bonds. Concurrently with the issuance of the Series 2011A Bonds, the Obligated Group will issue its Series 2011A Obligation pursuant to the Master Indenture.

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

the disposition of assets, the addition of Members of the Obligated Group and the withdrawal of Members from the Obligated Group.

THE MASTER INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE SERIES 2011A OBLIGATION (*I.E.*, THE MORTGAGE AND THE GROSS RECEIPTS PLEDGE) ON A PARITY WITH SUCH OBLIGATIONS, AND IN CERTAIN CIRCUMSTANCES THE LIEN ON GROSS RECEIPTS MAY BE RELEASED IN PART TO SECURE SHORT-TERM INDEBTEDNESS OR TO IMPLEMENT A SALE OF SUCH GROSS RECEIPTS, AND THE LIEN OF THE MORTGAGE MAY BE RELEASED IN WHOLE OR IN PART. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE TRUSTEE FOR THE SECURITY OF THE SERIES 2011A BONDS.

Security for the Series 2011A Obligation

Pursuant to the Master Indenture, each Obligation issued thereunder will be a joint and several general obligation of the Institution and any future Member of the Obligated Group. Under the Master Indenture, the Members of the Obligated Group may not create or suffer to be created any Lien on Property other than Permitted Liens. Among other Permitted Liens, the Liens created by the Mortgage and by the pledge of Gross Receipts are Permitted Liens. The liens created by the Mortgage include security interests in the Mortgaged Property. Other Permitted Liens include liens on equipment purchased with permitted Indebtedness or Derivative Agreements, any lien on Property not to exceed 20% of Total Operating Revenues and any lien on Excluded Property, as further described in “Appendix E - Summary of Certain Provisions of the Master Indenture - Limitations on Creation of Liens”. The enforcement of the Obligations may be limited by (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and (v) federal bankruptcy laws, State of New York receivership or fraudulent conveyance laws or similar laws affecting creditors’ rights that may affect the enforceability of the Master Indenture. See “PART 8 - RISK FACTORS AND REGULATORY CHANGES THAT MAY AFFECT THE OBLIGATED GROUP - Enforceability of the Master Indenture.”

Security Interest in Gross Receipts

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

“Excluded Property” means any Property that is not Health Care Facilities of the Obligated Group; “Health Care Facilities” means Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services (any facility whose primary function or functions is other than providing health care services and which has incidental health care services provided on its premises shall not be deemed to be Health Care Facilities); and “Property” means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible or intangible and wherever situated.

The Mortgage

To secure payments required to be made by the Institution under the Prior Obligations, the Master Trustee was granted a mortgage (the “Prior Mortgage”) on certain mortgaged property (the “Prior Mortgaged Property”), which Prior Mortgage includes a security interest in certain fixtures, furnishings and equipment located thereon. The Prior Mortgaged Property under the Prior Mortgage included the “core” hospital facilities of the Institution as of the date of such Prior Mortgage. To secure payments required to be made by the Institution under the Series 2011A Obligation, the Institution will grant the Master Trustee mortgages (collectively, the “2011A Mortgage,” and, together with the Prior Mortgage, the “Mortgage”) on the Prior Mortgaged Property and on the portion of the Center for Science and Medicine Building (as hereinafter defined) leased to the Institution (the “Additional Mortgaged Property,” and, together with the Prior Mortgaged Property, the “Mortgaged Property”), which 2011A Mortgage also includes a security interest in certain fixtures, furnishings and equipment located thereon. In addition, in connection with the issuance of the Series 2011A Bonds, the Prior Mortgage will be spread to encumber the Additional Mortgaged Property, resulting in the Prior Mortgage and the 2011A Mortgage each encumbering the “core” hospital facilities of the Institution as of the date of issuance of the Series 2011A Bonds. Pursuant to the Master Indenture, future Obligations issued thereunder will be secured by a new mortgage or an amendment to a mortgage granted to secure then existing Obligations, with all proceeds realized from such security, the Prior Mortgage and the 2011A Mortgage to be applied proportionally and ratably to all Obligations issued under the Master Indenture. In addition, the Master Trustee is permitted to release or subordinate certain portions of the Mortgaged Property under certain conditions set forth in the Master Indenture; provided, that so long as the Series 2011A Bonds are outstanding, the Master Trustee (i) may not amend the 2011A Mortgage or release or subordinate the 2011A Mortgage in whole or in part without the consent of the Authority, and (ii) will, upon the direction of the Authority, consent to the release or subordination of the 2011A Mortgage, in whole or in part, as the Authority deems reasonably necessary or appropriate; provided, further, however, Mortgaged Property that constitutes “Health Care Facilities” at the time of the proposed release may not be released in whole or in part (other than with respect to Permitted Liens under the Master Indenture) from the lien of the 2011A Mortgage required under the Supplemental Indenture for the Series 2011A Obligation without the prior written consent of the holders of fifty-one percent (51%) of the principal amount of the then Outstanding Series 2011A Bonds under such Supplemental Indenture and, for so long as the Series 2011A Obligation and/or the Series 2011A Bonds remain Outstanding, the Authority. See “Appendix E - Summary of Certain Provisions of the Master Indenture - Supplemental Provisions relating to the Series 2011A Obligation - Mortgages.”

In addition, under the Master Indenture each Member of the Obligated Group is required to grant to the Master Trustee a mortgage on all Health Care Facilities owned by such Member that are either: (i) financed or refinanced with the proceeds of debt secured by an Obligation issued pursuant to the Master Indenture; or (ii) owned by a new Member of the Obligated Group at the time that such Member is admitted to the Obligated Group (subject to any liens or security interests permitted to remain outstanding under the Master Indenture). All proceeds realized from any mortgage shall be applied by the Master Trustee proportionally and ratably to all Obligations issued under the Master Indenture.

Other Indebtedness

The Members of the Obligated Group may issue additional Obligations under the Master Indenture that are secured on a parity with the Series 2011A Obligation by the pledge of Gross Receipts and by a

mortgage issued pursuant to the Master Indenture. In addition, for so long as the Series 2011A Bonds remain outstanding, the Members of the Obligated Group may incur additional Long-Term Indebtedness under the Master Indenture only if either: (i) at the time of incurrence of such additional Long-Term Indebtedness, the senior Indebtedness of the Obligated Group (without regard to credit enhancement) is rated at least investment grade by at least two Rating Agencies; or (ii) the prior written consent of the Authority has been obtained; provided, however, such covenants may be waived by the Authority, in its sole discretion, without the consent of the holders of the Series 2011A Bonds or the Trustee.

See “Appendix E - Summary of Certain Provisions of the Master Indenture - Limitation on Indebtedness” for a description of the conditions under which the Members of the Obligated Group may issue additional Obligations and Long-Term Indebtedness under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the Members of the Obligated Group may incur debt in the form of Indebtedness incurred by the Members of the Obligated Group individually that is not evidenced or secured by an Obligation issued under the Master Indenture. Such borrowing may be secured by liens on Property permitted under the Master Indenture, including without limitation liens on Excluded Property, without limit, or accounts receivable. See “Appendix E - Summary of Certain Provisions of the Master Indenture” for a description of various financial covenants applicable to the Institution and any other Members of the Obligated Group. **Such summaries do not reflect certain additional and more restrictive covenant requirements imposed on the Institution and any other Members of the Obligated Group by the Authority. Such additional covenant requirements apply while the Series 2011A Bonds remain outstanding, and are enforceable only by the Authority and may be waived or modified by the Authority without the consent of the holders of the Series 2011A Bonds or the Trustee. Compliance with such covenants could prevent the Institution or any other Member of the Obligated Group from undertaking a particular transaction that is otherwise permitted by the Master Indenture, which in turn might affect the operations or revenues of the Institution and any other Members of the Obligated Group.**

THE SERIES 2011A BONDS ARE NOT A DEBT OF THE STATE NOR WILL THE STATE BE LIABLE THEREON. THE AUTHORITY HAS NO TAXING POWER. SEE “PART 9 - THE AUTHORITY.”

PART 3 - THE SERIES 2011A BONDS

General

The Series 2011A Bonds will be issued and outstanding pursuant to the Resolution and the Series 2011A Resolution. The Series 2011A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2011A Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2011A Bonds, payments of the principal, Purchase Price and Redemption Price of and interest on the Series 2011A Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Series 2011A Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2011A Bonds, the Series 2011A Bonds will be exchangeable for fully registered Series 2011A Bonds in any authorized denominations without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See “- Book-Entry Only System” below and “Appendix D - Summary of Certain Provisions of the Resolution.”

Description of the Series 2011A Bonds

The Series 2011A Bonds will be dated their date of delivery. The Series 2011A Bonds will mature and will accrue interest from their date at the rates and at the times set forth on the inside cover page of this Official Statement, payable semiannually on each January 1 and July 1, commencing January 1, 2012. The Series 2011A Bonds will be offered as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2011A Bonds will be computed on the basis of a year of twelve 30-day months. The Series 2011A Bonds may be exchanged for other Series 2011A Bonds in any other authorized denominations upon payment of a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange and for the cost of preparing the new bond, and otherwise as provided in the Resolution. The Record Dates for the Series 2011A Bonds are December 15 and June 15. The Authority will not be obligated to make any exchange or transfer of Series 2011A Bonds (i) during the period beginning on the Record Date next preceding an Interest Payment Date for the Series 2011A Bonds and ending on such Interest Payment Date or (ii) after the date next preceding the date on which the Trustee commences selection of Series 2011A Bonds for redemption.

Redemption and Purchase in Lieu of Optional Redemption Provisions

The Series 2011A Bonds are subject to redemption and purchase in lieu of optional redemption as described below.

Optional Redemption

The Series 2011A Bonds are subject to optional redemption prior to maturity, at the election or direction of the Authority, on or after July 1, 2021, in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Redemption

The Series 2011A Bonds are also subject to redemption prior to maturity, in whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, at the option of the Authority, from the proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Mortgaged Property, and which proceeds are not otherwise applied as permitted under the Master Indenture.

Mandatory Redemption

In addition, the Series 2011A Bonds maturing on July 1 in the years 2026, 2031, 2035 and 2041 are subject to redemption, in part, on each July 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of Series 2011A Bonds specified for each of the years shown below:

Series 2011A Bonds Maturing on July 1, 2026

<u>Year</u>	<u>Amount</u>
2024	\$1,790,000
2025	1,870,000
2026†	1,955,000

† Final Maturity

Series 2011A Bonds
Maturing on July 1, 2031

<u>Year</u>	<u>Amount</u>
2027	\$2,040,000
2028	2,145,000
2029	2,250,000
2030	2,365,000
2031†	2,485,000

† Final Maturity

Series 2011A Bonds
Maturing on July 1, 2035

<u>Year</u>	<u>Amount</u>
2032	\$2,610,000
2033	2,735,000
2034	2,875,000
2035†	3,020,000

† Final Maturity

Series 2011A Bonds
Maturing on July 1, 2041

<u>Year</u>	<u>Amount</u>
2036	\$3,165,000
2037	3,325,000
2038	3,490,000
2039	3,665,000
2040	3,850,000
2041†	4,040,000

† Final Maturity

Purchase in Lieu of Optional Redemption

The Series 2011A Bonds are subject to purchase by or at the direction of the Institution, prior to maturity, at the election of the Institution, on the same terms that would apply to the Series 2011A Bonds if the Series 2011A Bonds were then being optionally redeemed.

General

The Authority may from time to time direct the Trustee to purchase Series 2011A Bonds with moneys in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any Series 2011A Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on such Series 2011A Bonds. The Institution also may purchase Series 2011A Bonds and apply any Series 2011A Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on

such Series 2011A Bonds. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's Series 2011A Bonds will be reduced for such year.

Selection of Bonds to be Redeemed

In the case of redemptions of the Series 2011A Bonds, other than mandatory redemptions, the Authority will select the principal amounts and maturities (including any Sinking Fund Installments) of the Series 2011A Bonds to be redeemed. If less than all of the Series 2011A Bonds of a maturity are to be redeemed, the Series 2011A Bonds to be redeemed will be selected by the Trustee, by lot as provided in the Resolution.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2011A Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any Series 2011A Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten business days prior to the date such notice is given. The failure of any such registered owner of a Series 2011A Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2011A Bond.

If on the redemption date moneys for the redemption of the Series 2011A Bonds or portions thereof to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the redemption price, and if notice of redemption has been mailed, then interest on such Series 2011A Bonds or portions thereof will cease to accrue from and after the redemption date and such Series 2011A Bonds will no longer be considered to be Outstanding.

In addition, any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal of, premium, if any, and interest on the Series 2011A Bonds to be redeemed and that if such moneys are not so received, such notice shall be of no force and effect and such Series 2011A Bonds shall not be required to be redeemed.

Notice of Purchase in Lieu of Optional Redemption

Notice of the purchase of the Series 2011A Bonds as described under "– Purchase in Lieu of Optional Redemption" above, will be given in the name of the Authority to the registered owners of the Series 2011A Bonds to be purchased by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the purchase date specified in such notice. The Series 2011A Bonds to be purchased are required to be tendered to the Trustee on the date specified in such notice. Series 2011A Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event Series 2011A 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 2011A Bonds and such Series 2011A Bonds need not be cancelled, and may remain Outstanding under the Resolution and in such case shall continue to bear interest and shall continue to be subject to optional redemption as described herein.

The Institution's obligation to purchase a Series 2011A 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 2011A 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 2011A Bonds to be purchased, the former registered owners of such Series 2011A 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 2011A 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 2011A Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2011A Bonds are to be purchased, the Series 2011A Bonds to be purchased will be selected by lot in the same manner as Series 2011A Bonds to be redeemed in part are to be selected.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2011A Bonds. The Series 2011A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2011A Bond certificate will be issued for each maturity of the Series 2011A Bonds, totaling in the aggregate the principal amount of the Series 2011A Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million 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, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”, and together with Direct Participants, “Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2011A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2011A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase; Beneficial Owners are 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 2011A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2011A Bonds, except in the event that use of the Book-Entry System for the Series 2011A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2011A Bonds with DTC and their

registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2011A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011A Bonds, such as redemptions, tenders, defaults and proposed amendments to the documents relating to the Series 2011A Bonds. For example, Beneficial Owners of the Series 2011A Bonds may wish to ascertain that the nominee holding the Series 2011A Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011A 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 any other DTC nominee) will consent or vote with respect to the Series 2011A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2011A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2011A Bonds registered in its name for the purposes of payment of the principal or redemption premium, if any, of, or interest on, the Series 2011A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2011A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. None of the Authority, the Trustee or the Obligated Group will have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2011A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2011A Bonds; any notice which is permitted or required to be given

to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants or the Indirect Participants.

For every transfer and exchange of the Series 2011A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to the Series 2011A Bonds at any time by giving reasonable notice to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Series 2011A Bonds or may direct the Trustee to deliver Series 2011A Bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such Series 2011A Bond certificates, the Series 2011A Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2011A Bonds in other authorized denominations as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

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

THE AUTHORITY, THE INSTITUTION, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2011A BONDS (i) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2011A BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN SERIES 2011A BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2011A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

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

PART 4 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS

The following table sets forth the amount coming due on each principal and interest payment date during each twelve-month period ending July 1 of the Bond Years shown for (i) the payment of the principal and Sinking Fund Installments of the Series 2011A Bonds, payable on July 1 of each such period and the interest payments coming due during each such period with respect to the Series 2011A Bonds; and (ii) the aggregate debt service payments on the Prior Bonds. The following table does not include payments pursuant to a term-loan agreement between the Institution and JPMorgan Chase Bank, N.A. See “Appendix B-1 – Consolidated Financial Statements of The Mount Sinai Hospital as of December 31, 2010 and 2009 and for the years then ended.”

12-Month Period Ending July 1,	Principal of Series 2011A Bonds	Interest on Series 2011A Bonds	Total Debt Service on Series 2011A Bonds	Total Debt Service on the Prior Bonds ⁽¹⁾	Total Debt Service on all Master Indenture Obligations
2012	\$ 715,000	\$ 2,161,823	\$ 2,876,823	\$ 32,944,986	\$ 35,821,809
2013	1,075,000	3,168,125	4,243,125	32,947,088	37,190,213
2014	1,120,000	3,125,125	4,245,125	32,948,538	37,193,662
2015	1,165,000	3,080,325	4,245,325	32,945,288	37,190,612
2016	1,220,000	3,022,075	4,242,075	32,947,625	37,189,700
2017	1,285,000	2,961,075	4,246,075	32,949,850	37,195,925
2018	1,345,000	2,896,825	4,241,825	32,945,850	37,187,675
2019	1,415,000	2,829,575	4,244,575	32,946,100	37,190,675
2020	1,485,000	2,758,825	4,243,825	32,947,850	37,191,675
2021	1,560,000	2,684,575	4,244,575	32,946,750	37,191,325
2022	1,625,000	2,622,175	4,247,175	32,949,250	37,196,425
2023	1,705,000	2,540,925	4,245,925	32,945,000	37,190,925
2024	1,790,000	2,455,675	4,245,675	33,657,750	37,903,425
2025	1,870,000	2,375,125	4,245,125	33,695,375	37,940,500
2026	1,955,000	2,290,975	4,245,975	33,733,500	37,979,475
2027	2,040,000	2,203,000	4,243,000	—	4,243,000
2028	2,145,000	2,101,000	4,246,000	—	4,246,000
2029	2,250,000	1,993,750	4,243,750	—	4,243,750
2030	2,365,000	1,881,250	4,246,250	—	4,246,250
2031	2,485,000	1,763,000	4,248,000	—	4,248,000
2032	2,610,000	1,638,750	4,248,750	—	4,248,750
2033	2,735,000	1,508,250	4,243,250	—	4,243,250
2034	2,875,000	1,371,500	4,246,500	—	4,246,500
2035	3,020,000	1,227,750	4,247,750	—	4,247,750
2036	3,165,000	1,076,750	4,241,750	—	4,241,750
2037	3,325,000	918,500	4,243,500	—	4,243,500
2038	3,490,000	752,250	4,242,250	—	4,242,250
2039	3,665,000	577,750	4,242,750	—	4,242,750
2040	3,850,000	394,500	4,244,500	—	4,244,500
2041	4,040,000	202,000	4,242,000	—	4,242,000
TOTAL	\$ 65,390,000	\$ 60,583,223	\$ 125,973,223	\$ 496,450,798	\$ 622,424,021

Note: Totals may not add due to rounding.

⁽¹⁾ Prior Bonds consist of the Series 2010A Bonds currently outstanding in the aggregate principal amount of \$331,195,000 and the Taxable Bonds currently outstanding in the aggregate principal amount of \$13,242,000.

PART 5 - ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds

Principal Amount of Series 2011A Bonds.....	\$ 65,390,000
Net Original Issue Premium/(Discount)	674,208
Institution Equity Contribution.....	<u>6,934,330</u>
Total Sources	\$ <u>72,998,538</u>

Uses of Funds

Deposit to the Project Fund	\$ 63,506,182
Deposit to Debt Service Reserve Fund	4,248,750
Deposit to Capitalized Interest Fund	2,935,618
Costs of Issuance ⁽¹⁾	<u>2,307,988</u>
Total Uses.....	\$ <u>72,998,538</u>

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

PART 6 - THE FINANCING PLAN

A portion of the proceeds of the Series 2011A Bonds, together with other available moneys, will be deposited into the Construction Fund and used to pay the costs of certain health care facilities of the Institution. The Project consists of the Institution's ratable share (based on the floors and portion of the sub-basement to be occupied by the Institution) of the costs of construction of the building known as the Mount Sinai Center for Science and Medicine ("CSM"), and the entire cost of fit out and equipping of a cancer treatment center. The 3rd and 4th floors will contain examination rooms, infusion rooms for chemotherapy treatment, and pharmacy, laboratory and phlebotomy rooms. In addition to the clinical spaces there will be provisions for family and patient waiting, conference rooms and administrative spaces for operation of the cancer center. The sub-basement level will contain a high energy linear accelerator for radiation treatment, computerized axial tomography simulators (CT scanners), for treatment planning, examination rooms, separate male and female changing areas and reception, patient and family waiting areas.

PART 7 - THE MOUNT SINAI HOSPITAL

Introduction and Background

The Mount Sinai Hospital (the "Hospital" or "Mount Sinai"), is an acute care teaching hospital located on the Upper East Side of Manhattan. Founded in 1852 as Jews' Hospital to serve New York's Jewish population, the Hospital opened its doors to other groups during the Civil War and has since remained a nonsectarian hospital. In June 1999, the Hospital purchased substantially all of the assets of Astoria General Hospital, Inc. d/b/a Western Queens Community Hospital. This facility is now known as The Mount Sinai Hospital of Queens and is a division of the Hospital, operating under the Hospital's operating certificate. The Hospital is a stand-alone, tax-exempt New York not-for-profit corporation, with a self-perpetuating Board of Trustees.

Scope of Services

As a tertiary care facility, the Hospital provides a comprehensive range of medical and surgical services. The Hospital draws patients from surrounding communities, across the country and around the world. The Hospital has a medical staff of approximately 2,350 full-time and voluntary physicians who in 2010 treated nearly 65,000 inpatients, nearly 400,000 outpatients in the Hospital's clinics and over 110,000 patients in the Emergency Room.

The Hospital was ranked 16th nationally out of nearly 5,000 hospitals by U.S. News & World Report in its 2011 America's Best Hospital issue. Having scored highly on 12 out of 16 specialties, the Hospital was featured on the magazine's elite list of "Honor Roll" hospitals.

The Hospital has been recognized and achieved prominence in many areas of patient care. For example, Mount Sinai:

- has been designated by New York State as a regional center for the care of acquired immune deficiency syndrome ("AIDS") patients.
- has been designated by New York State as a regional center for the delivery of neonatal special care services. The Hospital is also a regional referral center for the treatment of high-risk infants.
- has been recognized for its programs in inflammatory bowel disease and other autoimmune diseases by organizations created for the support of patients and families affected by these diseases.
- is recognized for its care of large patient populations with Parkinson's disease and with relatively rare diseases that include myasthenia gravis, amyotrophic lateral sclerosis (Lou Gehrig's Disease) and sarcoidosis.
- is a regional referral center for fertility-related conditions as well as menopause.

The Hospital's many other prominent programs attract patients from around the world and include:

- The Hospital's Recanati/Miller Transplant Institute, which provides a comprehensive program for adults and children with end-stage organ disease. The Hospital performs heart transplants, kidney transplants, and both autologous and allogeneic bone marrow transplants. The Hospital also performs small bowel transplantation and liver transplantation.
- Mount Sinai Heart, a comprehensive, multidisciplinary program for all cardiac services, including surgery, interventional cardiology and cognitive cardiology, offering common point of entry for all cardiac patients, creating a "hospital within a hospital." The Hospital, through its Mount Sinai Heart program, has established cardiac catheterization labs with strategic affiliate hospitals throughout greater New York.
- An aggressive recruitment effort to expand its cancer program to include all areas of cancer treatment. Several experienced cancer specialists have joined its medical staff in the last 12 to 18 months. The Proceeds of the Series 2011A transaction will enhance Mount Sinai's cancer services and radiation oncology program by creating a designated Cancer Treatment Center in the new Center for Science & Medicine.
- The Hospital's Rehabilitation Medicine program, which includes inpatient beds with gymnasium facilities, and is a regional center for spinal cord and brain injury rehabilitation.

- The Hospital’s Cerebrovascular and Endovascular Program, which integrates care across five specialties. The Hospital was recently recertified as a Primary Stroke Center by The Joint Commission (the “Joint Commission”), an independent, nonprofit health care group that rigorously evaluates and certifies the quality of patient care in health care organizations.
- The Hospital’s Adolescent Health Center, which offers routine medical care and addresses serious medical health problems such as teen pregnancy, sexually transmitted diseases, AIDS, substance abuse, sexual abuse, rape and depression.

Physician and Network Strategy

A key component of the Hospital’s growth strategy includes establishing relationships with key community-based physicians as well as with community hospitals. The goals of the strategy are multi-fold: to build a network around community-based physicians; to identify community needs and opportunities; to develop meaningful relationships that drive value and to extend the Mount Sinai brand and reputation awareness across the region.

In addition to its physician strategy, the Hospital has entered into strategic alignments with 17 hospitals (including Good Samaritan Hospital Medical Center (Suffolk County), Lutheran Medical Center (Brooklyn) and St. John’s Riverside Hospital (Yonkers)), 6 nursing homes and 11 physician practices.

Services to the Community; Ambulatory and Specialty Clinics

The Hospital demonstrates its commitment to making healthcare available to the communities that it serves by operating several primary care clinics that are primarily utilized by residents of Harlem and other parts of New York City who have government insurance coverage or lack insurance. In addition, Mount Sinai Diagnostic and Treatment Center (the “DTC”), a facility licensed under Article 28 of the New York State Public Health Law, operates five outpatient sites on Mount Sinai’s campus that provide comprehensive primary and preventive care and specialty care to the residents of Harlem, as well as to the larger New York community. Through a sliding fee scale, the DTC provides services to individuals in need regardless of ability to pay. Furthermore, the Mount Sinai Visiting Doctors program brings high quality medical care to men and women with complex and serious illnesses who have difficulty leaving their homes. By caring for patients in their homes, physicians are able to identify and treat problems before they get to the point where hospitalization is required. Through preventive care, diagnostic evaluation, and treatment patients are able to maximize their health and independence.

Nursing Excellence

In 2009, the Hospital was re-designated a Magnet Hospital by the American Nurses Credentialing Center for an additional four years. Magnet designation is a performance-driven credential that recognizes nursing excellence. Only approximately 8% of hospitals in the nation have received Magnet designation.

Information Technology

The Hospital is implementing an electronic medical record (EPIC) for all inpatient and outpatient departments. The overall goal of the Epic project is to create a medical care system which helps clinicians provide services efficiently while improving quality and safety for patients. Through June 2011, all inpatient and outpatient departments have been transitioned to EPIC.

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Inpatient Capacity

The Hospital (including the Queens Campus (as hereinafter defined)) is licensed to operate 1,406 beds as shown below:

	<u>Licensed Beds</u>
Medical-Surgical	880
Intensive Care	70
Coronary Care	14
AIDS	50
Pediatric	80
Maternity	74
Neonatal Intensive Care	<u>35</u>
Total Medical-Surgical	1,203
Psychiatric	103
Physical Medicine and Rehabilitation	<u>100</u>
Total Non-Medical-Surgical	203
Total Beds	1,406

Source: The Mount Sinai Hospital.

Facilities

The Hospital occupies a four-block campus in upper Manhattan which it shares with the Mount Sinai School of Medicine (“MSSM”), consisting of research, educational and outpatient clinical facilities, as well as facilities dedicated to inpatient care. The Hospital also occupies a campus located in Queens, New York (the “Queens Campus”). The Queens Campus includes a six-story building consisting of community-level inpatient facilities for adult medical/surgical patients and an ambulatory surgical facility. The table below sets forth the principal patient care, ancillary, and support services buildings owned and/or used, pursuant to long-term leases, by the Hospital, their year of construction, approximate gross square footage and principal facilities or services.

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<u>Building</u>	<u>Approximate Square Footage (Gross)</u>	<u>Year of Construction</u>	<u>Major Facilities and Services</u>
Guggenheim Pavilion	905,300	1992	Medical/Surgical Units, Intensive Care Units, Rutenberg Cancer Treatment Center, Executive Suites, Chapels, Conference Center, Cafeteria, Support Services
Warren Alpert Pavilion	113,800	1922	Pediatrics, Pediatric Intensive Care, Clinical Research Center
Klingenstein Pavilion	197,800	1953	Obstetrics/Gynecology, Labor & Delivery, Neonatal Intensive Care, Nursery, Rehabilitation Medicine
Klingenstein Clinical Center	243,700	1962	Psychiatry, Bone Marrow Transplant, Substance Abuse
Annenberg Building	200,000	1975	Laboratories, Neurosurgical ICU, Ambulatory O.R., Pharmacy, Auditorium
1425 Madison Avenue	200,000	1993	Administrative Offices, Information Systems, Laboratories, Psychiatric Inpatient Units
19 East 98 th Street Building	61,500	1928	Administrative Offices, Support Services
Atran/Berg Building	167,200	1953	Laboratories
Maintenance Building	10,000	1974	Maintenance Facilities
25-10 30 th Avenue Building (Queens Campus Inpatient Facility)	94,000	1952	Medical/Surgical Units; Administration
25-25 30 th Road Building (Queens Campus Ambulatory Surgery Facility)	5,400	1988	Ambulatory Surgery
Center for Advanced Medicine	161,000	2008	Hospital clinics

Governance and Executive Staff

Board of Trustees of the Hospital:

The following is a list of the members of the Board of Trustees of the Hospital, including their business affiliations/occupations:

Trustee	Affiliation
Black, Leon D.	Apollo Management, L.P.
Calderon, Henry	Donrell Realty
Cohen, Peter A.	Ramius LLC
Cullman, Jr., Edgar M.	Culbro, LLC
Cullman, Susan R.	Philanthropist
Ehrenkranz, Joel S.	Ehrenkranz & Ehrenkranz LLP
Fogg, Blaine V.	Skadden, Arps, Slate, Meagher & Flom
Gogel, Donald J.	Clayton, Dubilier & Rice, Inc.
Goldsmith, Clifford H.	The Prendel Company
Gottesman, David S.	First Manhattan Co.
Gribetz, Judah	Bingham McCutchen LLP
Harris, Dr. Michael T.	Mount Sinai Medical Center
Heineman, Andrew D.	Philanthropist
Hess, John B.	Hess Corporation
Icahn, Carl C.	Icahn Associates, Corp.
Jones, Lewis P.	Philanthropist
Katz, Ellen	Philanthropist
Klingenstein, Frederick A.	Klingenstein, Fields & Co., LP
Kravis, Henry R.	Kohlberg Kravis Roberts & Company
Lauder, Jo Carole	Philanthropist
Levin, John A.	Levin Capital Strategies, LP
Levinson, Patricia S.	Philanthropist
Martell, Tony	T.J. Martell Foundation
*May, Peter W.	Triam Partners
Mindich, Eric	Eton Park Capital Management
Minikes, Michael	JP Morgan Clearing Corp.
Nussbaum, Bernard W.	Wachtell, Lipton, Rosen & Katz
Ravitch, Richard	Ravitch Rice & Co., LLC
Rubin, Judith	Philanthropist
Rubin, The Honorable Robert E.	Council on Foreign Relations
Ruttenberg, Eric	Tinicum Incorporated
Saul, Andrew M.	Saul Partners, L.P.
Schwartz, Stephen L.	The Brookdale Foundation
Strauss, Thomas W.	Ramius LLC
Tausig-Edwards, Dr. Jephtha	Mount Sinai Auxiliary Board
Tisch, James S.	Loews Corporation
Weinfeld, Dr. Steven B.	The Mount Sinai Hospital
Winkleman, John S.	Winkleman Company LLC

* Chairman of the Board

Executive Staff of the Hospital

The biographies of the key members of the management staff of the Hospital are as follows:

Kenneth L. Davis, M.D., Chief Executive Officer. Dr. Davis has served as Chief Executive Officer of the Hospital since March 2003. From 2003 until 2007, Dr. Davis also served as Dean of MSSM. Dr. Davis received his bachelor's degree from Yale College, from which he graduated magna cum laude. He received his medical degree from MSSM, where he was valedictorian. He completed an internship and residency, and a fellowship in psychiatry, and psychopharmacology, respectively, at Stanford University Medical Center, and thereafter won a career development award from the Veterans Administration to pursue his research in cholinergic mechanisms and neuropsychiatric diseases.

In 1979, Dr. Davis joined the faculty at Mount Sinai, becoming Chief of Psychiatry at the Bronx Veterans Administration (VA) Medical Center. He spearheaded Mount Sinai's research program in the biology of schizophrenia and was the first director of the Schizophrenia Biological Research Center at the Bronx VA Hospital. In 1987 he was appointed Chairman of Psychiatry, MSSM. In January 2003 he was appointed Dean of MSSM and in March 2003 he assumed the position of President and Chief Executive Officer of the Hospital.

Dr. Davis was the first director of the Hospital's National Institute on Aging which supported Alzheimer's Disease Research Center from 1984 through 2002. Dr. Davis was also director of the Silvio O. Conte Center Neuroscience Center, a center devoted to the study of schizophrenia.

The author or co-author of over 550 scientific articles, Dr. Davis has been recognized by the Institute of Scientific Information as one of the most highly cited researchers in the field of brain diseases. Dr. Davis is a member of the editorial boards of numerous journals, and has won many awards. He was admitted to the membership of the Institute of Medicine of the National Academy of Sciences in 2001.

Wayne Keathley, President and Chief Operating Officer. Wayne Keathley was appointed President of the Hospital in 2008. He also continues to serve as Chief Operating Officer, a position he was appointed to in 2003.

As President and COO, Mr. Keathley oversees all executive and operational functions of the Hospital, including inpatient and ambulatory care and emergency services, and surgical, nursing, and support services. As Executive Vice President for Business Development, Mr. Keathley guides the Hospital's efforts to build and strengthen relationships with community-based physicians and other institutional providers of care.

Mr. Keathley studied business administration and health administration at Columbia University's Graduate School of Business Administration and the School of Public Health. He graduated in 1981 with a degree in health administration and spent an additional year as an administrative resident at The Brooklyn Hospital in New York. At the conclusion of his residency, he was appointed Assistant Administrator at that hospital and later became the Senior Director for Professional Services. He left in 1989 to become Vice President of Professional Services and later Vice President of Operations at Lenox Hill Hospital, where he served until 2000. He was recruited to become the Executive Vice President and Chief Operating Officer of St. Peter's Health Care Services in Albany and remained there until assuming his position at the Hospital.

Michael G. Macdonald, Executive Vice President and General Counsel. Mr. Macdonald is Executive Vice President and General Counsel at the Hospital, MSSM and at the Mount Sinai Medical Center, Inc. Mr. Macdonald joined Mount Sinai in 1972 and established one of the first offices of general counsel in an academic medical center in the United States. Prior to joining Mount Sinai, he was associated with the New York law firm of Debevoise & Plimpton. Mr. Macdonald received his undergraduate education at Stanford University, where he also received his J.D. degree. After graduating from law school, he served as law clerk in Montgomery, Alabama, to United States District Court Judge Frank M. Johnson, Jr.

Mr. Macdonald has held faculty appointments at MSSM and Brooklyn Law School. He is the author, with two colleagues, of a single-volume treatise on health care law for health care executives and professionals. He has also been one of four editors of a more extensive, four-volume treatise on health care law published in 1990.

Donald Scanlon, Chief Financial Officer, Executive Vice President. Donald Scanlon is Executive Vice President and Chief Financial Officer of the Mount Sinai Medical Center. Mr. Scanlon was appointed to these positions in December 2003. In this capacity, the Chief Financial Officers of the Hospital and MSSM report to him. Previously, Mr. Scanlon had been Senior Vice President of Finance at New York Presbyterian Hospital & Health System. Mr. Scanlon was a Vice President of Finance at the Hospital for ten years before assuming his position at New York Presbyterian Hospital & Health System. Prior to that, Mr. Scanlon was an Audit Manager at Deloitte & Touche where he focused on healthcare clients.

Ira Nash, M.D., Chief Medical Officer. Dr. Nash is Chief Medical Officer and Senior Vice President for Medical Affairs for the Hospital and Professor of Medicine, and Professor of Health Evidence and Policy at MSSM. He heads the Mount Sinai Office for Excellence in Patient Care, which oversees the Hospital's quality assessment and improvement activities, and has direct responsibility for the departments of Performance Improvement, Risk Management, Social Work, Case Management, and Infection Control.

After graduating summa cum laude from Harvard College, Dr. Nash received his M.D. degree cum laude from the Harvard-MIT Program in Health Sciences and Technology at Harvard Medical School. He is Board Certified in Internal Medicine and Cardiovascular Diseases, and was in the private practice of cardiology before he joined the full-time academic staff of the Cardiac Unit at the Massachusetts General Hospital and the faculty of Harvard Medical School. Since moving to Mount Sinai in 1995, he has held a number of senior positions, including Associate Director of the Zena and Michael Wiener Cardiovascular Institute and, more recently, Chief of Internal Medicine at the affiliated James J. Peters Veterans Affairs Medical Center. Dr. Nash has been a fellow of the American College of Cardiology (ACC) since 1992, and is also a fellow of the American Heart Association and the American College of Physicians. He is a member of the Clinical Council of the American Heart Association (AHA), and serves on the ACC/AHA Joint Task Force on Clinical Competence, which sets standards for training and expertise in cardiovascular medicine. Dr. Nash is on the editorial board of the American Journal of Medical Quality. He has edited a book on myocardial infarction care, and is an Associate Editor of Hurst's the Heart, a major textbook and online reference for cardiovascular medicine. Dr. Nash serves his country as a Commander in the Medical Corps of the United States Navy Reserve.

Jeffrey Silberstein, Executive Vice President, Chief Administrative Officer. Mr. Silberstein was appointed Executive Vice President of the Hospital and MSSM in 2003 and Chief Operating Officer of MSSM in 2009. Mr. Silberstein joined MSSM in June 1997 as the Administrative Director of the Department of Psychiatry and in 2001 became Vice-Chairman of the department. Mr. Silberstein served as a consultant on financial information systems and was a Vice President at Salomon Brothers. He received his Masters in Business Administration from New York University and his bachelor's degree from the University of Pittsburgh.

Scott Pittman, Senior Vice President, Chief Investment Officer. Mr. Pittman was appointed as the Chief Investment Officer in January 2009 to work with the Mount Sinai's Investments Committee on the management of the Mount Sinai's Investment Pool. Mr. Pittman works closely with the committee and senior management to actively monitor the Mount Sinai's investment assets, manage portfolio risk and source new investments whose risk/return characteristics match the operational and strategic needs of Mount Sinai. Mr. Pittman had been the Director of Investments at Baylor University where he invested and managed a large diverse portfolio of institutional assets. During this time, Mr. Pittman also served as a lead instructor in Baylor's Hankamer School of Business where he taught Baylor's graduate Portfolio Practicum course. Prior to joining Baylor's Office of Investments, Mr. Pittman taught corporate finance and microeconomics full time at Baylor's Hankamer School of Business.

Conflicts of Interest and Compliance

The Hospital has robust conflicts of interest policies, comprehensive compliance and enterprise risk programs, and a Code of Ethics, all of which are rigorously implemented and enforced. These policies and programs are monitored by the Hospital's Audit and Compliance Committee and Board of Trustees. The purpose of these programs is to ensure that all institutional decisions are made solely to promote the best interests of the Hospital without favor or preference based upon personal considerations, to provide for the highest ethical conduct with respect to the actions and business relations of all trustees, employees and voluntary staff and to ensure compliance with the various laws and regulations affecting the Hospital.

Medical Staff

As of December 31, 2010, the Hospital had a professional staff of approximately 2,350 physicians, of which is slightly more than half are full-time and part-time employees of the Hospital and/or MSSM and the remaining 1,156 of which are private practice physicians with privileges at the Hospital. As of December 31, 2010, approximately 92% of the active Members were board-certified and 3% were board-qualified. The average age of the active staff was approximately 51.5 years. As of December 31, 2010, 72.7% of the Hospital's discharges came from full-time faculty. In 2010, the top ten physicians accounted for 10.5% of the Hospital's discharges.

Medical Education

The Hospital and MSSM have a long tradition of commitment to the instruction and training of new physicians and medical research focused on clinical benefits. The Hospital works closely with MSSM to provide training for some of the most qualified physicians in the country in its graduate education programs. Unless granted a waiver, a physician must have a faculty appointment at MSSM in order to be a member of the Hospital's medical staff. The Hospital's medical staff trains more than 1,000 residents and fellows, in 72 programs approved by the Accreditation Council for Graduate Medical Education as well as another 50 non-accredited programs. These residents and fellows develop a relationship with the Hospital that they often continue throughout their careers, either by joining the Hospital's medical staff or collaborating with the Hospital in the care of patients. Mount Sinai has received approximately \$120 million in Medicare Graduate Medical Education and Medicare Indirect Medical Education funding for fiscal year 2010.

Mount Sinai's residency and fellowship program is enhanced by the MSSM Consortium for Graduate Medical Education (the "MSSM Consortium"). Through the MSSM Consortium, MSSM is affiliated with the Atlantic Health System (Morristown Memorial Hospital and Overlook Hospital), Elmhurst Hospital Center, Englewood Hospital and Medical Center, Good Samaritan Hospital Medical Center, Jersey City Medical Center, James J. Peters VAMC, Queens Hospital Center and St. Joseph's Regional Medical Center. Through the Consortium, residents and fellows are provided a broad educational experience and are afforded the opportunity to perform clinical rotations at the participating institutions with diverse patient bases and programmatic strengths.

Research

MSSM is a major health sciences research center. In addition to MSSM's 25 clinical departments and 7 basic science departments, MSSM has created multidisciplinary interdepartmental research institutes and multidisciplinary centers, which are high in scientific diversity, depth and integration. The research centers include the Brookdale Center for Molecular Biology, the Dr. Arthur M. Fishberg Research Center for Neurobiology, and the Derald H. Ruttenberg Cancer Center.

Each of these departments, centers, and institutes perform significant research activities, which are supported by federal and other sources. Research expenses were \$379.3 million in 2010 and have grown at an

average annual rate of approximately 9% over the past five years. MSSM's financial policies include grant spending oversight to help insure research faculty spends their annual grant awards according to the budget.

MSSM is in the process of developing the Center for Science and Medicine ("CSM"), a new translational research facility to support the recruitment of an additional 90-110 new basic science research faculty members focused on translational research which will be completed in late 2012. CSM will facilitate the linkage between research and clinical treatments and will ultimately increase the quality of clinical care in various disease managements.

Clinical Programs

To support MSSM's education, research and patient care missions, faculty members are encouraged to engage in direct patient care activities as members of the School's Faculty Practice Plan. These clinical activities facilitate the recruitment and retention of superior full-time faculty and enrich the training opportunities available to the School's health staff and students. They are essential to the School's clinical research programs and to the promotion of the highest quality patient care. The Faculty Practice Associates Plan ("FPA") is in its 41st year of operation. Almost all physicians with full-time faculty appointments at MSSM who practice primarily at Mount Sinai participate in the Plan. As of June 30, 2011, the FPA had more than 900 members.

FPA receipts growth has averaged 11.2% annually over the past five years and approximated \$416.2 million in 2010. FPA receipts were ranked among the top 5 U.S. academic medical center faculty practices in receipts per doctor, at \$456,833 in 2010. The rapid growth is the result of new recruits, physician productivity and billing/collection improvement initiatives. The uniform compensation plan model that was implemented across the 25 clinical departments sets limitations on salary supplementation and standards for clinical effort which is measured with effort reports and work relative value units (wRVUs). According to the compensation model, clinicians who do not meet these productivity standards risk having their supplements and base salaries reduced.

Measures of Success

Recent measures of success resulting largely from Strategic Plan initiatives include:

- The School's *U.S. News & World Report* ranking has increased from 33rd, in 2005, to 18th in 2011-2012, with its Geriatrics and Gastroenterology programs having a #1 and #5 national ranking, respectively.
- The School's NIH ranking remains amongst the top tier at 19 out 134 medical schools in receipt of such funding (based on publicly available data).
- The School received \$16.5 million contract in 2010 from the National Institute of Health (NIH) and the National Heart and Lung Institute (NHLBI) which will allow the development of multidisciplinary research centers with the goal of developing nanotechnology tools for heart, lung and blood diseases.
- The School has renewed its funding of the Consortium of Food Allergy Research (CoFAR) in 2010, providing an additional \$29.9 million toward genetic research and the prevention and treatment of food allergy.
- The School has been awarded a \$25 million grant from The Leona M. and Harry B. Helmsley Charitable Trust to establish The Leona M. and Harry B. Helmsley Charitable Trust Cardiovascular Translational Research Center which will further advance the Hospital as a leader of prevention, diagnosis, and treatment of cardiovascular disease.
- Best Doctors in New York (as published by *New York Magazine*)
 - 135 Faculty Practice Doctors, including 3 at Mount Sinai Queens
 - A total of 209 physicians are featured in 48 of the 63 specialties reviewed (includes voluntaries, affiliates, and non-FPA)
- 4,894 applications for entering Medical Education class of 140

- 2009 winner of AAMC Spencer Foreman Community Service Award
- Ranked 30th overall in 2011 "Best Places to Work in Academia" survey in *The Scientist* magazine

Licensure and Accreditation

Mount Sinai is licensed by the New York State Department of Health and is certified by the United States Department of Health and Human Services for participation in the Medicare and Medicaid programs.

Mount Sinai has obtained several certifications from The Joint Commission on Accreditation of Healthcare Organizations (the "Joint Commission"), an independent, nonprofit health care group that rigorously evaluates and certifies the quality of patient care in health care organizations. It obtained 3-year accreditation for its Hospital and Behavioral Health programs following surveys conducted in April 2009. Mount Sinai's Cerebrovascular and Endovascular Program received 2-year recertification as a Primary Stroke Center in April 2010, and Mount Sinai Heart's Mechanical Circulatory Support Center received Disease Specific Care recertification for Ventricular Assist Device (VAD) procedures in February 2011.

Philanthropy

Mount Sinai has traditionally directed its fund-raising to MSSM, which has seen significant growth in donations. A \$1 billion capital campaign to support strategic plan initiatives is currently underway with \$820 million in cash and pledges identified as of June 30, 2011. The funds will be mostly directed to MSSM to support the strategic goals of the Hospital and MSSM.

Financial Assistance Policy

The Hospital offers affordable fees and flexible payment plans for medically necessary outpatient, emergency and inpatient care to help ensure that members of the Hospital's community with limited or no health insurance have access to high quality healthcare services. Fees are based on the ability to pay, as measured by income, family size and place of residence. A sliding scale fee applies to inpatient stays, clinic visits and emergency room visits. Fees are based on need as defined by federal guidelines. The Hospital policy exceeds the requirements for providing financial assistance to low-income, uninsured patients enacted by the New York State Legislature.

Risk Management

The Hospital's Enterprise Risk Management program is designed to heighten awareness of key organizational risks and provides a leadership forum to assess whether risks are being appropriately mitigated and monitored. A periodic, entity-wide risk assessment is performed to evaluate areas that may pose significant institutional risk and to identify responsible leaders who are charged with implementing risk mitigation methods and reporting outcomes to the Risk Oversight Committee. All identified areas of risk are initially vetted by the Risk Oversight Committee, and then presented to the Audit Committee of the Board of Trustees.

Professional and General Liability Insurance Program

The Hospital carries an all-risk property insurance policy on its buildings and contents, including fire and allied lines and boiler and machinery written on a replacement cost basis. The Hospital also carries commercial general liability insurance for property damage and bodily injury; vehicle liability and physical damage insurance covering its leased and owned vehicles; commercial crime and fidelity insurance; directors' and officers' liability insurance; and miscellaneous errors and omissions coverage. The Hospital also carries excess umbrella liability policies above the general liability policy. In addition to these policies, the Hospital maintains statutory workers' compensation and disability insurance as required by law. The Hospital also maintains substantial professional liability insurance which currently consists of a combination of captive

insurance and commercial insurance. In the opinion of the management of the Hospital, based on prior experience, the Hospital's potential malpractice losses are fully and adequately insured. To date, no loss has been sustained which has exceeded the Hospital's insurance coverage.

Employees

At December 31, 2010, the Hospital employed approximately 8,500 full-time equivalent employees. The Hospital's work force is comprised of both union and non-union staff. The Hospital has collective bargaining agreements with several unions including: 1199/SEIU - United Health Care Workers East, AFL/CIO; NYSNA - New York State Nurses Association; APTA-The American Physical Therapy Association; Local 3 International Brotherhood of Electrical Workers; Mount Sinai Hospital Pharmacy Association; United Federation of Special Police and Security Officers, Local 590; Service Employees International Union, 32BJ. As of December 31, 2010, approximately 5,500 employees belonged to a union. 1199/SEIU is the largest of the Hospital's unions, accounting for 36% of the total employees. The collective bargaining agreement with 1199/SEIU has been extended through 2014. The NYSNA contract expired January 1, 2011 and is currently being renegotiated. Management considers its relations with its employees to be good.

The Hospital provides pension and similar benefits to its employees through several defined benefit multi-employer union plans and tax-sheltered annuity plans. Contributions to the defined benefit multi-employer union plans are made in accordance with collective bargaining agreements under which contributions are generally based on salaries. It is the Hospital's policy to fund accrued costs under these plans on a current basis. The Hospital offers all non-bargaining unit employees the opportunity to participate in a Tax-Sheltered Annuity 403(b) plan. Currently, all non-bargaining unit employees are eligible to contribute to the plan upon date of hire. Additionally, the Hospital contributes to the 403(b) accounts for all non-union, benefit-eligible staff in varying amounts based upon the terms of the plan.

The Hospital also offers a 457(b) plan to qualified employees. Contributions, through payroll deductions, are made solely by the employees. In addition to the Hospital's pension plans, the Hospital offers health care benefits, including prescription drug benefits and life insurance, to eligible retired employees who reach normal retirement age while still working for the Hospital.

Future Plans

Though economic conditions remain challenging, the Hospital's management continues to focus on developing and growing top-line revenue while controlling expenses as the best strategy to maintain the Hospital's progress. Given the current economic environment, the Hospital continues to carefully review its capital plan to prioritize capital projects.

Notwithstanding the focus on managing expenses and controlling capital expenditures, management still believes that top-line revenue must grow in order to be successful, which will require investment in people and facilities. To further grow its mix of complex, high acuity cases, the Hospital will continue to focus on recruiting key physicians in certain identified areas for growth, such as cancer, cardiac, transplant and surgical services. In support of its growth in these strategic areas, the Hospital will expand its clinical cancer services into a new MSSM research tower which is currently under construction (described in more detail in the following paragraphs). The estimated cost of this expansion will be approximately \$70 million. The Hospital intends to borrow approximately \$65 million through this financing and fund the balance through equity.

The Hospital is also focusing on increasing the scope and extent of patient services by improving its relationships with its affiliated hospitals and thereby extending its tertiary and quaternary capabilities to those institutions and the patients they serve. In addition, the Hospital is seeking to develop a closer alignment with several key physician groups. The Hospital will continue to focus on reducing its length of stay as a way to create additional capacity.

The Hospital and MSSM are developing a new research building (the “Center for Science and Medicine Building” or “CSM”) on Madison Avenue between 101st Street and 102nd Street along with a mixed-use community facility/residential tower (the “Residential Building”) adjacent to CSM on 102nd Street, between Madison and Fifth Avenue. The CSM building is being financed with a combination of equity and the proceeds of a \$369,915,000 tax-exempt bond offering issued on behalf of MSSM through the Authority in November 2009.

To support the Hospital’s strategic focus on cancer services, The Mount Sinai Hospital Cancer Treatment Center (included as part of this financing) will be located in the CSM building in the sub-basement and 3rd and 4th floors. The 3rd and 4th floors will contain: examination rooms, infusion rooms for chemotherapy treatment and pharmacy, laboratory and phlebotomy rooms. In addition to the clinical spaces there will be provisions for family and patient waiting, conference rooms and administrative spaces for operation of the cancer center. The sub-basement level will contain a high energy linear accelerator for radiation treatment and computerized axial tomography simulators (CT scanners).

The Residential Building will be a 42-story building, consisting of a 10-story mixed-use base (the “Base”) and 32 floors of rental residential apartments to be built atop the Base (the “Tower”). The Residential Building will have separate entrances and lobbies for Mount Sinai (community facility) uses and the residential uses. The Tower will be located on floors 11 through 42 of the Residential Building and will be owned by a separate for-profit corporation. Mount Sinai is developing this building as an “80/20” residential rental apartment building allowing a percentage (20%) of the apartments to be available to qualified low income residents with the balance (80%) available as market rate, luxury rental residences. The Residential Building was financed through the New York State Housing Finance Agency with the issuance of \$143.7 million of taxable and tax-exempt variable rate demand bonds. The Hospital guarantees a letter of credit for the full amount of the bonds. At the end of the construction period (expected by the end of 2012), Mount Sinai will evaluate other financing options.

Mount Sinai School of Medicine

MSSM is a New York education corporation that is exempt from federal income tax under §501(c)(3) of the Code. MSSM was granted a charter by the Board of Regents in 1968. On February 7, 2011, MSSM ended its academic affiliation with New York University (“NYU”), thereby becoming an independently accredited degree-granting institution without a university affiliation.

The Hospital’s affiliation with MSSM extends back to MSSM’s inception in 1963. MSSM was established to provide a teaching and research facility to complement the health care services provided by the Hospital. As one of the few medical schools in the United States to have been created by a hospital, MSSM’s research has primarily focused on ultimate patient benefit. This focus on translational research has significant benefits for the Hospital which will be significantly enhanced with the anticipated opening of the new CSM building in late 2012.

MSSM has over 590 medical students enrolled in 2011, which student population is instructed by approximately 1,970 full-time faculty members consisting of both M.D.’s and Ph.D.’s and approximately 345 part-time faculty. MSSM has an affiliation agreement with New York City Health and Hospitals Corporation pursuant to which MSSM provides all of the professional staff at Elmhurst Hospital Center and Queens Hospital Center, for which MSSM has received \$189.6 million in revenues in fiscal year 2010. MSSM’s faculty practice plan and patient care related services revenues were \$471.2 million in fiscal year 2010.

Although MSSM is a separate legal entity from the Hospital, the two institutions are closely affiliated, the management structure of each and their respective Boards of Trustees function on an integrated basis, and they share a four-block campus on the Upper East Side of Manhattan. The relationship between the Hospital and MSSM permits these institutions to fulfill their commitment to providing high quality medical care,

medical education and medical research. In furtherance of this close relationship, a faculty appointment at MSSM is required for appointment to the medical staff of the Hospital, unless a waiver is granted.

MSSM IS NOT OBLIGATED WITH RESPECT TO THE SERIES 2011A BONDS OR THE LOAN AGREEMENT, AND THE HOSPITAL IS NOT OBLIGATED WITH RESPECT TO INDEBTEDNESS OF MSSM.

Related Entities

The Mount Sinai Medical Center, Inc. (“Medical Center”) is a New York not-for-profit corporation, exempt from federal income tax under the Code as a support organization. Prior to 2001, the Medical Center coordinated the fundraising activities of the Hospital and MSSM. Since 2001, however, the Hospital and MSSM reflected their fundraising activities on their own financial statements. All of the Medical Center’s net assets are permanently restricted and investment income (realized and unrealized) pertaining to the investments held by the Medical Center is for the benefit of certain of its affiliates and, accordingly, is recognized by the respective affiliate and not the Medical Center.

Mount Sinai Diagnostic & Treatment Center (the “DTC”) is licensed under Article 28 of the New York State Public Health Law. The DTC operates five outpatient sites on Mount Sinai’s campus that provide comprehensive primary and preventive care and specialty care to the residents of Harlem, as well as to the larger New York community. The Hospital is the sole member of the DTC.

MSMC Realty Corporation (“Realty Corp.”) is a New York not-for-profit corporation that is exempt from federal income tax under §501(c)(3) of the Code, the members of which are the Hospital, MSSM and the Medical Center. Realty Corp. provides financial support to its members, primarily through the acquisition of real property.

MSMC Residential Realty LLC (“MSMCRRC”) is a special purpose, limited liability company incorporated under the New York State Limited Liability Company Law for the sole purpose of supporting its member corporations by acquiring, owning, financing, operating and disposing of real estate, primarily for use as staff housing. MSMCRRC is owned by the Hospital, MSSM, and Realty Corp. in proportion to the value of the property contributed by each. MSMCRRC’s manager, MSMCRRC’s manager, owns 0.5% of MSMCRRC. Upon the initial formation of MSMCRRC, the Hospital, MSSM and Realty Corp. contributed to MSMCRRC property and equipment totaling, at net book value, approximately \$17.4 million, \$55.8 million and \$18.6 million, respectively. Such property and equipment was used by MSMCRRC to secure a \$145 million mortgage loan with a bank.

Healthfirst, Inc., a not-for-profit corporation organized under New York State law that is owned by 22 voluntary hospitals in New York City and Long Island, including the Hospital, owns a number of subsidiary health plans that are licensed by New York State and the federal Health Care Financing Administration to provide health benefits to Medicaid, Medicare and commercial beneficiaries.

8 East 102nd Street LLC, a New York Limited Liability Company, was formed to own, finance, develop, construct and maintain the Tower. The member of 8 East 102nd Street LLC is 8 East 102nd Street Manager LLC (“102nd Street Manager”). The members of 102nd Street Manager are the Hospital, MSSM and the Medical Center. In 2010, 8 East 102nd Street LLC completed a \$143,700,000 variable rate demand bond financing of the Tower (the “Residential Financing”). The Hospital is the guarantor of the letter of credit provided by Bank of America that supports the debt.

Mount Sinai Proton Holding Company, LLC (“MS Proton”) is a New York Limited Liability Company. Its sole member is The Mount Sinai Hospital. With several other hospitals, MS Proton will be a Member of New York Proton Management, LLC, which in turn will develop, construct and advance the New York Proton Center, a New York State Article 28 proton cancer center.

Litigation

Professional and general liability claims have been asserted against the Hospital by various claimants. These claims are in various stages of processing and some may ultimately be brought to trial. The outcome of these actions cannot be predicted with certainty by management or by counsel to the Hospital or by the respective insurance companies handling such matters. There are known incidents that may result in the assertion of additional claims, and such other claims may arise. It is the opinion of the management of the Hospital, based on prior experiences, that adequate insurance is maintained to provide for all significant professional liability losses which may arise and that the eventual liability from general liability claims, if any, against which management of the Hospital believes it has established adequate reserves, will not have a material adverse effect on the financial position of the Hospital or on its ability to make required debt service payments. The Hospital has no other litigation or proceedings and, to its knowledge, none have been threatened against the Hospital which would materially adversely affect its operations or financial condition.

Investments

At June 30, 2011, the carrying value of the Hospital's investments, including restricted funds, totaled approximately \$743.6 million. Of this amount, \$74.4 million was classified as permanently restricted and \$85.6 million was classified as temporarily restricted in accordance with U.S. generally accepted accounting principles.

Permanently restricted net assets include investments that must be held in perpetuity with the income expendable to support program activities as specified by donors. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. When donor restrictions expire, temporarily restricted net assets are reclassified as unrestricted net assets.

The Investments Committee of the Board of Trustees establishes the investment policy and guidelines and is responsible for supervising investments. Day to day oversight and monitoring of the investment portfolio has been enhanced with the hiring of a Chief Investment Officer and additional investment professionals. Ongoing dialogue occurs between the Investment Office and the Investments Committee as well as frequent investment committee meetings. The Investments Committee membership includes:

Peter W. May
Joel S. Ehrenkranz
Steven G. Einhorn – Vice Chairman
Richard A. Friedman
David S. Gottesman
Carl C. Icahn
Eric Mindich
Michael Minikes
Eric M. Ruttenberg
Daniel Stern
Thomas W. Strauss – Chairman

The majority of the Hospital's investments are in a pooled investment portfolio maintained for the benefit of the Hospital and MSSM. Investments include cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value as determined based on independent published sources (quoted market prices). Alternative investments are valued based upon net asset values derived from the application of the equity method of accounting. Investment income is allocated

to investment pool participants using the market value unit method. Realized gains and losses from the sale of securities are computed using the average cost method.

The value of the investment pool is determined on a monthly basis and a comprehensive monthly investment report is provided to the Investments Committee. Mount Sinai retains established investment managers with whom the Chief Investment Officer speaks on a regular basis to manage its funds. Portfolio positions are closely monitored, asset exposures constantly reviewed, and underlying liquidity actively managed to match pro forma needs. The investments are diversified mostly in marketable securities with less than 10% of the portfolio allocated to private equity. Although the portfolio's exposure to hedge funds is significant at around 70%, the individual funds are broadly diversified, most have quarterly or annual withdrawal terms, and primarily invest in marketable securities such as public equities and credit. There has never been an instance where the full market value as reported in the monthly investment report was not received when an investment was liquidated from the pool. As of June 30, 2011, 18% of the investment pool is available within one month, 37% within three months, 67% within six months, 76% within 12 months and 86% within 24 months. The remaining 14% of the investment pool is invested in assets with greater than 24 month liquidity. The pool gained 11.5% in 2010, which was in line with absolute median returns and top quartile in risk adjusted returns. The portfolio achieved return goals with much less risk as noted by volatility and beta. As well, the returns of the pool have provided top quartile performance over the last two, three, and five years. Performance has remained strong on an absolute basis but the Investments Committee and Investment Office continue to focus on supporting the best risk adjusted returns given the goals and needs of the Hospital.

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The following table shows the value of the Hospital's investments at carrying value at December 31, 2008, 2009 and 2010 and at June 30, 2010 and June 30, 2011.

Mount Sinai
Carrying Value of the Hospital's Investments
(\$ in '000's)

	June 30,		December 31,		
	2011	2010	2010	2009	2008
Cash	\$ 24,516	\$ 8,844	\$ 18,891	\$ 23,034	\$ 7,736
Fixed Income					
Corporate Bonds	25,724	24,491	24,881	18,956	18,789
U.S. Government Bonds	102	54	147	3,850	729
Equities					
Domestic	22,906	34,025	20,866	29,510	22,031
International	12,334	9,748	11,456	9,999	14,142
Hedge Funds					
Long only equity	18,182	19,619	23,605	26,060	18,466
Long/short equity	77,776	71,341	84,970	68,216	66,007
Long/short credit	37,936	35,637	36,802	34,589	16,492
Multi-Strategy	44,494	46,493	44,310	54,650	56,413
Open mandate	111,036	77,966	97,395	85,931	72,567
Macro	33,332	33,144	32,563	-	-
Real assets	16,079	12,485	16,248	13,378	9,555
Private Equity					
Equity	21,480	14,635	20,532	12,423	11,231
Credit/distressed	24,705	23,635	24,531	27,391	20,489
Real Assets	10,347	8,404	11,033	10,686	9,715
Total Pooled Inv.	480,949	420,521	468,230	418,673	344,362
Non-Pooled	262,666	50,350	256,963	48,231	31,606
Total Investments	\$ 743,615	\$ 470,871	\$ 725,193	\$ 466,904	\$ 375,968

Payor Mix

The following table illustrates the payor mix for the Hospital for each of the three years ended December 31, 2008, 2009 and 2010 and for the six-month periods ended June 30, 2010 and 2011:

Mount Sinai Discharges by Payor (Adults and Pediatrics)

	6-Months Ended June 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
Medicare	30%	30%	30%	30%	31%
Medicaid	23%	24%	23%	23%	23%
Blue Cross	12%	11%	11%	11%	11%
Commercial/Other	4%	3%	4%	4%	4%
Managed Care	31%	32%	32%	32%	31%
Total	100%	100%	100%	100%	100%

Utilization

The following chart sets forth utilization statistics (excluding routine nursery) for the Hospital for each of the three years ended December 31, 2008, 2009 and 2010 and for the six-month periods ended June 30, 2010 and 2011:

Mount Sinai Utilization Statistics

	6-Months Ended June 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
Discharges (excludes nursery)	31,627	32,205	64,721	64,700	62,593
Patient Days (excludes nursery)	189,931	189,459	381,687	381,831	388,420
Average Length of Stay (In Days)	6.0	5.9	5.9	5.9	6.2
Average Daily Census	1,049	1,047	1,046	1,046	1,061
Average Beds Available	1,222	1,224	1,213	1,218	1,218
Percent of Occupancy	86%	86%	86%	86%	87%
Emergency Room Visits*	56,717	54,980	111,263	115,139	105,643
Clinic Visits	195,258	187,654	396,117	366,103	347,268
Ambulatory Surgery Visits	19,583	17,539	35,675	34,249	31,716

* Excludes patients who were admitted to the hospital through the Emergency Room.

Statement of Operations

The following consolidated statements of operations for the three years ended December 31, 2010, 2009 and 2008 are derived from the audited consolidated financial statements of the Hospital. The consolidated statements of operations for the six month periods ended June 30, 2011 and 2010 are derived from unaudited consolidated financial statements (included in Appendix B-2). The unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, which the Hospital considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2011. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Mount Sinai
Consolidated Statements of Operations (\$ in '000's)

	Unaudited		Audited		
	6-Months Ended		Year Ended December 31,		
	June 30,				
	2011	2010	2010	2009	2008
Operating revenue					
Net patient service revenue	\$798,769	\$757,448	\$1,549,675	\$1,465,041	\$1,405,513
Investment income and net realized gains on sales of securities	11,511	11,852	23,595	4,189	15,604
Contributions	147	214	393	316	1,803
Other Revenue	11,143	12,349	27,797	19,890	25,857
Net assets released from restrictions for operations	16,472	13,096	23,979	30,941	34,098
Total operating revenue before other items	838,042	794,959	1,625,439	1,520,377	1,482,875
Operating expenses					
Salaries and wages	317,139	300,575	617,859	590,290	565,499
Employee benefits	96,893	90,685	182,424	165,588	157,035
Supplies and other	331,641	300,215	621,145	579,799	541,657
Depreciation	39,373	37,732	74,162	72,950	73,172
Interest and amortization	8,380	13,371	19,924	25,758	26,841
Bad debts	11,268	14,308	22,535	28,615	54,374
Total operating expenses before other items	804,694	756,886	1,538,049	1,463,000	1,418,578
Excess of operating revenue over operating expenses before other items	33,348	38,073	87,390	57,377	64,297
Other items					
Net change in unrealized gains and losses on investments and change in value of alternative investments	4,438	(5,794)	27,044	68,345	(108,427)
Gain on sale of interest in managed long-term care organization	-	-	7,709	-	-
Recognition of deferred gain on sale of real estate	-	-	-	6,847	-
Third-party reimbursement settlements	-	7,508	22,687	21,679	18,153
Loss on refunding and refinancing of debt	-	(9,470)	(9,470)	-	-
Net change in investment in captive insurance program	3,021	-	5,804	11,711	(28,909)
Medical residents FICA tax refund	-	-	13,084	-	-
Malpractice insurance program interest rate surplus (shortfall)	1,334	(1,840)	6,161	4,605	(25,500)
Loss on disposal of fixed assets	-	-	-	-	(3,006)
Excess (deficiency) of revenue over expenses	42,141	28,477	160,409	170,564	(83,392)
Other changes in unrestricted net assets					
Transfers to affiliates	(5,361)	(1,931)	(8,013)	(1,498)	(1,414)
Distribution from MSMC Residential Realty LLC	512	775	1,116	22,134	-
Transfers to the Mount Sinai School of Medicine	(512)	(775)	(1,116)	(22,134)	(5,000)
Transfer to MSMC Realty Corp.	-	-	-	(9,533)	-
Net assets released from restrictions for capital asset acquisitions	719	541	8,822	349	2,812
Change in postretirement liability to be recognized in future periods	-	-	(2,282)	(2,420)	(1,011)
Total other changes in unrestricted net assets	(4,642)	(1,390)	(1,473)	(13,102)	(4,613)
Net increase (decrease) in unrestricted net assets	\$37,499	\$27,087	\$158,936	\$157,462	\$(88,005)

Source: Audited financial statements of the Hospital for the years ended December 31, 2010, 2009 and 2008 and unaudited interim financial statements for the six-month periods ended June 30, 2011 and 2010.

Management's Discussion of Operations

Six-Month Periods Ended June 30, 2011 and June 30, 2010

For the first six months of 2011, the Hospital recorded an operating surplus of \$33.3 million before other items and other changes in unrestricted net assets, and a \$37.5 million increase in unrestricted net assets after accounting for such items, compared to an operating surplus of \$38.1 million and an increase in unrestricted net assets of \$27.1 million in the first six months of 2010.

Operating results for the first six months of 2011 were \$4.7 million (or 12%) lower than the prior year. This decrease was largely a result of a 5% increase in net patient service revenue offset by a 6% increase in expenses.

For the first six months of 2011, the Hospital recorded total revenue of \$838.0 million: 74% from inpatient services; 21% from outpatient services; and 5% from other sources. The Hospital recorded \$798.8 million in net patient service revenue, earned \$11.5 million in investment income, received \$0.1 million in philanthropic contributions, and recorded \$11.1 million in other revenue and \$16.5 million in net assets released from restrictions for operations. Other revenue consisted primarily of revenue from ancillary services, such as the cafeteria, parking lot and rental properties. Net assets released from restrictions represent donor-restricted contributions for which all donor restrictions have been satisfied during the reporting period.

Net patient service revenue increased 5% in the first six months of 2011 as compared to the same period in 2010 mostly due to a 26% increase in outpatient revenue as well as increases in reimbursement rates. The increase in ambulatory surgery cases was mainly in higher intensity and higher margin specialties such as oncology. Outpatient revenue increased due to the increase in oncology volume as well. Overall discharges decreased 2% from the prior year period. The majority of this decrease was due to a shift of nearly 600 cardiology cases from an inpatient to outpatient setting (ambulatory surgery visits were up 12%). Surgery cases were up over 450 cases and obstetrics/newborn cases were up nearly 250 over the prior year period. Length of stay at the Manhattan campus remained relatively stable at 6.1.

Total revenue increased \$43.1 million, or 5%, in the first six months of 2011 as compared to the comparable period in 2010.

Total operating expenses for the first six months of 2011 totaled \$804.7 million compared with \$756.9 million in the first six months of 2010. Expenses break down as follows: 52% in salaries and benefits; 41% in supplies; 5% in depreciation and amortization; 1% in interest; and 1% in bad debt expense.

Salaries and benefits expense increased 6% in the first six months of 2011 as compared to the first six months of 2010 due to the annualization of salary increases, annualization of salaries for new hires and increased staffing for new programs. The Rutenberg Cancer Center moved from MSSM to the Hospital in April 2010 therefore salaries expense for the first six months of 2010 included limited salaries related to this department whereas the first half of 2011 includes those expenses for the entire six months.

Supplies expense increased 10% in the first six months of 2011 as compared to the first six months of 2010. This increase was associated with increased payments to MSSM to support key physician recruitments who, in turn, provide important clinical services for the Hospital. In addition, the Rutenberg Cancer Center moved from MSSM to the Hospital in April 2010 thus there was limited correlating supplies expense for this department in the first six months of 2010. Inflation in the cost of medical devices, blood products and drugs, particularly related to the increase in oncology services, also contributed to the increase in supplies expense.

Notwithstanding the 5% increase in patient revenue, patient accounts receivable only increased by \$6.4 million from December 31, 2010 to June 30, 2011, an increase of 3%. Days in accounts payable remained steady from year end at 74 days.

From December 31, 2010 through June 30, 2011, cash and investments increased by \$8.4 million or 1%. The Hospital continues to provide MSSM with liquidity in connection with ongoing projects related to the strategic plan. The amounts provided to MSSM are recorded as due from related parties on the consolidated statement of financial position. The amount due to the Hospital increased slightly since December 31, 2010, and was approximately \$70.0 million at June 30, 2011.

There were two additional non-operating (below-the-line) items on the consolidated statement of operations that relate to the Hospital's participation in its insurance programs:

Net Change in Investment in Captive Insurance Company. The Hospital is a part owner of a NYS licensed insurance company called Hospitals Insurance Company ("HIC") which is a pooled program providing malpractice coverage to its owners. As part owner, the Hospital records its investment using the equity method. For the first half of 2011, the Hospital recorded a gain on its equity investment. This is a non-cash gain and is reflected as an other item, below-the-line.

Malpractice Insurance Program Interest Rate Shortfall/Surplus. The Hospital is a part owner of a captive insurance company called FFH Insurance Company ("FFH"). As part owner, the Hospital guarantees a certain level of investment returns on FFH's portfolio. As a result of market losses in 2008, the Hospital and MSSM were required to fund their share of market losses at FFH. At June 30, 2011, this liability has been fully repaid.

There was a change in the recording of assets and liabilities on the statement of financial position that relates to the Hospital's participation in its insurance programs:

Insurance Claims and Related Insurance Recoveries. In 2011, the Hospital adopted Financial Accounting Standards Board Accounting Standards Update No. 2010-24, Presentation of Insurance Claims and Related Insurance Recoveries ("ASU 2010-24"). ASU 2010-24 clarifies that, for medical malpractice claims or similar contingent liabilities, a health care entity, such as the Hospital, should not net insurance recoveries against related claims liabilities and that claims liabilities should be determined without consideration of insurance recoveries. Health care entities that are indemnified for these liabilities should recognize insurance receivables at the same time that they recognize the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts. The Hospital has recognized claims liabilities and insurance receivables of approximately \$187.4 million (\$28.1 million current and \$159.3 million long-term).

Years Ended December 31, 2010 and December 31, 2009

For the year ended December 31, 2010, the Hospital recorded an operating surplus of \$87.4 million before other items and other changes in unrestricted net assets, and a \$158.9 million increase in unrestricted net assets after accounting for such items, compared to an operating surplus of \$57.4 million and an increase in unrestricted net assets of \$157.5 million in 2009.

Operating results for 2010 were \$30.0 million (or 52%) higher than the prior year. This increase was largely a result of:

- (1) Market returns that were higher than the prior year. The Hospital recorded investment income of \$23.6 million in 2010, which was \$19.4 million higher than the prior year. The increase reflects realized gains on investments.

- (2) Net patient service revenue which increased by 6% or \$84.6 million in 2010. This increase was largely due to higher case acuity and growth in outpatient revenue.

offset by:

- (3) Increased costs related to new recruits and programs.

In 2010, the Hospital recorded total revenue of \$1.63 billion: 77% from inpatient services; 18% from outpatient services; and 5% from other sources. The Hospital recorded \$1.55 billion in net patient service revenue, earned \$23.6 million in investment income, received \$0.4 million in philanthropic contributions, and recorded \$27.8 million in other revenue and \$24.0 million in net assets released from restrictions for operations. Other revenue consisted primarily of revenue from ancillary services, such as the cafeteria, parking lot and rental properties. Net assets released from restrictions represent donor-restricted contributions for which all donor restrictions have been satisfied during the reporting period.

Net patient service revenue increased 6% in 2010 as compared to 2009, mostly due to an 18% increase in outpatient revenue and increases in reimbursement rates. The increase in ambulatory surgery cases was mainly in higher intensity and higher margin specialties such as cardiology, orthopedics, urology and otolaryngology. In addition, outpatient revenue increased due to an increase in oncology volume and revenue. Although overall discharges remained level from the prior year period, medical/surgical volume increased by 500 cases offset by a reduction in pediatric and newborn cases. Length of stay at the Manhattan campus remained stable at 6.0.

Total revenue increased \$105.1 million, or 7%, in 2010 as compared to 2009.

Total operating expenses for 2010 totaled \$1.54 billion compared with \$1.46 billion in 2009. Expenses break down as follows: 52% in salaries and benefits; 40% in supplies; 5% in depreciation and amortization; 1% in interest; and 2% in bad debt expense.

Salaries and benefits expense increased 6% in 2010 as compared to 2009 due to the annualization of salary increases, annualization of salaries for new hires and increased staffing for new programs.

Supplies expense increased 7% in 2010 as compared to 2009. This increase was largely associated with increased payments to MSSM to support key physician recruits who, in turn, provide important clinical services for the Hospital. There was also an increased usage of oncology drugs due to growth in outpatient cancer visits, as well as an increased usage of orthopedic supplies due to higher orthopedic volume. Inflation in the cost of medical devices, blood products and drugs, also contributed to the increase in supplies expense.

Due to the increase in patient revenue, patient accounts receivable increased by \$18 million from December 31, 2009 to December 31, 2010. Days in accounts payable remained steady from year-end 2009 at 77 days.

From December 31, 2009 through December 31, 2010, cash and investments increased by \$125.7 million or 15%. Approximately \$21.5 million of the increase in cash and investments was due to the proceeds from the sale of a company of which the Hospital was a partial member (See "Gain on Sale of Investment in Managed Long-Term Care Program" below). The Hospital continues to provide MSSM with liquidity in connection with ongoing projects related to the strategic plan. The amounts provided to MSSM are recorded as due from related parties on the consolidated statement of financial position. The amount due to the Hospital at December 31, 2010, is \$69.2 million, an increase of \$11.8 million since December 31, 2009.

There were several non-operating (below-the-line) items on the consolidated statement of operations which reflect infrequent activity:

Loss on Refunding of Debt. In June 2010, the Hospital refinanced its outstanding Series 2000 bonds which were callable in July 2010, partially at par and partially at 101%. The financing was performed to reduce the interest expense on the bonds. In connection with the refinancing, a loss on refunding of approximately \$9.5 million was incurred by the Hospital as a result of the write-off of the deferred financing costs of the original Series 2000 offering and the payment of the redemption premium on part of the bonds. This amount is reported in the consolidated statement of operations.

Third Party Reimbursement Settlements. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In 2010, management recognized approximately \$22.7 million, which was a result of settlements of prior years' third-party reimbursements.

Gain on Sale of Investment in Managed Long-Term Care Program. The Hospital was a member of a managed care company called Senior Health Partners. In July 2010, Senior Health Partners was sold and the Hospital received cash of approximately \$21.5 million as its share of the sale proceeds. The Hospital recognized an unrestricted gain on the sale of the company of \$7.7 million (remaining \$16.0 million of proceeds is recognized as temporarily restricted net assets).

FICA Refund. In March 2010, The Internal Revenue Service ("IRS") announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act ("FICA") taxes. For the year ended December 31, 2010, the Hospital has recorded estimated net revenue of approximately \$13.1 million related to FICA medical resident refund claims that are expected to meet the IRS requirements to be eligible for refunds. At December 31, 2010, the Hospital has recorded a net receivable of approximately \$13.1 million for its share of the FICA refund. The Hospital has established its estimate based on information presently available; the estimate is subject to change as the IRS adjudicates the claims.

There were two additional non-operating (below-the-line) items on the consolidated statement of operations that relate to the Hospital's participation in its insurance program:

Net Change in Investment in Captive Insurance Company. The Hospital is a part owner of a NYS licensed insurance company called Hospitals Insurance Company ("HIC") which is a pooled program providing malpractice coverage to its owners. As part owner, the Hospital records its investment using the equity method. In 2010, the Hospital recorded a gain on its equity investment. This is a non-cash gain for 2010 and is reflected as an other item, below-the-line.

Malpractice Insurance Program Interest Rate Shortfall/Surplus. The Hospital is a part owner of a captive insurance company called FFH Insurance Company ("FFH"). As part owner, the Hospital guarantees a certain level of investment returns on FFH's portfolio. As a result of market losses in 2008, the Hospital and MSSM were required to fund their share of market losses at FFH. The current amount that is still outstanding is approximately \$2.1 million. It is included in the other liabilities section (current and non-current) of the consolidated statement of financial position.

Years Ended December 31, 2009 and December 31, 2008

For the year ended December 31, 2009, the Hospital recorded an operating surplus of \$57.4 million before other items and other changes in unrestricted net assets, and a \$157.5 million increase in unrestricted net assets after accounting for such items, compared to an operating surplus of \$64.3 million and a decrease in unrestricted net assets of \$88.0 million in 2008.

Operating income for 2009 was \$6.9 million (or 11%) less than the prior year, largely as a result of:

- (1) Market returns that were below prior year results. The Hospital recorded investment income of \$4.2 million in 2009, which was \$11.4 million less than the prior year. The decrease reflects lower interest income as a result of the low interest environment. The decline in investment income was larger than the decline in operating income, year over year.
- (2) Other revenue which declined by \$6.0 million from 2008 to 2009. This decline was largely due to a one-time, \$4.3 million re-insurance recovery that the Hospital received in 2008.

For 2009, the Hospital recorded total revenue of \$1,520.4 million: 79% from inpatient services; 17% from outpatient services; and 4% from other sources. The Hospital recorded \$1,465.0 million in net patient service revenue, earned \$4.2 million in investment income, received \$0.3 million in philanthropic contributions, and recorded \$19.9 million in other revenue and \$30.9 million in net assets released from restrictions for operations.

Net patient service revenue increased 4% in 2009 as compared to 2008 due to a 3% increase in discharges (excluding nursery), a 4% increase in case acuity and a 10% increase in outpatient revenue. Overall case mix at the Manhattan campus for 2009 was 2.21 as compared to 2.13 in 2008. Outpatient revenue increased due to a 8% increase in ambulatory surgery visits and a 9% increase in emergency room visits. The increase in ambulatory surgery cases was mainly in higher intensity and higher margin specialties such as cardiology, orthopedics, urology and gynecology/gynecology oncology. In addition, the medical/surgical length of stay at the Manhattan campus decreased in 2009 as compared to 2008, from 5.6 to 5.3. In 2009 net patient service revenue was reduced as a result of a change in accounting for charity care (see paragraph on Total operating expenses). Normalizing for the change, net patient service revenue would have increased by 7% in 2009 over 2008.

Total revenue increased \$37.5 million, or 3%, in 2009 as compared to 2008.

Total operating expenses for 2009, totaled \$1,463.0 million compared with \$1,418.6 million in 2008. Expenses broke down as follows: 52% in salaries and benefits; 39% in supplies; 5% in depreciation; 2% in interest and amortization; and 2% in bad debt expense. During 2009, the Hospital revised its charity care policy which changed the classification of certain amounts from bad debt to charity care. Charity care was recorded as a reduction of net patient service revenue.

Salaries and benefits expense increased 5% in 2009 as compared to 2008 due to the annualization of salaries for new hires as well as to staffing growth required to support higher acuity and discharges. During 2009, the Hospital experienced growth in cardiac services and opened a new cardiac catheterization lab and electrophysiology lab. The additional volume and service growth resulted in increased staffing levels and higher salaries and benefits expense for 2009.

Supplies expense increased 7% in 2009 as compared to 2008. This increase was largely associated with increased payments to MSSM to support key physician recruitments who, in turn, provide important clinical services for the Hospital.

Notwithstanding the increase in net patient service revenue, patient accounts receivable only increased by \$5.4 million from December 31, 2008, to December 31, 2009. Accounts payable remained flat between December 31, 2008, and December 31, 2009, with days in accounts payable remaining steady at 80 days.

From December 31, 2008, through December 31, 2009, cash and investments increased by \$194.2 million or 30%. The Hospital provided MSSM with liquidity in connection with ongoing projects related to the strategic plan. The amount provided to MSSM was recorded as due from related parties on the

consolidated statement of financial position. The amount due to the Hospital at December 31, 2009 was \$56.9 million, a decrease of \$22.4 million from December 31, 2008.

There were several non-operating (below-the-line) items on the statement of operations (included under other Items and other changes in unrestricted net assets) which reflected infrequent activity:

Recognition of Deferred Gain on Sale of Real Estate. The Hospital is a member of a related organization called MSMCRRC. During 2003, the Hospital contributed to MSMCRRC, at net book value, property totaling approximately \$17.4 million. During 2009, MSMCRRC sold one of those properties for \$42 million and consequently, the Hospital recognized the gain on the appreciation of the contributed property which had previously been deferred (\$6.8 million).

Distribution from MSMCRRC. In connection with the above described sale of real estate and other distributions, the Hospital received \$22.1 million from MSMCRRC as its proportionate share of the proceeds from the sale and other distributions.

Transfer to MSSM. The Hospital transferred its proportionate share of the proceeds from the sale of real estate and other distributions to MSSM. This transfer was done in order to support strategic programs, specifically the building of the new Center for Science and Medicine.

Third Party Reimbursement Settlements. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. As of December 31, 2009, management recognized approximately \$21.7 million, which was a result of settlements of prior year's third-party reimbursements.

There were two additional non-operating (below-the-line) items on the consolidated statement of operations that relate to the Hospital's participation in its insurance program:

Net Change in Investment in Captive Insurance Company. The Hospital is a part owner of a NYS licensed insurance company called Hospitals Insurance Company. As part owner, the Hospital records its investment using the equity method. In 2008, the Hospital recorded a loss on its equity investment due to losses in the equity markets. In 2009, the Hospital recorded a gain on its equity investment. This was a non-cash gain for 2009 and was reflected as an other item, below-the-line.

Malpractice Insurance Program Interest Rate Shortfall/Surplus. The Hospital is a part owner of a captive insurance company called FFH Insurance Company. As part owner, the Hospital guarantees a certain level of investment returns on FFH's portfolio. As a result of market losses in 2008, the Hospital and MSSM were required to accrue their share of market losses at FFH. For 2008, this liability totaled \$36.5 million with \$25.5 million being allocated to the Hospital. The liability was reduced during 2009 due to payments made by the Hospital to reduce the liability as well as investment earnings on FFH's portfolio in excess of the required returns. As of December 31, 2009, the amount that was outstanding was approximately \$8.6 which was included in the other liabilities section (current and non-current) of the consolidated statement of financial position.

There was an additional non-operating (below-the-line) item on the consolidated statement of operations that related to Realty Corp.:

Transfer to Realty Corp. During 2009, the Hospital made a contribution to Realty Corp for \$9.5 million allowing Realty Corp. to repay its mortgage note.

Year Ended December 31, 2008

For the year ended December 31, 2008, the Hospital recorded an operating surplus of \$64.3 million before other items and other changes in unrestricted net assets, and an \$88.0 million decrease in unrestricted net assets after accounting for such items, compared to an operating surplus of \$85.1 million and an increase in unrestricted net assets of \$132.4 million in 2007.

Operating income for 2008 was \$20.8 million less than the prior year, largely as a result of:

- (1) Market returns that were below prior year results. The Hospital recorded investment income of \$15.6M in 2008, which was \$15.7 million less than the prior year. The decrease reflects realized losses on investments as a result of poor market returns in 2008 (recorded in operating income rather than unrealized losses which appear as an other item below-the-line) and lower interest income. The decline in investment income accounts for 75% of the net difference in operating results between 2007 and 2008.
- (2) Expenses, both salaries and supplies, that were higher due to the opening of the new Center for Advanced Medicine and other new nursing units;
- (3) A decline in current year profitability at the Hospital's Queens campus.

For 2008, the Hospital recorded total revenue of \$1.483 billion: 79% from inpatient services; 16% from outpatient services; and 5% from other sources. The Hospital recorded \$1.406 billion in patient revenue, earned \$15.6 million in investment income, received \$1.8 million in philanthropic contributions, and recorded \$25.9 million in other revenue and \$34.1 million in net assets released from restrictions for operations.

Net patient service revenue increased 7% in 2008 as compared to 2007. Although discharges (excluding nursery) increased by approximately 1%, higher case acuity and higher outpatient revenue resulted in the increase in Net patient revenue. Overall case mix for 2008 was 2.13 as compared to 2.04 for 2007. In addition, outpatient revenue increased due to a 12% increase in ambulatory surgery cases and a 7% increase in emergency room visits. The increase in ambulatory surgery cases was mainly in higher intensity and higher margin specialties such as cardiology, orthopedics, urology and gynecology/gynecology oncology.

Discharges for 2008 increased by 1% over 2007, from 61,738 to 62,593. Comparing quarterly discharges, however, shows that the Hospital experienced a 2% decline in discharges in the first quarter which was reversed by end of the second quarter resulting in flat discharges through six months of the year. Subsequently, in the third and fourth quarters, the Hospital experienced a 3% increase in discharges. The first quarter decline occurred due to an increase in length of stay during the first quarter of 2008 which was reduced over the subsequent quarters. Average length of stay in the 1st quarter of 2008 was 6.6 whereas by year-end it had declined back to 6.3. Management implemented several measures to address length of stay, including a focused effort by senior hospital administration, resulting in the decrease since March 2008. In addition, discharges improved later in 2008 as several new recruits that were brought online earlier began executing their business plans and positively affecting discharges.

Total revenue increased \$79.1 million, or 6%, in 2008 as compared to 2007.

Total operating expenses for 2008, before the effects of the malpractice insurance program discussed below, totaled \$1,418.6 million compared with \$1,318.7 million in 2007. Expenses broke down as follows: 51% in salaries and benefits; 38% in supplies; 5% in depreciation; 2% in interest and amortization; and 4% in bad debt expense. Salaries and benefits expense increased 7% in 2008 as compared to 2007 due to:

- (1) Staffing costs related to the opening of new units at the hospital;

- (2) Staffing costs related to the opening of the new Center for Advanced Medicine (discussed below);
- (3) Additional staffing needs related to the high acuity as well as the high census earlier in the year.

Supplies expense increased 9% in 2008 as compared to 2007. This increase was largely associated with higher acuity as well as inflation in the cost of medical devices, blood products and drugs. Additionally, the Hospital began incurring lease expense for its occupancy of the new Center for Advanced Medicine, which is recorded within supplies expense.

Notwithstanding the increase in patient revenue, patient accounts receivable declined from December 31, 2007, to December 31, 2008, by 3%. Accounts payable increased 5% between December 31, 2007, and December 31, 2008, however days in accounts payable dropped from 86 at year-end 2007 to 81 at year-end 2008.

From December 31, 2007, through December 31, 2008, cash and investments decreased by \$109.4 million or 14%. The decline in cash was due to both investment losses of \$108.4 million as well as the Hospital providing MSSM with liquidity in connection with ongoing projects related to the strategic plan. The amounts provided to MSSM are recorded as due from related parties on the consolidated statements of financial position. The amount due to the Hospital at December 31, 2008 was \$79.3 million, an increase of \$57.1 million from December 31, 2007.

There were two additional non-operating (below-the-line) items on the consolidated statement of operations that related to market results. Both charges related to the Hospital's participation in its insurance program.

Net Change in Investment in Captive Insurance Company. The Hospital is a part owner of a NYS licensed insurance company called Hospitals Insurance Company. As part owner, the Hospital records its investment using the equity method. In prior years, the Hospital recorded a gain on its equity investment. Due to losses in the equity markets, the Hospital recorded a loss on its equity investment in 2008, net of amounts accrued previously, of \$28.9 million. This charge was a non-cash loss for 2008 and was reflected as an other item, below-the-line.

Malpractice Insurance Program Interest Rate Shortfall. The Hospital is a part owner of a captive insurance company called FFH Insurance Company. As part owner, the Hospital guarantees a certain level of investment returns on FFH's portfolio. As a result of market losses in 2008, the Hospital and MSSM were required to accrue their share of market losses at FFH. For 2008, this liability totaled \$36.5 million with \$25.5 million being allocated to the Hospital. The liability was to be paid out over four years beginning in 2009 and was included in the other liabilities section (current and non-current) of the consolidated statement of financial position.

Market Environment

The Hospital operates within the highly competitive health care market comprised of the five boroughs of New York City. Service areas tend to overlap, in part due to the close geographic proximity of numerous hospitals and in part due to the fact that New York City hospitals offer some of the most sophisticated medical programs in the world. Hospitals, continuing care facilities and other health care providers in New York are challenged to continue delivering the highest quality care under mounting cost pressures and revenue reductions which has resulted in a deterioration of the general financial condition of many city hospitals.

Geographic Origin of Patients of Mount Sinai

The following chart sets forth the geographic origin of inpatients of the Hospital for the years ended December 31, 2010, 2009 and 2008, the most recent periods for which such data is available:

County	Year Ended		
	2010	2009	2008
Manhattan	40%	40%	41%
Queens	13%	13%	13%
Kings	13%	13%	12%
Bronx	9%	9%	9%
Staten Island	1%	1%	1%
Total NYC	76%	76%	76%

Financial Ratios

The following tables set forth certain of the Hospital's financial ratios at December 31, 2010, and 2009, 2008, and at June 30, 2011, and June 30, 2010. Days Cash on Hand is shown only at June 30, 2011 and 2010, because the Master Trust Indenture was amended and restated in connection with the issuance of the Series 2010A Bonds affecting the comparability of prior calculations.

Key Financial Ratios

	Cash on Hand (Days)¹	
	(\$ in '000's)	
	At June 30,	
	2011	2010
Unencumbered Cash and Cash Equivalents	\$473,056	\$403,562
Other Unencumbered Marketable Securities	<u>444,782</u>	<u>386,485</u>
Total Unrestricted Cash and Investments	\$917,838	\$790,047
Total Expenses ²	\$1,585,857	\$1,492,088
plus: Principal Payment on Long Term Debt	1,275	637
(less) Depreciation and Amortization ²	(76,163)	(73,597)
(less) Bad Debt ²	<u>(19,495)</u>	<u>(15,736)</u>
Total Adjusted Expenses ²	\$1,491,474	\$1,403,392
Days Cash on Hand	225	205

¹ As calculated per the Master Trust Indenture. In connection with the issuance of the Series 2010A Bonds, the components of the Days Cash on Hand were amended, affecting the comparability of prior calculations.

² Calculated using rolling 12 months ended June 30, 2011 and 2010

Debt Service Coverage¹					
(\$ in '000's)					
	At June 30, ²		At December 31,		
	2011	2010	2010	2009	2008
Excess of Revenues Over Expenses ¹	\$116,004	\$105,266	\$122,042	\$95,372	\$28,041
(plus) Depreciation and Interest Expense	<u>90,736</u>	<u>100,224</u>	<u>94,086</u>	<u>98,708</u>	<u>100,013</u>
Income Available for Debt Service	\$206,740	\$205,490	\$216,128	\$194,080	\$128,054
Pro Forma Maximum Annual Debt Service ³	\$37,979	\$37,979	\$37,979	\$37,979	\$37,979
Historical Coverage of Pro Forma Maximum Annual Debt Service ³	5.4x	5.4x	5.7x	5.1x	3.4x

¹ As calculated per the Master Trust Indenture, dated as of June 1, 2010

² Calculated using rolling 12 months for the periods ended June 30, 2011 and 2010

Debt to Capitalization						
(\$ in '000's)						
	Pro Forma	At June 30,		At December 31,		
	2011	2011	2010	2010	2009	2008
Long-term Debt	\$464,160	\$398,770	\$402,369	\$400,889	\$423,670	\$440,266
Unrestricted Net Assets	<u>\$681,456</u>	<u>\$681,456</u>	<u>\$512,108</u>	<u>\$643,957</u>	<u>\$485,021</u>	<u>\$327,559</u>
Total Capitalization	\$1,145,616	\$1,080,226	\$914,477	\$1,044,846	\$908,691	\$767,825
Long-term Debt / Capitalization	40.5%	36.9%	44.0%	38.4%	46.6%	57.3%

As of the date hereof, the Hospital is in compliance with all financial covenants set forth in the Master Indenture, including those outlined above, and expects to remain in compliance with all financial covenants set forth in the Master Indenture for the foreseeable future. See "Management's Discussion of Operations" for additional financial information relating to the Hospital.

Reimbursement Methodologies

Medicare

Medicare covers hospital services for eligible individuals who are elderly, disabled or subject to certain chronic conditions. Medicare pays acute care hospitals, such as the Hospital, for most general medical/surgical services provided to eligible inpatients under a prospective payment system ("PPS") known as "inpatient PPS." Under the inpatient PPS, hospitals receive a predetermined payment amount for each Medicare discharge. This PPS payment is a standard national amount based on the diagnostic related group ("DRG") for the discharge subject to a geographic adjustment that takes into account wage differentials. DRGs classify treatments for illnesses according to the estimated costs of hospital resources necessary to furnish care for each patient's principal diagnosis. Hospitals are thus at financial risk for providing services to a patient at an actual cost greater than the applicable DRG payment. DRG rates are updated annually (the update factor) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the market basket). Historically, the increases to the DRG rates have often been lower than the percentage increases in the costs of goods and services purchased by hospitals. DRG weights are also recalibrated annually.

Hospitals also receive additional payments for certain costs, such as new technology costs as well as atypical cases (known as outliers) and the costs of organ procurement. Hospitals also receive an additional per discharge payment based on a federal rate (with certain adjustments) to reimburse hospitals for capital costs. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services. Eligibility for the full increase is currently conditioned upon a hospital's submission of quality data to Medicare. Furthermore, payments may be restricted for hospital acquired conditions. Certain hospital inpatient facilities or units providing specialized services, such as rehabilitation or psychiatric units, are reimbursed under distinct reimbursement methodologies. In 2002, Medicare implemented a distinct PPS for inpatient rehabilitation services and reduced the number of diagnoses that qualify a patient to be treated in an inpatient rehabilitation unit. Patients receiving rehabilitation services are classified into case mix groups based upon impairment, age, co-morbidities and functional capability. Hospitals receive a predetermined amount per discharge based on the patient's case mix group as adjusted for geographic area wage levels, low-income patients, hospital teaching status, rural areas and high-cost outliers. Medicare also adapted a distinct PPS for inpatient psychiatric services in 2005. Hospitals receive a predetermined per diem payment with adjustments for factors such as patient characteristics, DRO, hospital teaching status and geographic area wage levels. Rehabilitation and psychiatric PPS rates are also subject to updates. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services.

Most hospital outpatient services are also reimbursed on a PPS basis. Payments under the outpatient PPS ("OPPS") are based upon ambulatory payment classification ("APC") groups. An APC group includes various services and procedures determined to be similar. APC rates are adjusted annually and are subject to a geographic adjustment that takes into account wage differentials and the average amount of resources required to provide the service (e.g., visit, chest x-ray, surgical procedure). Hospitals are eligible to receive additional payments for certain new or high cost drugs and devices as well as certain outlier payments. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services. OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Outpatient services not covered by OPPS are reimbursed on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

Certain hospitals, including the Hospital, receive additional payments from Medicare to reimburse for providing care to a high level of Medicaid and disabled patients (disproportionate share payments or DSH payments) and training physicians and other medical professionals (graduate medical education ("GME") payments). There are two forms of payment for GME: Direct Graduate Medical Education ("DGME") and Indirect Medical Education ("IME") payments. DGME payments support the direct costs of training (e.g., resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and their extensive "stand-by" capabilities. DGME costs are reimbursed under a prospective methodology based on a hospital-specific approved amount per resident. Additional payments are available to PPS teaching hospitals for the IME costs attributable to their approved graduate medical education programs. The IME payment is an additional payment calculated as a percentage add-on to the inpatient DRG payment. The payment is based on a formula that incorporates the hospital's ratio of residents to beds in use and total inpatient PPS revenue. DGME and IME reimbursement is subject to certain limitations, such as a cap on a hospital's reimbursable residents based on the number of residents in a base year, and reductions for training taking place in non-hospital settings unless certain criteria are met. Congress has repeatedly sought to limit GME reimbursement.

Medicare Advantage plans (formerly known as Medicare Choice Plans) are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. In recent years, many private managed care companies discontinued their Medicare Advantage plans. The result has

been that the beneficiaries who were covered by the now-discontinued Medicare Advantage plans have been shifted back into the Medicare fee-for-service program or into a Medicare cost plan.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the level of payment and rate of increase in the cost of the program. It is likely that revisions will continue, some of which may adversely affect the Medicare reimbursement which the Hospital receives.

Non-Medicare Reimbursement

As periodically updated and renewed, the New York State reimbursement methodologies govern non-Medicare payments to hospitals in New York State. Under the New York State reimbursement methodologies, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health ("NYSDOH") on a prospective basis. Every year, the Health System's hospitals and nursing homes must have their Medicaid reimbursement rates certified for the forthcoming year by the New York State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. In addition, Medicaid rate methodologies are subject to approval at the Federal level by CMS, which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for Medicaid will continue to be made in future years.

New York State reimbursement methodologies include a system of state-imposed assessments and surcharges on various categories of third party payers for healthcare services that fund annual state operated pools for indigent care, healthcare initiatives, and professional education. In 2010, funds from the professional education pool were transferred to the indigent care pool and distributed to hospitals on a methodology utilizing uninsured patient volume. The teaching component of Medicaid and managed Medicaid reimbursement which is distributed outside the pools is expected to continue to be paid by the State directly to the hospitals. The Hospital receives significant payments from the indigent care pool, and no assurances can be given that substantial subsequent changes in these programs will not occur, nor that subsequent payments will remain at levels comparable to the present level.

In New York State, Medicaid is a jointly funded federal-state-county program administered by the State by which hospitals receive reimbursement for services provided to eligible infants, children, adolescents and indigent adults. Since its application for a federal Medicaid waiver under Section 1115 of the Social Security Act was first approved in 1997, the State of New York has mandated that a significant portion of its Medicaid population be assigned and enrolled into private managed care plans. Under the waiver, Medicaid recipients are required to enroll in one of several managed care options, unless they fall into an exempt or excluded category enumerated in the New York statute. Management of the Hospital believes that Medicaid fee-for-service payments will likely constitute a reduced percentage of the Hospital's inpatient revenue as Medicaid managed care plans contract with hospitals on a negotiated-rate basis. See "*Managed Care*" herein.

In 2009, the New York State Legislature agreed to changes to Medicaid rates; most notably, an investment in outpatient care by adopting an entirely new payment system referred to as "Ambulatory Payment Groups" (APGs). This payment system is expected to correct decades of underpayment for outpatient services as the old "per visit" payment method had grossly understated payment caps. In addition, a "re-basing" of the inpatient rates from 1981 as the base year to 2005 as the base year is expected to result in overall payment decreases on a state-wide basis and shifts in rates from facility to facility. This re-basing also includes some fundamental changes in how rates are developed. A payment system that emulates the Medicare model is expected. A key modification was reinstatement of the Gross Receipts Tax for hospitals, a new Gross Receipts tax for home care agencies and continuation of the Gross Receipts Tax for nursing homes.

In 2011, the current New York State Budget includes further cuts to reimbursements to providers in a wide variety of areas. In addition, many modifications occurred as a result of the "Medicaid Redesign Team." One of the key provisions is an overall state spending cap, which if exceeded, will result in further reimbursement cuts.

Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital. Additionally, certain payers' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized. Any future reductions could have a material adverse effect on the financial condition of the Hospital. See also "PART 8 - RISK FACTORS AND REGULATORY CHANGES THAT MAY AFFECT MOUNT SINAI - *Legislative, Regulatory and Contractual Matters Affecting Revenue*" and "*State Budget*."

Managed Care

The Hospital employs a multifaceted strategy for managed care contracting. The goal of the contracting effort is to create mutually beneficial partnerships with managed care payors that will enable the Hospital to maintain and enhance the quality of care provided to patients. This strategy was implemented in an effort to allow the Hospital to maintain stable compensation/revenue through a combination of price enhancements and increases in volume. The contracting initiatives include selecting strategic partners, preferred pricing/volume objectives, open panels for physicians and diversified contracting.

The Hospital has established relationships with most managed care companies in the market and these contracts cover most products (HMO, point of service, PPO) and payor types (Medicare, Medicaid, commercial). The four managed care companies that represent the largest component of managed care HMO business for the Hospital are Empire Blue Cross, Oxford Health Plans, Aetna US Healthcare, and United Healthcare.

The majority of managed care reimbursement is paid on either a discounted fee-for-service basis or case rate according to contracted rates. Financial terms are established based upon the size of health plan membership and the ability of the company to direct patients to the Hospital. Separate rates are established for each product line (Medicare, Medicaid, Indemnity, HMO, and PPO). Most contracts are either on a DRG-based per case rate for all acute services or include per diem rates for general inpatient services and an extensive number of DRG-based case rates for tertiary and quaternary care. Psychiatric and Rehabilitation services are generally negotiated on a per diem basis. Global rates, which are composite rates that include hospital and physician services, have been established for select cardiac and transplant services. Outpatient services are reimbursed on a percent of charges or fixed fee schedule basis. Non-economic contract terms are also carefully negotiated, particularly related to claim payment obligations, compliance with health plan utilization management policies and procedures and retroactive claim denials.

The Hospital has taken steps to address the implementation of mandatory Medicaid enrollment in New York City through contracting initiatives and operational re-engineering. Most Medicaid managed care members are enrolled with Prepaid Health Services Plans ("PHSPs"). PHSPs are managed care companies that were enabled by New York State as part of the federal waiver it received to enroll Medicaid eligible

patients in managed care. The Hospital has an ownership interest in Healthfirst, one of the largest PHSPs in New York City.

See also “PART 8 – RISK FACTORS AND REGULATORY CHANGES THAT MAY AFFECT MOUNT SINAI – Legislative, Regulatory, and Contractual Matters Affecting Revenue.”

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

The following discussion of risks to holders of the Series 2011A Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2011A Bonds, in addition to other risks described throughout this Official Statement. Please note that the following risk factors and regulatory considerations are described in the context of the Hospital as the sole current Member of the Obligated Group. To the extent that additional entities become Members of the Obligated Group in the future, these risk factors and regulatory considerations would generally be applicable to the Obligated Group as a whole.

General

The Series 2011A Bonds are not a debt or liability of the State of New York or any political subdivision thereof, but are special and limited obligations of the Authority payable solely from the Revenues which consist of payments payable by the Hospital pursuant to the Loan Agreement, payments by the Obligated Group pursuant to the Series 2011A Obligation, the funds and accounts held by the Trustee pursuant to the Series 2011A 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 revenues will be realized from the Hospital in amounts sufficient to provide funds for payment of debt service on the Series 2011A Bonds when due and to make other payments necessary to meet the obligations of the Hospital. Further, there is no assurance that the revenues of the Hospital can be increased sufficiently to match increased costs that may be incurred.

The revenue and expenses of the Hospital are affected by the changing healthcare environment. These changes are a result of efforts to reduce and contain healthcare costs by federal and state governments, managed care organizations, private insurance companies and business coalitions. These efforts might include, but are not limited to, changes to payments for inpatient and outpatient care, physician fees as well as reimbursement for graduate medical education. The receipt of future revenues by the Hospital is subject to, among other factors, federal and state regulations and policies affecting the healthcare industry; the policies and practices of managed care providers, private insurers and other third party payors and private purchasers of healthcare services. The effect on the Hospital of future changes in federal, state and private policies cannot be determined at this time. Loss of established managed care contracts by the Hospital could also adversely affect the future revenues of the Hospital.

In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Hospital to an extent that cannot be determined at this time. Future revenues and expenses of the Hospital may be affected by events and economic conditions, which may include an inability to control expenses in periods of inflation, as well as other conditions such as demand for healthcare services; the capability of the management of the Hospital; the receipt of grants and contributions; referring physicians' and self-referred patients' confidence in the Hospital; and increased use of contracted discounted payment schedules with health maintenance organizations (“HMOs”), preferred provider organizations (“PPOs”) and other payors. Other factors which may affect revenues and expenses include the ability of the Hospital to provide services required by patients; the relationship of the Hospital with physicians; the success of the

Hospital's strategic plans; the degree of cooperation among and competition with other hospitals in the Hospital's area; changes in levels of private philanthropy; malpractice claims and other litigation; economic and demographic developments in the United States and in the service areas in which the Hospital is located; changes in interest rates that affect the investment results; and changes in rates, costs, third-party payments (including, without limitation, Medicare and Medicaid program reimbursement) and governmental regulations concerning payment. All of the above referred to factors could affect the Hospital's ability to make payments pursuant to the Loan Agreement and under the Series 2011A Obligation. See "PART 7 – THE MOUNT SINAI HOSPITAL" and the consolidated financial statements, related notes, and other financial information included in Appendix B-1, as well as the unaudited consolidated financial statements of the Hospital for the six-month periods then ended June 30, 2011 and 2010 and included in Appendix B-2.

Economic Turmoil

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

Hospitals are required to provide emergency care without regard to a patient's ability to pay. Poor economic conditions and increased unemployment can enlarge the population that does not have health care coverage and thus cannot pay for care out-of-pocket, which in turn can increase the uncompensated care that the Hospital provides. Tax-exempt hospitals, in particular, often treat large numbers of indigent patients who are unable to pay in full, or perhaps at all, for their medical care. In addition, poor economic conditions and increased unemployment can lead patients to postpone or forego elective procedures, thereby reducing volume and revenue.

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

In 2009, President Obama signed into law economic recovery legislation that provided a temporary increase in federal Medicaid payments, which was effective until June 30, 2011, to the states, including New York, to enable states to maintain Medicaid benefits, as well as an increase in state DSH allotments allowing states to assist providers in continuing to care for the uninsured. The legislation also provides temporary federal subsidies to individuals who have lost their jobs to maintain their employer based benefits through the Consolidated Omnibus Budget Reconciliation Act ("COBRA") program.

Legislative, Regulatory and Contractual Matters Affecting Revenue

The healthcare industry is heavily regulated by the federal and state governments. A substantial portion of revenue comes from governmental sources. Governmental revenue sources are subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors, and governmental payors and actions by, among others, the Joint Commission, CMS and other federal, state and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Hospital. 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 cannot be predicted.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Institution-specific data. The current Medicaid, Medicare and other third party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with government payors, have been settled through years ranging from 2000 to 2008. Other years remain open for settlement as are numerous years related to the New York State Medicaid program. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

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

National Healthcare Reform

As a result of the Patient Protection and Affordable Care Act, enacted in March 2010, as amended by the Health Care and Education Reconciliation Act (the "ACA"), substantial changes are anticipated in the United States health care system. Some of the provisions of the ACA took effect immediately, while others will take effect at later dates or will be phased in over time. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These provisions are slated to take effect at specified times over approximately the next decade, and, therefore, the full consequences of the ACA on the health care industry will not be immediately realized. Due to the complexity of the ACA, the ramifications of federal health care reform legislation may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the ACA may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

The changes in the health care industry brought about by the ACA will likely have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Hospital. For example, the projected increase in the number of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the mandate for individuals to purchase insurance, could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. A significant negative impact to the hospital industry overall will likely result from substantial reductions in the rate of increase of Medicare "market basket" adjustments and in actual reductions in Medicare payments. The legislation's cost-cutting provisions to the Medicare program include reduction in Medicare market basket updates to hospital reimbursement rates under the inpatient prospective payment system, which are projected by the Centers for

Medicare and Medicaid Services (“CMS”) actuary to result in Medicare savings of \$112 billion over the next ten years, as well as reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital acquired conditions.

Health care providers will likely be further subject to decreased reimbursement as a result of implementation of recommendations of the Medicare Payment Advisory Board, whose mandate is to reduce Medicare cost growth. The advisory board’s recommended reductions, beginning in 2014, will automatically be implemented unless Congress adopts alternative legislation that meets equivalent savings targets. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors.

The ACA likely will affect some health care organizations differently than others, depending, in part, on how each organization adapts to the legislation’s emphasis on directing more federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. The ACA proposes a value-based purchasing system for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The legislation also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including “accountable care organizations” and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded or their effect on health care organizations’ revenues or financial performance cannot be predicted.

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases funding for enforcement and efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt compliance and ethics programs. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provide new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments.

Some of the specific provisions of the ACA that may affect the Hospital’s operations, financial performance or financial condition are described below. *This listing is not intended to be, nor should be considered by the reader as comprehensive. The ACA is complex and comprehensive, and includes myriad new programs and initiatives and changes to existing programs, policies, practices and laws. The reader is encouraged to review the ACA, itself and/or more comprehensive summaries and analyses of the ACA available in the public media.*

Overall Reduction in Hospital Payments. Beginning in federal fiscal year 2013, Medicare inpatient payments to hospitals will be reduced by 1%, progressing to 2% by federal fiscal year 2017. This reduction may be offset in part by new Medicare inpatient incentive payments commencing in federal fiscal year 2013 for hospitals that meet “value-based purchasing” standards for treatment of certain conditions.

Market Basket Reductions. Generally, Medicare payment rates to hospitals are adjusted annually based on a “market basket” of estimated cost increases, which have averaged approximately 2-4% annually in recent years. The ACA requires automatic 0.25% reductions in the “market basket” for federal fiscal years 2010 and 2011, and calls for reductions ranging from 0.10% to 0.75 % each year through federal fiscal year 2019.

Market Productivity Adjustments. Beginning in federal fiscal year 2012 and thereafter, the ACA provides for “market basket” adjustments based on national economic productivity statistics. This adjustment is anticipated to result in an approximately 1 % additional annual reduction to the “market basket” update.

Hospital Acquired Conditions Penalty. Beginning in federal fiscal year 2015, Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain “hospital-acquired

conditions” will be reduced by 1 % of what would otherwise be payable to each hospital for the applicable federal fiscal year.

Readmission Rate Penalty. Beginning in federal fiscal year 2012, Medicare inpatient payments to each hospital will be reduced based on the dollar value of that hospital’s percentage of preventable Medicare readmissions for certain medical conditions.

DSH Payments. Beginning in federal fiscal year 2014, hospitals receiving supplemental disproportionate share hospital (“DSH”) payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicare beneficiaries) are slated to have their DSH payments reduced by 75%. This reduction will be adjusted to add back payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA go into effect. Separately, beginning in federal fiscal year 2014, Medicaid DSH allotments to each state will also be reduced, based on a methodology to be determined by the United States Department of Health and Human Services (“DHHS”), accounting for statewide reductions in uninsured and uncompensated care.

Payments to Medicare Advantage Plans. Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to Medicare Advantage plans. Payments to plans are frozen for fiscal year 2011 and thereafter will transition to benchmark payments tied to the level of fee-for-service spending in the applicable county. These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

The ACA is highly politicized. Initiatives to repeal it in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been proposed. Several challenges to the ACA’s constitutionality are pending review in federal Courts of Appeals. At this time it is unclear what further action, if any, Congress, the Presidential administration or the federal courts may take with respect to the ACA. In this volatile context, no projections can be made as to the future implementation or content of the ACA. Based upon all of the above, it is more difficult for management of the Obligated Group to project future performance than it has been in the past.

State Budget

On February 1, 2011, Governor Andrew M. Cuomo proposed his 2011-2012 Executive Budget. The 2011 Executive Budget reflects savings anticipated from the proposals of the Medicaid Redesign Team, established pursuant to Executive Order No. 5. The Medicaid Redesign Team, comprised of health care professionals, stakeholders in the industry and legislators, was charged with reducing Medicaid costs and improving patient care. On February 24, 2011, the Medicaid Redesign Team issued a report containing findings and recommendations for cost reductions of over \$2.3 billion to the Governor for consideration in the budget negotiation process. Specifically, the Medicaid Redesign Team identified cost-containment measures of approximately \$2.85 billion in gap-closing savings in 2011-2012, and stated that growth in Department of Health Medicaid State funds spending for future years should be limited to the ten-year average change of the medical component of the Consumer Price Index (currently estimated at approximately four percent annually).

The Executive Budget was adopted on March 31, 2011 and included as part of its gap-closing plan, a series of changes and cost-containment measures such as programmatic reforms to Medicaid payments and program structures; the elimination of annual statutory inflation factors for hospitals, nursing homes and home and personal care providers (\$185 million); a two percent across-the-board rate reduction and other industry-specific measures (\$345 million); the acceleration of certain payments to take advantage of additional enhanced Federal Medical Assistance Percentage payments (\$66 million); and a healthcare industry-led effort to generate additional savings (\$640 million). The Executive Budget assumes a targeted growth rate for Medicaid equal to the ten-year average change in the medical component of the Consumer Price Index

(currently four percent). According to the “Enacted Budget Financial Plan”, dated May 6, 2011, statutory changes adopted with the Executive Budget grant the Executive authority to hold Medicaid spending to this rate. This authority expires after two years; however, the cap remains in place and the Executive Budget assumes that statutory authority will be extended in subsequent years.

Although the 2011-2012 Executive Budget includes the statutory tools necessary to implement the recommendations of the Medicaid Redesign Team, there can be no assurance that these proposals will achieve the level of gap-closing savings anticipated in 2011-12 or limit the rate of annual growth in Department of Health State Funds Medicaid spending. In addition, according to the Enacted Budget Financial Plan, these recommendations are dependent upon timely Federal approvals, appropriate amendments to the existing systems and processes, and a collaborative working relationship with health care industry stakeholders.

In connection with the adoption of the budget for the State’s fiscal year 2005-2006, the Legislature authorized the creation of a “Commission on Health Care Facilities in the Twenty-First Century” charged with studying the State’s hospital and nursing home systems and making recommendations for closure, resizing, conversion, consolidation and restructuring (commonly referred to as the “Berger Commission”). In making recommendations, the Berger Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors as determined by the Commissioner of Health or the Berger Commission. The Hospital was not recommended for closure, reconfiguration or merger by the Berger Commission report.

Medicare and Medicaid Reimbursement

A portion of the Hospital’s revenue is derived from the Medicare and Medicaid programs.

Medicare is a federal health benefits program administered by CMS, fiscal intermediaries and carriers. Available to individuals age 65 or over, and certain other classes of individuals, the Medicare program provides, among other things, health care benefits that cover, within prescribed limits, the major costs of most medically necessary care for such individuals, subject to certain deductibles and copayments.

Medicare Part A covers inpatient services and certain other services, Medicare Part B covers certain outpatient services and physician services, and Medicare Part C covers services for persons enrolled in Medicare managed care organizations. Medicare pays most acute care hospitals for most services provided to inpatients under a payment system known as the “Prospective Payment System” or “PPS.” Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs are also paid on the basis of “reasonable cost.”

Medicaid is a federal health benefits program that is state administered. Medicaid is available only to certain low-income individuals and families who fit into an eligibility group that is recognized by federal and state law. The New York State Department of Health (“NYSDOH”) administers the New York Medicaid Program for the State. Services are provided through use of a Medicaid card or through a Medicaid managed care plan.

Health care providers have been and will be affected significantly by changes in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “MMA”), which was signed into law December 8, 2003, contained many significant changes to the Medicare program, including the availability of prescription drug coverage. The Deficit Reduction Act of 2005 (the “DRA”) also contained significant changes including, among other things, various provisions to decrease spending growth in the Medicare program while increasing health care providers’ focus on quality and efficient delivery of health care services. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in

recent years. It is impossible to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on the operations of the Hospital.

Inpatient Operating Costs. Under PPS, acute care hospitals are paid a specified amount towards their operating costs based on the Diagnosis Related Group (“DRG”) to which each Medicare inpatient service is assigned, which is determined by the diagnoses, procedures and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS as a part of the Hospital’s PPS, and is not related to a hospital’s actual costs. For each DRG, CMS assigns a weighting factor that reflects the relative hospital resources used with respect to discharges classified within that group compared to discharges classified within other groups. Each DRG weight represents the average resources required to care for cases in that particular DRG, relative to the national average resources consumed per case by the “average” hospital. CMS is required to adjust, or recalibrate, on a budget-neutral basis, the DRG weights annually to reflect changes in treatment patterns, new technologies and other factors affecting the use of hospital resources.

To calculate the payment for a particular discharge, the DRG weight is multiplied by a “standardized amount” that reflects the operating and labor costs particular to the geographic region where the Hospital is located. The standardized amounts are adjusted annually based upon an annual update factor. The annual update factor is based on a hospital “market basket” index, or the percentage by which the cost of the index of goods and services for the cost reporting period at issue will exceed the cost of such mix of goods and services for the preceding 12-month cost reporting period. Congress can apply (and has done so) a statutory adjustment to the market basket index for any given year. For every year since 1983, Congress has modified the increases and given substantially less than the increase in the market basket index. There is no assurance that future updates in DRG payments will keep pace with the increases in providing inpatient hospital services. See also “Healthcare Reform – Market Basket Reductions.”

Additional payments are available, where applicable, for the direct and indirect costs of medical education for hospitals serving a disproportionate share of patients subsidized by federal funds, and for certain atypical or “outlier” cases. With the exception of outlier cases, PPS payments are not adjusted for actual costs or variations in service or length of stay. The PPS amount and adjustments described above are calculated using formulae established by CMS that are revised periodically pursuant to federal budgetary policy. There is no assurance that the Hospital will be paid amounts that adequately reflect the actual cost of providing health care or the cost of the health care technologies available to patients.

Outpatient Services. Under Section 1833(t) of the Social Security Act, hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Medicare Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, physical and occupational therapy, and speech pathology services. Under hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification (“APC”) groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group.

Outpatient PPS (“OPPS”) are adjusted annually based on the hospital inpatient market basket percentage increase. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Hospital allocable to Medicare patient care. Hospitals that fail to report certain required quality data will face a penalty of two percentage points from their most recent market basket update.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Medical Education Costs. Medicare pays for certain costs associated with both direct and indirect medical education (including portions of the salaries of residents and faculty and other overhead costs directly

attributable to medical education programs for training residents, nurses and allied health professionals) under Section 1886(h) of the Social Security Act. Payment for direct graduate medical education (“DGME”) reimburses hospitals for the direct costs of their medical education programs, including faculty and resident salaries and other costs incurred directly and in support of the teaching programs. The payment amount for DGME costs for a cost reporting period is based on the hospital’s number of residents in that period and the hospital’s costs per resident in a base year, multiplied by the hospital’s Medicare “patient load.” Payment for the operating costs of indirect medical education is made as an adjustment to a hospital’s DRG payment and based on a statutory formula determined in part by the ratio of a hospital’s number of full-time equivalent residents to its average number of staffed beds. There can be no assurance that payments to the Hospital for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

Physician Payments. Certain physician services are reimbursed on a national fee schedule called the “resource-based-relative-value scale” (“RB-RVS”). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The Sustainable Growth Rate (“SGR”), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are paid exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the Hospital.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Hospital allocable to Medicare patient stays or to provide adequate flexibility in meeting the Hospital’s future capital needs.

Compliance and Reimbursement. Hospitals must comply with standards called “Conditions of Participation” to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under applicable Medicare rules, hospitals accredited by the Joint Commission are deemed to meet the Conditions of Participation. Failure to maintain Joint Commission accreditation or to otherwise comply with the Conditions of Participation or other applicable state licensing requirements could have a material adverse effect on the revenues of the Hospital. There can be no assurance that the Hospital will continue to receive Joint Commission accreditation in the future.

Managed Care and Other Private Initiatives

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

Typical payment methodologies that have been established include severity-adjusted case neutral rates; per diem rates for stays in a rehabilitation unit or a psychiatric unit; case rates for obstetric deliveries, open heart surgeries and other tertiary level services; discounts from full charges; and set fees for outpatient services. Capitation and risk arrangements, which carry significant risk for providers, have not been and likely will not become in the near future an important factor in the Hospital’s reimbursement. Management believes

the Hospital, on a yearly contracting basis, has developed equitable pricing arrangements with most of the payors with which it contracts. As part of these negotiated contracts, the Hospital has developed payment terms limiting the extent to which a payor may retroactively deny payments for services, which has been a common practice among managed care companies. The contracts also define requirements for insurers to conduct concurrent and prospective reviews. Some contracts contain provisions for advances and Periodic Interim Payments (PIP) as well as other terms that are financially acceptable to the Hospital. However, these contracts have finite terms and are subject to renegotiation, and managed care payors are expected to continue to seek ways to reduce the utilization of healthcare services. Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which healthcare services are delivered and paid for in the future. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting cash flows. The Hospital's financial condition may be adversely affected by these trends.

Medicare and Medicaid Managed Care

The Medicare Program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional fee-for-service Medicare system. Medicare managed care products can be offered only by a licensed HMO or a specially approved network called a Provider Sponsored Organization ("PSO"). At this time, the New York region has a limited number of approved PSOs.

The federal Medicare program pays the HMO a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in an HMO product. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the HMO pays for all the covered and medically necessary services delivered to the enrollee in the month. The HMO is at full financial risk for costs incurred for caring for its enrollees in the given month, as described above.

The Hospital also participates in the federal and New York State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. The rules for the enrollment of Medicaid patients in managed care programs, premium payments to managed care organizations, and the resulting and potential financial risks to the Hospital are similar to those already discussed for Medicare managed care programs.

New York State's program for mandatory Medicaid enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory enrollment programs are now in place in all of New York City, and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. The Hospital is working with health plans, social service agencies and others to ensure that Medicaid patients currently cared for at the Hospital will continue to have access to these facilities throughout the managed Medicaid enrollment process. Despite these efforts, Medicaid patient volume at the Hospital may be reduced, partially attributable to competition from other health networks and relating to this historic change in the process for treating Medicaid. The teaching component of Medicaid and managed Medicaid reimbursement is expected to continue to be paid by the State directly to the Hospital.

See "PART 7 – THE MOUNT SINAI HOSPITAL – *Managed Care*".

Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on reimbursement for hospital services. Management of the Hospital cannot assess or predict

the ultimate effect of any such legislation or regulation which reduces Medicaid or Medicare reimbursement, if enacted or adopted, on its operations.

Regulatory Reviews, Audits and Investigations

The Hospital, like other health care institutions, is subject to regulatory review, audit and investigation of its governmental reimbursement. In the last several years the federal and state governments have devoted a significant amount of resources to the auditing of health care providers, including hospitals. The recoveries from these audits can be significant and are often based on a small sample size with the results extrapolated to a universe of all paid claims in the audit period.

The Recovery Audit Contractor (“RAC”) program is a federal government cost containment effort, administered by CMS. It is aimed at reducing improper payments within Medicare programs as well as identifying process improvements to reduce or eliminate future improper payments. Section 302 of the Tax Relief and Health Care Act of 2006 made the Recovery Audit Program permanent and required the Secretary to expand the program to all 50 states by no later than 2010. Each RAC is responsible for identifying overpayments and underpayments in approximately one-fourth of the country. The Medicare RAC contractor for New York State is DCS Healthcare. In addition, the ACA also includes an expansion of the RAC program to Medicaid claims.

Although the Hospital is not currently the subject of an audit finding requiring a significant financial repayment, if it is audited in the future, depending on the results of the audits, the Hospital could be required to repay significant sums, which could have an adverse financial impact on the Hospital. Specifically, New York State has established the Office of the Medicaid Inspector General (“OMIG”). Since its inception, the OMIG has undertaken numerous audits, including extrapolation audits, of providers throughout the state of New York and has achieved large recoveries. The Hospital is not currently the subject of such an audit, but could be in the future and the result of any such audit could have a significant adverse financial impact on the Hospital.

Litigation and Claims

The Hospital is involved in litigation and claims which are not considered unusual to its business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the Hospital.

Competition

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

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

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

Workforce Shortages

Workforce shortages are affecting healthcare organizations at the local, regional and national level. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Hospital's ability to control costs and its financial performance.

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

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers, including the Hospital, have collective bargaining agreements with one or more labor organizations. See "PART 7 – THE MOUNT SINAI HOSPITAL – Employees." Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the Hospital. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Hospital.

Federal "Fraud and Abuse" Laws and Regulations

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

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

Federal and State False Claims Acts

The federal criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The federal civil False Claims Act ("civil FCA"), one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office or the Department of Justice. Under the civil FCA, those who knowingly submit, or cause another person or entity to submit, false claims for payment of government funds are liable for three times the government's damages plus civil penalties of \$5,500 to \$11,000 per false

claim. On May 20, 2009, the Fraud Enforcement and Recovery Act of 2009 (“FERA”) was signed into law. It included significant amendments to the civil FCA. Among other items, FERA expanded the scope of potential civil FCA liability, increased the Attorney General’s power to delegate authority to investigate a civil FCA case prior to intervening in a civil FCA action, and increased protections for whistleblower plaintiffs beyond employees. The ACA also amended the civil FCA by expanding the numbers of activities that are subject to enforcement as violations of the civil FCA, including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due.

The State of New York also has a False Claims Act that closely tracks the civil FCA (the “New York State FCA”). It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil FCA and New York State FCA also permit individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government.

Under the civil FCA and New York State FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund known overpayments. Civil FCA and New York State FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil FCA and New York State FCA. Other civil FCA and New York State FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance or self-referral violations are subject to prosecutions as false claims. If a provider is faced with a civil FCA or New York State FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates. Violations of the civil FCA and New York State FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

Management of the Hospital is not aware of any violations by the Hospital of the criminal FCA, civil FCA or New York State FCA. However, there can be no assurances that the Hospital will not be charged with, or found to have violated, the criminal FCA, civil FCA or New York State FCA and, if so, that any fines or other penalties would not have a material adverse effect on its operations.

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

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

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare provider for clinical laboratory services, x-ray imaging services, radiation therapy services,

physical therapy, or pharmacy services if the referring practitioner (or an immediate family member) has a financial interest in the healthcare provider.

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

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

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

Regulation of Patient Transfer

Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”) in response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient’s inability to pay for the services provided. EMTALA requires hospitals with emergency rooms, including the Hospital, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient’s emergency medical condition before releasing, discharging or transferring the patient to another hospital.

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

Civil Monetary Penalty Act

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

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

to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

Exclusions from Medicare or Medicaid Participation

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. The OMIG also has the authority to exclude individuals and entities from participation in Medicaid. Providers are excluded for reasons that may include program-related convictions, patient abuse or neglect convictions, and licensing board disciplinary actions. The ACA authorizes the Secretary of DHHS to exclude a provider's participation in Medicare and Medicaid, as well as suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider.

Enforcement Activity

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

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

The ACA provides funding of health care fraud initiatives in the amount of \$10 million per year for fiscal years 2011-2020 and an additional \$250 million over fiscal years 2011-2016.

Increased Enforcement Affecting Academic Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health ("NIH") significantly increased the number of facility inspections that these agencies perform. The United States Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG, in its recent "Work Plans" has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the NIH and

other agencies of the U.S. Public Health Service. The Hospital receives payments for health care items and services under many of these grants and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Hospital to sanctions as well as repayment obligations.

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

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

In addition, the Stimulus Act provided substantial assistance to Medicaid programs through enhanced federal medical assistance percentages, which determine the federal and state share of the Medicaid program. The expiration of the enhanced Medicaid funding at the end of June 2011 could have a significant adverse affect on the state's fiscal status relative to prior years.

Department of Health Regulations

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

Other Governmental Regulation

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

Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative

activity or response by the Hospital. 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's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

OIG Compliance Guidelines

On February 23, 1998, the OIG published Compliance Program Guidance ("CPG") for the hospital industry. In recognition of the significant changes in the delivery and reimbursement for hospital services that have occurred since the CPG's publication, the OIG published Supplemental Compliance Program Guidance on January 31, 2005. These issuances (collectively, the "Guidances") provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. The Hospital maintains a comprehensive corporate compliance program that is designed to assist staff to meet or exceed applicable standards established by federal and state laws and regulations. However, the presence of a compliance program is not an assurance that healthcare providers, such as the Hospital, will not be investigated by one or more federal or state agencies that enforce healthcare fraud and abuse laws or that they will not be required to make repayments to various healthcare insurers (including the Medicare and/or Medicaid programs).

Since October 2009, hospitals in New York have been required by statute and regulation to have an effective compliance program. The compliance program must include, among other things, a chief compliance officer, written policies and the conduct of audits after the identification of risk areas. It is expected that the OMIG will conduct audits of compliance programs and assess their effectiveness. Under New York law, each year each Obligated Group Member must certify that it has a compliance program in place and that it has been effective, and management of each Obligated Group Member has advised that it will so certify this year.

Not-for-Profit Status

As a non-profit tax-exempt organization, the Hospital is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Hospital 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. For example, in August of 2011, the real estate tax exemption of three Illinois-based hospitals were revoked for failing to provide sufficient charity care. 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.

Revision of IRS Form 990 for Not-for-Profit Corporations

The IRS Form 990 is used by 501(c)(3) not-for-profit organizations (including the Hospital) to submit information required by the federal government for tax exemption. The revised Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The revised form also requires the disclosure of a significantly greater amount of both hard data and anecdotal information on community benefit information on Schedule H to the Form, and establishes uniform standards for reporting of information relating to tax exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. The redesigned Form 990 is intended to result in enhanced transparency as to the operations of exempt organizations. It is also likely to result in enhanced enforcement, as the redesigned Form 990 will make a wealth of detailed information on compliance risk areas available to the IRS and other enforcement agencies. At this time it is difficult to predict the additional burden that completion of the revised Form 990 may place on the Hospital and its operations.

Internal Revenue Service Examination of Compensation Practices and Community Benefit

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

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

The ACA also contains new requirements for tax-exempt hospitals. Under the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital’s financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using “gross charges” when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital’s financial assistance policy. In addition, the Treasury Department is required to review information about each tax-exempt hospital’s community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the

likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

Internal Revenue Code Limitations

Private Inurement and Excess Benefit Transactions. The Internal Revenue Code of 1986, as amended (the “Code”) contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of healthcare facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Hospital’s ability to finance its future capital needs and could have other adverse effects on the Hospital that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As a tax-exempt organization, the Hospital is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities, including the Hospital, and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital’s tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the Hospital or assessment of significant tax liability could have a material adverse effect on the Hospital and might lead to loss of tax exemption of interest on the Series 2011A Bonds.

Revocation of the tax-exempt status of the Hospital 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 2011A Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt healthcare providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Hospital.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an “excess benefit transaction” with a “disqualified person.” Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve “excess benefit.” “Excess benefit transactions” include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. “Disqualified persons” include “insiders” such as board members and officers, senior management, and members of the medical staff, who in each case are in a

position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person.

Although the Hospital believes that the sanction of revocation of tax-exempt status is likely to be imposed only in cases of pervasive excess benefit, the imposition of penalty excise tax in lieu of revocation, based upon a finding that the Hospital engaged in an excess benefit transaction, is likely to result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of the Hospital.

Charity Care. Hospitals are permitted to have tax-exempt status under the Code because the provision of health care historically has been treated as a “charitable” enterprise. This treatment arose before most Americans had health insurance, and when charitable donations were required to fund the health care provided to the sick and disabled. Some have posited that, with the onset of employer health insurance and government reimbursement programs, there is no longer any justification for special tax treatment for the not-for-profit health care sector, and the availability of tax-exempt status should be eliminated. Management of the Hospital cannot predict the likelihood for such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

Tax Audits

Taxing authorities historically have conducted tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. The Hospital is not currently under audit.

Antitrust

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

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

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) established civil and criminal sanctions for health care fraud which expanded upon prior health care fraud laws and applies to health care benefit programs.

HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from the Medicare program.

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

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

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 or imprisonment for up to 10 years if the information was for a violation of willful neglect or for a violation related to the intent to sell, transfer, or use the individually identifiable health information for commercial advantage, personal gain or malicious harm.

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

On February 17, 2009, President Obama signed into law the HITECH Act, which is part of the Stimulus Act. The HITECH Act expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving “unsecured” protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals’ rights with respect to protected health information, (v) increasing penalties for violations, and (vi) providing for enforcement of violations by State attorneys general. Many of the HITECH Act’s provisions became effective on February 17, 2010, but other provisions require implementing regulations and may become effective at some point in 2011 or thereafter. While the effects of the HITECH Act cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of the Hospital.

Security Breaches and Unauthorized Releases of Personal Information

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

Environmental Matters

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

Affiliation, Merger, Acquisition and Divestiture

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

Insurance

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

The Hospital currently carries malpractice, directors' and officers' liability and general liability insurance, which management of the Hospital considers adequate, but no assurance can be given that the Hospital will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Hospital or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a discussion of the insurance coverage of the Hospital, see "PART 7 - THE MOUNT SINAI HOSPITAL– *Risk Management and Professional and General Insurance Program*" herein.

Certain Accreditations

The Hospital is subject to periodic review by the Joint Commission. The Hospital received accreditation from the Joint Commission in 2009. No assurance can be given as to the effect on future operations of existing, or subsequently amended, laws, regulations and standards for certification or accreditation.

In addition, the Hospital sponsors programs of graduate medical education ("GME Programs"), training residents and fellows, which programs are accredited by the Accreditation Council for Graduate Medical Education ("ACGME") (for medical programs) and by the American Dental Association ("ADA") (for dental programs). All GME Programs are subject to periodic review by the applicable specialty Residency Review Committee of the ACGME, or by the ADA, as appropriate. No assurance can be given as to (i) the outcome of future reviews of these GME Programs, (ii) such programs' continued accreditation, or (iii) the continuing eligibility of the costs associated therewith for graduate medical education reimbursement. See "PART 7 - THE MOUNT SINAI HOSPITAL - *Licensure and Accreditation.*"

Increased Costs and State-Regulated Reimbursement

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

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2011A 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's capabilities and the financial conditions and results of operations of the Hospital.

Enforceability of Lien on Gross Receipts

The Loan Agreement provides that the Hospital shall make payments to the Trustee sufficient to pay the Series 2011A Bonds and the interest thereon as the same become due. The obligation of the Hospital to make such payments is secured by the Series 2011A Obligation, which, in turn, is secured by, among other things, a security interest granted to the Master Trustee in the Gross Receipts of the Hospital. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS – Obligations under the Master Indenture – Security Interest in Gross Receipts." The lien on Gross Receipts may become subordinate to certain Permitted Liens under the Master Indenture. Gross Receipts paid by the Hospital to other parties in

the ordinary course might no longer be subject to the lien of the Master Indenture and might therefore be unavailable to the Master Trustee.

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

In the event of bankruptcy of the Hospital, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of the Hospital before paying debt service on the Series 2011A Bonds.

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

The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Series 2011A Bonds as to the security interest in the Gross Receipts. See “PART 1 – INTRODUCTION – Security for the Bonds.”

Enforceability of the Master Indenture

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the security interest granted by a Member and the joint and several obligation of a Member to make payments due under an Obligation, including the Series 2011A Obligation, relating to bonds issued for the benefit of another Member, may be declared void in an action brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a Member or a trustee in bankruptcy in the event of the bankruptcy of the Member from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of “fair consideration” or “reasonably equivalent value,” and (b) the obligation renders the obligor “insolvent,” as such terms are defined under the applicable statute. Interpretation by the courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, a Member’s joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be a “transfer” which makes such Member “insolvent” in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members may be deemed to have received less than “fair consideration” for such obligation because none or only a portion of the proceeds of the indebtedness are to be used to finance projects

occupied or used by such Member. While the Members may benefit generally from the projects financed from the indebtedness for the other Members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Master Indenture.

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

In addition, there exists common law authority and authority under state statutes for the ability of the state courts to terminate the existence of a not-for-profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

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

Exercise of Remedies under Master Indenture

"Events of Default" under the Master Indenture include the failure of the Obligated Group to make payments on any Obligation Outstanding under the Master Indenture (such as the Series 2011A Obligation) and may include nonpayment related defaults under documents such as the Loan Agreement, the Resolution or the Mortgage. The Master Indenture provides that upon an "Event of Default" thereunder, the Master Trustee may in its discretion, by notice in writing to Members of the Obligated Group, declare the principal of all (but not less than all) Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately unless requested to do so by the holders of not less than 25% in aggregate principal amount of all Obligations then Outstanding under the Master Indenture. Consequently, upon the occurrence of an "Event of Default" under the Resolution with respect to the Series 2011A Bonds and an acceleration of the maturity of the Series 2011A Bonds, the Master Trustee is not required to accelerate the maturity of all Obligations Outstanding under the Master Indenture upon direction from the Trustee unless (i) the principal amount of Series 2011A Bonds Outstanding is at least equal to 25% of the principal amount of all Obligations Outstanding under the Master Indenture, or (ii) the Trustee and all other holders of Obligations requesting such acceleration hold at least 25% of all Obligations Outstanding under the Master Indenture.

Bankruptcy

The Series 2011A Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2011A Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement, the Mortgage and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Loan Agreement, the Mortgage and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2011A Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the holders of the Series 2011A Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If the Hospital 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 and its property, including the commencement of foreclosure proceedings under the Mortgage. The Hospital would not be permitted or required to make payments of principal or interest under the Loan Agreement and the Obligations, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2011A Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Obligated Group, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Master Trustee's continuing security interest in the Hospital's Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Master Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Hospital under the Obligations, the Master Indenture, the Mortgage, and the Loan Agreement, and may adversely affect the Master Trustee's or the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

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

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Resolution, the Loan Agreement and the Master Indenture permit the Hospital and any other Members of the Obligated Group to incur additional indebtedness, including Additional Bonds. Such indebtedness would increase the Obligated Group's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2011A Bonds.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Hospital, or the market value of the Series 2011A Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.
- Increased unemployment or other economic conditions in the service area of the Hospital, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- Reduced demand for the services of the Hospital that might result from decreases in population or innovations in technology.
- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Hospital, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Hospital's facilities.
- Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2011A Bonds and the level of charitable donations to the Hospital.

PART 9 - THE AUTHORITY

Background, Purposes and Powers

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 September 30, 2011, the Authority had approximately \$44.5 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 September 30, 2011 were as follows:

Governance

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

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

The current members of the Authority are as follows:

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

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2013.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on June 20, 2007. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2013.

JACQUES JIHA, Ph.D., *Secretary*, Woodbury.

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President/Chief Operating Officer & Chief Financial Officer of Earl G. Graves, Ltd/Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund and a member of the Board of Directors at Ronald McDonald House of New York. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed the assets of the NY Common Retirement Fund, valued at \$120 billion, and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Earlier, Mr. Jiha served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expired on March 31, 2011 and by law he continues to serve until a successor shall be chosen and qualified.

CHARLES G. MOERDLER, Esq., New York.

Charles Moerdler was appointed as a Member of the Authority by the Governor on March 16, 2010. Mr. Moerdler is a founding partner in the Litigation Practice of the law firm Stroock & Stroock & Lavan LLP. His areas of practice include defamation, antitrust, securities, real estate, class actions, health care, international law, labor law, administrative law and zoning. By appointment of the Appellate Division, First Department, Mr. Moerdler serves as Vice Chair of the Committee on Character and Fitness and as a Member of the Departmental Disciplinary Committee. He served as Commissioner of Housing and Buildings of the City of New York, as a real estate and development consultant to New York City Mayor John Lindsay, as a member of the City's Air Pollution Control Board, and as Chairman and Commissioner of the New York State Insurance Fund. Mr. Moerdler currently serves on the Board of Directors of the New York City Housing Development Corporation as well as the Metropolitan Transportation Authority and is a member of the New York City Board of Collective Bargaining. He holds a Bachelors of Arts degree from Long Island University and a Juris Doctor degree from Fordham University. His current term expires on March 31, 2012.

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

Ms. Snyder was appointed as a member of the Authority by the Governor on June 15, 2011. She is currently a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. Previously, she was Vice President, General Counsel and a Director of Biocraft Laboratories, Inc. and a Director of Teva Pharmaceuticals. Ms. Snyder serves as a Board member of the Beatrice Snyder Foundation, the Roundabout Theater, the Advisory Committee of the Hospital of Joint Diseases and the Optometric Center of New York, where she also serves on the Investment Committee. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expires on August 31, 2013.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995

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

GERARD ROMSKI, Esq., Mount Kisco.

Mr. Romski was appointed as a Member of the Authority by the Temporary President of the State Senate on June 8, 2009. He is Counsel and Project Executive for “Arverne By The Sea,” where he is responsible for advancing and overseeing all facets of “Arverne by the Sea,” one of New York City’s largest mixed-use developments located in Queens, NY. Mr. Romski is also of counsel to the New York City law firm of Bauman, Katz and Grill LLP. He formerly was a partner in the law firm of Ross & Cohen, LLP (now merged with Duane Morris, LLP) for twelve years, handling all aspects of real estate and construction law for various clients. He previously served as Assistant Division Chief for the New York City Law Department’s Real Estate Litigation Division where he managed all aspects of litigation arising from real property owned by The City of New York. Mr. Romski is a member of the Urban Land Institute, Council of Development Finance Agencies, the New York State Bar Association, American Bar Association and New York City Bar Association. He previously served as a member of the New York City Congestion Mitigation Commission and the Board of Directors for the Bronx Red Cross. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

ROMAN B. HEDGES, Ph.D., Delmar.

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

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

Dr. John B. King, Jr., was appointed by the Board of Regents to serve as President of the University of the State of New York and Commissioner of Education on July 15, 2011. As Commissioner of Education, Dr. King serves as chief executive officer of the State Education Department and as President of the University of the State of New York, which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. Dr. King is also responsible for licensing, practice and oversight of numerous professions. Dr. King previously served as Senior Deputy Commissioner for P-12 Education at the New York State Education Department. Prior thereto, Dr. King served as a Managing Director with Uncommon Schools. Prior to this, Dr. King was Co-Founder and Co-Director for Curriculum & Instruction of Roxbury Preparatory Charter School and prior to that, Dr. King was a

teacher in San Juan, Puerto Rico and Boston, Massachusetts. He holds a Bachelor of Arts degree in Government from Harvard University, a Master of Arts degree in Teaching of Social Studies from Teachers College, Columbia University, a Juris Doctor degree from Yale Law School and a Doctor of Education degree in Educational Administrative Practice from Teachers College, Columbia University.

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

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

ROBERT L. MEGNA, *Budget Director of the State of New York, Albany; ex-officio.*

Mr. Megna was appointed Budget Director on June 15, 2009. He is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than \$90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. Prior to this he served as head of the Economic and Revenue Unit of the New York State Division of the Budget where he was responsible for State Budget revenue projections and the development and monitoring of the State Financial Plan. Mr. Megna was Assistant Commissioner for Tax Policy for the Commonwealth of Virginia. He also served as Director of Tax Studies for the New York State Department of Taxation and Finance and as Deputy Director of Fiscal Studies for the Ways and Means Committee of the New York State Assembly. Mr. Megna was also an economist for AT&T. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

MICHAEL T. CORRIGAN is the Vice President of the Authority, and assists the President in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive

for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

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

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

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

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CARRA WALLACE is the Managing Director of the Office of Executive Initiatives (OEI). In that capacity, she oversees the Authority's Communications and Marketing, Opportunity Programs, Environmental Initiatives, Client Outreach, Training, Executive Projects, and Legislative Affairs units. Ms. Wallace is responsible for strategic efforts in developing programs, maximizing the utilization of Minority and Women Owned Businesses, and communicating with Authority clients, the public and governmental officials. She possesses more than twenty years of senior leadership experience in diverse private sector businesses and civic

organizations. Ms. Wallace most recently served as Executive Vice President at Telwares, a major telecommunications service firm. Prior to her service at Telwares, Ms. Wallace served as Executive Vice President of External Affairs at the NYC Leadership Academy. She holds a Bachelor of Science degree in management from the Pepperdine University Graziadio School of Business and Management.

Claims and Litigation

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

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2011A Bonds.

Legislation

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

Environmental Quality Review

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

Independent Auditors

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

PART 10 - LEGALITY OF THE SERIES 2011A BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2011A Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the Series 2011A Bonds.

PART 11 - NEGOTIABLE INSTRUMENTS

The Series 2011A Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2011A Bonds.

PART 12 - TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2011A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Series 2011A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2011A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Series 2011A Bonds is less than the amount to be paid at maturity of such Series 2011A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2011A Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Series 2011A Bonds is the first price at which a substantial amount of such maturity of the Series 2011A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2011A Bonds accrues daily over the term to maturity of such Series 2011A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2011A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2011A Bonds. Beneficial Owners of the Series 2011A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2011A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2011A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2011A Bonds is sold to the public.

Series 2011A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2011A Bonds. The Authority and the Institution have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2011A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2011A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2011A Bonds. The opinion of Bond

Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2011A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Michael G. Macdonald, Esq., Vice President and General Counsel of the Institution, regarding the current qualification of the Institution as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Series 2011A Bonds as substantially related to the Institution's charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, Counsel to the Institution cannot give and has not given any opinion or assurance about the future activities of the Institution, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service ("IRS"). Failure of the Institution to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities refinanced by the Series 2011A Bonds in a manner that is substantially related to the Institution's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2011A Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2011A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2011A Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2011A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on September 12, 2011, the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. For tax years beginning on or after January 1, 2013, the American Jobs Act of 2011 generally would limit the exclusion from gross income of interest on obligations like the Series 2011A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2011A Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2011A Bonds. Prospective purchasers of the Series 2011A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2011A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Institution, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Institution have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2011A Bonds ends with the issuance of the Series 2011A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Institution or the Beneficial Owners regarding the tax-exempt status of the Series 2011A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Institution and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Institution legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2011A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Series 2011A Bonds, and may cause the Authority, the Institution or the Beneficial Owners to incur significant expense.

PART 13 - STATE NOT LIABLE ON THE SERIES 2011A BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2011A Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 14 - COVENANT BY THE STATE

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

PART 15 - RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") have assigned their ratings of "A", "A2" and "A-", respectively, to the Series 2011A Bonds. Such ratings reflect only the respective views of Fitch, Moody's and S&P and do not constitute a recommendation to buy, sell or hold the Series 2011A Bonds. Generally, rating agencies base their ratings on information and material furnished by the Authority and the Institution and on investigations, studies and assumptions made by the rating agencies. The ratings reflect only the views of such organizations and an explanation of the significance of such rating may be obtained from the respective rating agencies at: Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone: (212) 908-0500; Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, telephone: (212) 553-0300; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone: (212) 438-2124. There is no assurance that any rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such revision or withdrawal of such rating may have an effect on the market price of the Series 2011A Bonds.

PART 16 - LEGAL MATTERS

Certain legal matters incidental to the offering of the Series 2011A Bonds by the Authority are subject to the approval of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2011A Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the Institution by Michael G. Macdonald, Esq., its Executive Vice President and General Counsel, and by the Institution's Special Counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Bryan Cave LLP, Kansas City, Missouri.

There is not now pending any litigation restraining or enjoining the issuance, offering or delivery of the Series 2011A Bonds or questioning or affecting the validity of the Series 2011A Bonds or the proceedings and authority under which the Series 2011A Bonds are to be issued and offered.

PART 17 - UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2011A Bonds from the Authority at a purchase price of \$65,694,954.10 (reflecting a net original issue premium of \$674,208.10 and Underwriters' discount of \$369,254.00), and to make a public offering of the Series 2011A Bonds at the prices or yields indicated on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of such Series 2011A Bonds if any are purchased.

The Series 2011A 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Institution, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Institution.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Series 2011A Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Series 2011A Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Series 2011A Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2011A Bonds that Incapital sells.

PART 18 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“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 120 days after the end of each fiscal year of the Institution, commencing with the fiscal year ending December 31, 2011, for filing by DAC with the Municipal Securities Rulemaking Board (“MSRB”) and its Electronic Municipal Market Access system for municipal securities disclosures on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the “Annual Information”), together with the Institution’s annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to the MSRB when they become available.

If, and only if, and to the extent that it receives the Annual Information and audited financial statements described above from the Institution, DAC has undertaken in a written agreement for the benefit of the Bondholders, on behalf of and as agent for the Institution, 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 the MSRB. In addition, the Authority has undertaken, for the benefit of the Bondholders, to provide to DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 described below (the “Notices”). Upon receipt of Notices from the Authority, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2011A 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 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 or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Institution, the Holders of the Series 2011A 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 or the Authority has complied with the Continuing Disclosure Agreement, and DAC may conclusively rely upon certifications of the Institution 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 Series 2011A Bondholders.

The Annual Financial Information means annual information concerning the Institution, consisting of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in “PART 7 - THE MOUNT SINAI HOSPITAL” herein relating to the following: (i) utilization statistics of the type set forth under the heading “Utilization – Mount Sinai Utilization Statistics”; (ii) revenue and expense data of the type set forth under the heading “Statement of Operations – Mount Sinai Consolidated Statements of Operations”; and (iii) sources of patient service revenue of the type set forth under the heading “Payor Mix – Mount Sinai Discharges by Payor (Adults and Pediatrics)”; together with (2) such narrative explanation, as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Institution. To the extent that other entities become Members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The Notices include notices of any of the following events with respect to the Series 2011A Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or certain other events affecting the tax-exempt status of the Series 2011A Bonds; (7) modifications to the rights of holders of the Series 2011A Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2011A Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Institution or any other “obligated person” with respect to the Series 2011A Bonds; (13) the consummation of a merger, consolidation or acquisition involving the Institution or any other “obligated person” with respect to the Series 2011A Bonds or the sale of all or substantially all of the assets of the Institution or any other “obligated person” or certain other similar actions; or (14) appointment of a successor or additional trustee or the change of name of a trustee under the Resolution, if material. In addition, DAC will undertake, for the benefit of the Holders of the Series 2011A Bonds, to provide to the MSRB, in a timely manner, notice of any failure by the Institution to provide the Annual Information and audited financial statements by the date required in the Institution’s undertaking described above.

The sole and exclusive remedy for breach or default under the agreement to provide continuing disclosure described above is an action to compel specific performance of the undertaking of DAC, the Institution and/or the Authority, and no person, including any Holder of the Series 2011A 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 2011A Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2011A 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 2011A Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2011A Bonds at the time Outstanding. A breach or default under the agreement shall not constitute an Event of Default under the Resolution, the Series 2011A 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 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 agreement, however, may be amended or modified without Bondholders’ consent under certain circumstances set forth therein. Copies of the agreement when executed by the parties thereto upon the delivery of the Series 2011A Bonds will be on file at the principal office of the Authority.

PART 19 - MISCELLANEOUS

Reference in this Official Statement to the Act, the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture and the Series 2011A Obligation do not purport to be complete. Refer to the Act, the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture and the Series 2011A Obligation for full and complete details of their provisions. Copies of the Resolution, the Series 2011A Resolution, the Loan Agreement, the Mortgage, the Master Indenture and the Series 2011A Obligation are on file with the Authority and the Trustee.

The Institution pursuant to the Master Indenture has agreed to furnish, or cause to be furnished, no later than sixty (60) days subsequent to the last day of each of the first three quarters in each fiscal year to

(1) the Master Trustee, (2) the Authority, and (3) each Bondholder of the Series 2011A Bonds who has so requested or on whose behalf the Master Trustee may have requested, the following information: (a) the unaudited financial statements of the Obligated Group; (b) utilization statistics of each Member of the Obligated Group for such quarter, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits and ambulatory surgery visits, or such other or different statistics as are appropriate at the time of calculation; and (c) discharges of the Institution by major payor mix for such quarter. In addition, the Institution has agreed to furnish, or cause to be furnished, to each of the parties identified in clauses (1), (2) and (3) above, the audited financial statements of the Institution, within one hundred twenty (120) days after the completion of the Institution's fiscal year. To the extent that other entities become Members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The agreements of the Authority with the holders of the Series 2011A Bonds are fully set forth in the Resolution and the Series 2011A Resolution. Neither any advertisement of the Series 2011A Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2011A Bonds.

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

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

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

"Appendix A - Certain Definitions," "Appendix C - Summary of Certain Provisions of the Loan Agreement," "Appendix D - Summary of Certain Provisions of the Resolution" and "Appendix F - Proposed Form of Approving Opinion of Bond Counsel", have been prepared by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. "Appendix E - Summary of Certain Provisions of the Master Indenture" has been prepared by Winston & Strawn LLP, special counsel to the Institution.

The consolidated financial statements of the Institution as of December 31, 2010 and 2009 and for the years then ended included in Appendix B-1 have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein. Included in Appendix B-2 are the unaudited consolidated financial statements of the Institution as of June 30, 2011 and 2010 and for the six-month periods then ended.

The Institution has reviewed the parts of this Official Statement describing the Institution, the Obligated Group and the Master Indenture. The Institution shall certify as of the date hereof and as of the date of delivery of the Series 2011A Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institution has reviewed certain parts of this Official Statement describing the Institution, the Obligated Group and the Master Indenture, including but not limited to "PART 1 - INTRODUCTION", "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2011A BONDS", "PART 4 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS", "PART 5 - ESTIMATED SOURCES AND USES OF FUNDS", "PART 6 - THE FINANCING PLAN", "PART 7 - THE MOUNT SINAI HOSPITAL", "PART 8 - RISK FACTORS AND REGULATORY CHANGES THAT MAY AFFECT THE OBLIGATED GROUP", "PART 19 - CONTINUING DISCLOSURE" and Appendix B-1 and Appendix B-2. The Institution shall certify as of the date hereof and as of the date of delivery of the Series 2011A Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

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APPENDIX A
CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

In addition to the other terms defined in this Official Statement, when used herein and in the summaries of the provisions of the Resolution and the Loan Agreement, the following terms have the meanings ascribed to them below.

Act means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, and constituting Title 4 of Article 8 of the Public Authorities Law), as the same may be amended from time to time, including, but not limited to, the HealthCare Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of New York 1973, as amended;

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

Applicable means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, or Debt Service Reserve Fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to Project(s), (ii) with respect to any Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the Applicable Series Resolution or Bond Series Certificate, (iii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for particular Projects, (v) with respect to any Loan Agreement and the contractual obligations contained therein, Loan Agreement and the contractual obligations contained therein with respect to a particular Series of Bonds, relating to particular Projects for an Institution, (vi) with respect to any Institution or Trustee, the respective Institutions or Trustee identified in the Applicable Series Resolution, (vii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution and (viii) with respect to any Credit Facility or Credit Facility Issuer, the Credit Facility or Credit Facility Issuer relating to a particular Series of Bonds;

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

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

Authority Fee means a fee payable to the Authority equal to the payment to be made upon the issuance of a Series of Bonds in an amount set forth in the Applicable Series Resolution, unless otherwise provided in the Applicable Series Resolution;

Authorized Newspaper means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority;

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

of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee;

Bond or *Bonds* means any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution;

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

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

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

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

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

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

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

Continuing Disclosure Agreement means collectively, the Agreement to Provide Continuing Disclosure, dated as of June 10, 2010, by and among the Authority, Digital Assurance Certification LLC, the Institution and the Trustee and the Agreement to Provide Continuing Disclosure, dated as of October 27, 2011, by and among the Authority, Digital Assurance Certification LLC, the Institution and the Trustee;

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

Cost or *Costs of Issuance* means the items of expense incurred in connection with the authorization, sale and issuance of a Series of Bonds, which items of expense will include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing;

Cost or *Costs of the Project* means, with respect to a Project(s), the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such Project(s), including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest

in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project(s), (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project(s), which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of the Project(s), (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution will be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project(s), (vii) any sums required to reimburse the Institution, or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project(s) (including interest on moneys borrowed from parties other than the Institution), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of the Project(s), and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project(s) or pursuant to the Resolution or to the Loan Agreement, or a Reserve Fund Facility;

Credit Facility, as used in the Resolution, means any municipal bond insurance policy satisfactory to the Authority which insures payment of principal, interest and, if agreed to by the Credit Facility Issuer and the Institution, redemption premium on the Bonds of any Series when due and issued and delivered to the Trustee or similar insurance or guarantee if so designated, all in accordance with the Applicable Series Resolution;

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

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

Debt Service Reserve Fund means the fund so designated, created and established pursuant to the Resolution;

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

Defeasance Security means, unless otherwise provided in an Applicable Series Resolution, (i) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligation. (ii) a Federal Agency Obligation described in clauses (i) or (ii) of the definition of Federal Agency Obligation. (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 redemption date specified in the irrevocable instructions referred to in clause (a) above, (c) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (a) above, and (d) is rated by at least two Rating Services in the highest rating category for such Exempt Obligation. provided, however, that such term shall not include (1) any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof; and (iv) any other Permitted Investments acceptable to the Rating Agency(ies);

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

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

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

Exempt Obligation means

(i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least two 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 registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations;

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

Federal Agency Obligation means:

(i) an obligation issued by any federal agency or instrumentality approved by the Authority;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations;

Fitch means Fitch Ratings Inc., its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Bond Trustee, which designated agency is acceptable to the Credit Facility Issuer;

Government Obligation means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America are pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export-Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Corporation; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, and (j) upon the approval of the Authority and all Applicable Credit Facility Issuers, (i) an obligation of any federal agency and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or (ii) an obligation of any other agency or instrumentality of the United States of America created by Act of Congress, provided such obligation is rated at least “A” by S&P and Moody’s at all times;

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

Gross Proceeds means, with respect to an Applicable Series of Bonds, the interest on which is tax-exempt, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters’ fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, (v) securities or obligations pledged by the Authority or the Institution as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code;

Gross Receipts has the meaning accorded such term in the Master Indenture, as amended from time to time;

Holder means an owner of any Obligation issued in other than bearer form;

Institution means MSH and with respect to an Applicable Series of Bonds, the not-for-profit hospital corporation, nursing home corporation or other entity or person that is a Member of the Obligated Group and

for whose benefit the Authority has, as authorized under the Public Health Law or any other law or regulation, issued such Series of Bonds;

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution approved by any Applicable Credit Facility Issuer;

Loan Agreement means the Amended and Restated Loan Agreement, dated as of March 31, 2010, amending and restating the Loan Agreement, dated as of June 28, 2006, as supplemented by Supplement No. 1 to the Amended and Restated Loan Agreement, dated as of September 21, 2011, each by and between the Authority and the Institution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement;

Master Indenture means the Master Trust Indenture by and among the Obligated Group and the Master Trustee dated as of June 1, 2010, as may be amended and supplemented from time to time

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

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

Moody's means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns;

Mortgage, as used in the Master Indenture, means (i) the mortgage granted by MSH to the Master Trustee to secure the obligations of MSH with respect to the initial Obligations issued under the Master Indenture and any mortgage, or amendment or modification of a mortgage, granted to secure such other Obligations as may be issued from time to time in accordance with the provisions of this Master Indenture, and (ii) any other mortgage encumbering additional property added as collateral for Obligations granted by any Member of the Obligated Group to secure additional Obligations issued pursuant to the Master Indenture;

Mortgaged Property, as used in the Master Indenture, means any and all Property, whether real, personal or mixed, and all rights and interests in and to the Property, which is subject to the liens and security interests created under a Mortgage;

Mortgage means the Mortgage as defined in the Master Indenture;

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

MSH means Mount Sinai Hospital.

Obligated Group or Mount Sinai Hospital Obligated Group means initially the Mount Sinai Hospital Obligated Group of which MSH is currently the sole member; and such other organizations as may from time to time be added as members of such Obligated Group, and deleting such organizations as may from time to time withdraw as members of such Obligated Group, all as provided in the Master Indenture, pursuant to which such Obligated Group was created;

Obligation, as used in the Resolution, means each Obligation issued pursuant to the Master Indenture to secure a Series of Bonds issued under the Resolution;

Outstanding, as used in the Resolution, when used in reference to Bonds of an Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Applicable Trustee at or before such

date; (ii) any such Bond deemed to have been paid in accordance with the Resolution; and (iii) any such Bond in lieu of or in substitution for which another such Bond will have been authenticated and delivered pursuant to the Resolution;

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

Permitted Collateral means:

(i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligation;

(ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligation;

(iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one Rating Service no lower than in the second highest rating category;

(iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated by Bests Insurance Guide or a Rating Service in the highest rating category; and

(v) bankers' acceptances issued by a bank rated in the highest short term rating category by at least one nationally recognized rating organization and having maturities of not longer than three hundred sixty five (365) days from the date they are pledged;

Permitted Investments means any of the following:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

(iv) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;

(v) Collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; and

(vi) Investment Agreements that are fully collateralized by Permitted Collateral;

Project means the construction, reconstruction, renovation, equipping, repairing, and "fit out" of the space located on floors 3 and 4 and sub-cellar 2, together with elevators and other related support facilities, of the 11 story Center for Science and Medicine located at 1470 Madison Avenue, New York, New York 10029

for use as a patient care treatment facility and will be leased to the Institution by Mount Sinai School of Medicine; and any other Projects which are financed from the proceeds of an Applicable Series of Bonds issued under the Resolution and which are included as part of the Project by amendment to the Loan Agreement;

Property, as used in the Master Indenture, means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated;

Provider Payments means any payments made by a Facility Provider pursuant to its Reserve Fund Facility;

Qualified Financial Institution means any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000.

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility or financial guaranty agreement in connection with Outstanding Bonds;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility or financial guaranty agreement in connection with Outstanding Bonds;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent

with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility or financial guaranty agreement in connection with Outstanding Bonds;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or the Student Loan Marketing Association or any successor thereto or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meet the applicable rating requirements set forth above;

Rating Service(s) means S&P, Moody's, Fitch or any other nationally recognized statistical rating organization which will have assigned a rating on any Bonds Outstanding as requested by or on behalf of the Authority, and which rating is then currently in effect;

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

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

Refunding Bonds means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to the Resolution, and originally issued pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds;

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

Resolution means Mount Sinai Hospital Obligated Group Revenue Bond Resolution, adopted March 31, 2010, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions hereof;

Revenues means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement, and payments made under the Master Indenture or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation and all amounts realized upon liquidation of collateral securing the Applicable Obligation, which payments and amounts are assigned by the Resolution to the Applicable Trustee by the Authority and pursuant to the Loan Agreement and the Obligation are to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Arbitrage Rebate Fund);

S&P means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, and its successors and assigns;

Securities means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, at the time an investment therein is made or such security is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "Aa" or better by Moody's or "AA" or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) with the consent of the Credit Facility Issuers, if any, common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or its stock is

deposited in any fund or account established hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “Aa” or better by Moody’s or “AA” or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and the Credit Facility Issuers, if any;

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

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and the Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution;

Sinking Fund Installment means, with respect to any Series of Bonds, as of any date of calculation and with respect to any Bonds of such Series, so long as any such Bonds thereof are Outstanding, the amount of money required by the Applicable Series Resolution pursuant to which such Bonds were issued or by the Applicable Bond Series Certificate, to be paid on a single future sinking fund payment date for the retirement of any Outstanding Bonds of said Series which mature after said future sinking fund payment date, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and said future sinking fund payment date is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment;

State means the State of New York;

Supplemental Resolution means any supplemental resolution of the members of the Authority amending or supplementing the Resolution, any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of Article 9 of the Resolution;

Term Bonds means with respect to Bond of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments;

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

APPENDIX B-1

**CONSOLIDATED FINANCIAL STATEMENTS OF
THE MOUNT SINAI HOSPITAL AS OF DECEMBER 31, 2010 AND 2009
AND FOR THE YEARS THEN ENDED,
WITH REPORT OF INDEPENDENT AUDITORS**

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CONSOLIDATED FINANCIAL STATEMENTS

The Mount Sinai Hospital
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

The Mount Sinai Hospital

Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

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Report of Independent Auditors

Board of Trustees
The Mount Sinai Hospital

We have audited the accompanying consolidated statements of financial position of The Mount Sinai Hospital (the "Hospital") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Mount Sinai Hospital at December 31, 2010 and 2009, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 29, 2011

The Mount Sinai Hospital

Consolidated Statements of Financial Position

	December 31	
	2010	2009
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 253,908	\$ 386,484
Short-term investments	220,928	25,031
Total cash and cash equivalents and short-term investments	474,836	411,515
Patient accounts receivable, less allowances for uncollectibles (2010 – \$39,187; 2009 – \$38,753)	186,513	168,720
Assets limited as to use	16,959	21,555
Due from related organizations, net	69,213	57,425
Inventories	20,836	20,266
Other current assets	32,494	26,881
Total current assets	800,851	706,362
Marketable securities, other investments and alternative investments	504,265	441,873
Assets limited as to use	65,436	81,087
Self-insurance trust assets	889	882
Other assets	41,324	27,875
Deferred financing costs	8,225	5,039
Property, plant and equipment – net	406,445	383,750
Total assets	\$ 1,827,435	\$ 1,646,868

	December 31	
	2010	2009
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 118,233	\$ 113,763
Accrued salaries and related liabilities	66,250	63,980
Accrued interest payable	9,388	12,370
Accrued construction and capital asset liabilities	8,530	2,876
Current portion of long-term debt	17,803	43,045
Other current liabilities	15,228	18,000
Total current liabilities	<u>235,432</u>	<u>254,034</u>
Long-term debt, less current portion	383,086	380,625
Accrued postretirement benefits	17,848	16,098
Reserve for self-insurance liabilities	861	1,022
Deferred gain on transfer of real estate	27,055	27,055
Other liabilities	341,674	321,991
Total liabilities	<u>1,005,956</u>	<u>1,000,825</u>
Commitments and contingencies		
Net assets:		
Unrestricted	643,957	485,021
Temporarily restricted	103,101	87,181
Permanently restricted	74,421	73,841
Total net assets	<u>821,479</u>	<u>646,043</u>
Total liabilities and net assets	<u>\$ 1,827,435</u>	<u>\$ 1,646,868</u>

See accompanying notes.

The Mount Sinai Hospital
Consolidated Statements of Operations

	Year Ended December 31	
	2010	2009
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 1,549,675	\$ 1,465,041
Investment income and net realized gains on sales of securities	23,595	4,189
Contributions	393	316
Other revenue	27,797	19,890
Net assets released from restrictions for operations	23,979	30,941
Total operating revenue before other items	1,625,439	1,520,377
Operating expenses		
Salaries and wages	617,859	590,290
Employee benefits	182,424	165,588
Supplies and other	621,145	579,799
Depreciation	74,162	72,950
Interest and amortization	19,924	25,758
Bad debts	22,535	28,615
Total operating expenses before other items	1,538,049	1,463,000
Excess of operating revenue over operating expenses before other items	87,390	57,377

Continued on following page.

The Mount Sinai Hospital

Consolidated Statements of Operations (continued)

	Year Ended December 31	
	2010	2009
	<i>(In Thousands)</i>	
Excess of operating revenue over operating expenses before other items (from previous page)	\$ 87,390	\$ 57,377
Other items		
Net change in unrealized gains and losses on investments and change in value of alternative investments	27,044	68,345
Gain on sale of interest in managed long-term care organization	7,709	–
Recognition of deferred gain on sale of real estate	–	6,847
Third-party reimbursement settlements	22,687	21,679
Loss on refunding and refinancing of debt	(9,470)	–
Net change in investment in captive insurance program	5,804	11,711
Medical residents FICA tax refund	13,084	–
Malpractice insurance program interest rate surplus	6,161	4,605
Excess of revenue over expenses	160,409	170,564
Other changes in unrestricted net assets		
Transfers to affiliates	(8,013)	(1,498)
Distributions from MSMC Residential Realty, LLC	1,116	22,134
Transfers to the Mount Sinai School of Medicine	(1,116)	(22,134)
Transfer to MSMC Realty Corporation	–	(9,533)
Net assets released from restrictions for capital asset acquisitions	8,822	349
Change in postretirement liability to be recognized in future periods	(2,282)	(2,420)
Total other changes in unrestricted net assets	(1,473)	(13,102)
Net increase in unrestricted net assets	\$ 158,936	\$ 157,462

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Changes in Net Assets

	Year Ended December 31, 2010				Year Ended December 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>							
Net assets at beginning of year	\$ 485,021	\$ 87,181	\$ 73,841	\$ 646,043	\$ 327,559	\$ 76,262	\$ 72,997	\$ 476,818
Net increase in unrestricted net assets	158,936	–	–	158,936	157,462	–	–	157,462
Donor restricted contributions, net	–	48,721	580	49,301	–	42,209	844	43,053
Net assets released from restrictions for operations	–	(23,979)	–	(23,979)	–	(30,941)	–	(30,941)
Net assets released from restrictions for capital asset acquisitions	–	(8,822)	–	(8,822)	–	(349)	–	(349)
Total changes in net assets	158,936	15,920	580	175,436	157,462	10,919	844	169,225
Net assets at end of year	\$ 643,957	\$ 103,101	\$ 74,421	\$ 821,479	\$ 485,021	\$ 87,181	\$ 73,841	\$ 646,043

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2010	2009
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ 175,436	\$ 169,225
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	74,162	72,950
Amortization of deferred financing fees, bond premium and discount	(112)	571
Gain on sale of interest in managed long-term care organization	(7,709)	–
Net change in unrealized gains and losses on investments and change in value of alternative investments	(27,044)	(68,345)
Loss on refunding and refinancing of debt	9,470	–
Net change in investment in captive insurance program	(5,804)	(11,711)
Recognition of deferred gain on sale of real estate	–	(6,847)
Changes in:		
Patient accounts receivable	(17,793)	(5,383)
Other operating assets	(19,611)	(105)
Accounts payable and accrued expenses	4,470	505
Accrued salaries and related liabilities	2,270	3,792
Accrued interest payable	(2,982)	(459)
Due from related organizations	(11,788)	23,848
Other operating liabilities	24,154	20,479
Net cash provided by operating activities	197,119	198,520
Cash flows from investing activities		
Acquisitions of property, plant and equipment, net	(96,857)	(74,422)
Increase in investments – net	(217,732)	(10,880)
Decrease in assets limited as to use	20,247	6,843
Increase in self-insurance trust assets	(7)	(121)
Net cash used in investing activities	(294,349)	(78,580)
Cash flows from financing activities		
Refunding of long-term debt	(402,895)	–
Proceeds of issuance of long-term debt	376,869	–
Payment of financing fees	(8,683)	–
Principal payments on long-term debt	(637)	(16,635)
Net cash used in financing activities	(35,346)	(16,635)
Net (decrease) increase in cash and cash equivalents	(132,576)	103,305
Cash and cash equivalents at beginning of year	386,484	283,179
Cash and cash equivalents at end of year	\$ 253,908	\$ 386,484

See accompanying notes.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements

December 31, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

The Mount Sinai Hospital (the “Hospital”) is a tertiary care teaching hospital located in upper Manhattan with a division in Queens, New York. As a leading academic medical center, the Hospital provides a full range of ambulatory and inpatient general and specialty services to patients from the surrounding communities, across the country and around the world and operates one of the largest graduate medical education programs in the country. The Mount Sinai Diagnostic & Treatment Center (“MSDTC”) consists of various outpatient diagnostic and treatment clinics that provide comprehensive primary and preventive care and specialty care to its patients. MSDTC is located on the Hospital’s campus and commenced operations in 2004. The Hospital is the sole member of MSDTC. In the accompanying consolidated financial statements, the Hospital and MSDTC are referred to collectively as the Hospital.

The Hospital is closely affiliated with the Mount Sinai School of Medicine (the “School of Medicine”) and its affiliates. The School of Medicine is a separate legal entity and, along with the Hospital, shares a four block area campus on the upper east side of Manhattan.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and MSDTC. All significant intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements do not include the accounts of organizations that are related to the Hospital through common management and/or Board of Trustees, principally: the School of Medicine; the Mount Sinai Medical Center, Inc. (“Medical Center”); the Mount Sinai Auxiliary Board (“Auxiliary Board”); MSMC Realty Corporation (“Realty Corp.”); MSMC Residential Realty, LLC (“MSMCRRC”); 8 East 102nd Street LLC; and Mount Sinai Proton Holding Company, LLC.

Related Organizations

Transactions among the Hospital and the related organizations relate principally to the sharing of certain services, facilities, equipment and personnel and are accounted for on the basis of allocated cost, as agreed among the parties. Amounts due from or to related organizations for these activities are currently receivable or payable and do not bear interest, except for amounts advanced by the Hospital to the School of Medicine for certain capital expenditures. The nature of the Hospital’s transactions with various related organizations is described more fully in Note 10.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents.

The Hospital has balances in financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Patient Accounts Receivable/Allowance for Uncollectibles

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

Investments

A substantial portion of the Hospital's investments are pooled for management purposes with those held by related entities. Investments consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value based on independent published sources (quoted market prices).

Alternative investments (nontraditional, not readily marketable securities) may consist of equity, debt and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities, and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately \$46.0 million at December 31, 2010.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Individual investment holdings within the alternative investments include non-marketable and market-traded debt and equity securities and interests in other alternative investments. The Hospital may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the pooled investment capital may be divested only at specified times. The liquidity restrictions range from several months to ten years for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments are stated in the accompanying consolidated statements of financial position based upon net asset values derived from the application of the equity method of accounting. Financial information used by the Hospital to evaluate its alternative investments is provided by the respective investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual financial statement reporting.

There is uncertainty in determining values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change.

Investment Income

Investment income is allocated to investment pool participants using the market-value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually (see Note 8). Realized gains and losses from the sale of securities are computed using the average cost method.

In the absence of donor restrictions, investment income, including realized gains and losses, is reflected in the accompanying consolidated statements of operations as operating revenue, with net unrealized gains and losses and the change in value of alternative investments reported as other items. See Notes 3, 6 and 12 for additional information relative to investments.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Inventories

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

Assets Limited as to Use

Assets so classified represent assets whose use is restricted or internally designated for specific purposes under terms of agreements related to the Hospital's long-term debt and internally designated for funded depreciation requirements (see Notes 3, 4, 5 and 12). These assets consist primarily of U.S. Treasury obligations held in the trustee's accounts and money market funds.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided using the effective interest method. See Note 5 for additional information relative to debt-related matters.

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Annual provisions for depreciation are made based upon the straight-line method using a half-year convention over the estimated useful lives of the assets ranging from three to forty years. See Note 4 for additional information relative to property, plant and equipment.

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. See Note 8 for additional information relative to temporarily and permanently restricted net assets.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions

Contributions, including unconditional promises to give cash and other assets (pledges), are reported at fair value on the date 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 to unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected in temporarily restricted net assets and net assets released from restrictions in the accompanying consolidated financial statements.

Unconditional Promises to Give

Unconditional promises to give are recorded when the gift is made known. A receivable is established and net assets are increased by the discounted value of the promises. Irrevocable trusts are recorded at the point of notification and are recorded as temporarily or permanently restricted as determined by the trust instruments. Estates are estimated and recorded at the conclusion of probate.

The Hospital is aware of numerous unconditional promises to give and estimates the year of receipt to the extent possible. The anticipated realizable value of the receivable, net of a present value discount of approximately \$0.2 million is reported within other assets in the accompanying consolidated statements of financial position as follows (in thousands):

2011	\$	7,394
2012		3,578
2013		1,369
2014		963
2015		817
2016 to 2019		71
	\$	<u>14,192</u>

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Uncompensated Care

As a matter of policy, the Hospital provides significant amounts of partially or totally uncompensated patient care. For accounting purposes, such uncompensated care is treated either as charity care or bad debt expense. The Hospital's charity care policy ensures the provision of quality health care to the community served while carefully considering the ability of the patient to pay. The policy has sliding fee schedules for inpatient, ambulatory and emergency services provided to the uninsured and under-insured patients who qualify. Patients are eligible for the charity care fee schedule if they meet certain income tests. For accounting and disclosure purposes, charity care is considered to be the difference between the Hospital's customary charges and the sliding charity care fee schedule rates. Since payment of this difference is not sought, charity care allowances are not reported as revenue.

Patients who do not qualify for sliding scale fees and all uninsured patients who do not qualify for Medicaid assistance are billed at the Hospital's rates. Uncollected balances for these patients are categorized as bad debts. Amounts for bad debt and charity care activities as reported below are based on actual data, but are subject to changes upon the finalization of the Hospital's cost report and other government filings. Total uncompensated care for all patient services approximated \$89.8 million in 2010 and \$92.1 million in 2009.

Performance Indicator

The consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets) and change in postretirement liability to be recognized in future periods.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the accompanying consolidated financial statements, estimates principally relate to the valuation of net accounts receivable, the net amount due to third-party payors (other noncurrent liabilities), the net carrying value of the Hospital's interest in the captive insurance program and the carrying value of alternative investments. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Hospital's consolidated financial position. In 2010 and 2009, management recognized approximately \$22.7 million and \$21.7 million, respectively, which was a result of settlements of prior years' third-party reimbursements and is reflected in the consolidated statements of operations as other items.

Tax Status

The Mount Sinai Hospital and MSDTC are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. They also are exempt from New York State and New York City income taxes.

New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-23, *Measuring Charity Care for Disclosure*. ASU No. 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU No. 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU No. 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital will adopt the disclosures required by the amended guidance for periods beginning after December 15, 2010.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2010, the FASB also issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU No. 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the consolidated statement of financial position. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital will adopt the presentation changes to the consolidated statement of financial position for periods beginning after December 15, 2010.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue

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

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, without retroactive adjustments except for the capital component of the rate; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Medicaid Services (“CMS”), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years’ payment rates for those payors will continue to be made in future years.

Medicare Reimbursement

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years’ payment rates, based on industry-wide and hospital-specific data.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years’ payment rates, based on industry-wide and hospital-specific data. In the accompanying consolidated financial statements, such estimates are included in other current and noncurrent assets and liabilities. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2002. Other years remain open for audit and settlement as are New York State Medicaid cost reports for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

There are various proposals at the Federal and State levels, including health care reform enacted at the Federal level, that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients include 18% from Medicare, 23% from Medicaid, 30% from managed care companies and 29% from commercial insurance carriers and others at December 31, 2010 (18%, 24%, 27% and 31%, respectively, in 2009).

In 2010, approximately 30% and 19% of the Hospital's net patient service revenue was from Medicare and Medicaid programs, respectively (approximately 31% and 21%, respectively, in 2009).

3. Investments and Assets Limited as to Use

Investments are maintained as follows:

	December 31	
	2010	2009
	<i>(In Thousands)</i>	
Pooled investments	\$ 468,230	\$ 418,673
Non-pooled investments <i>(Note 6)</i>	256,963	48,231
	<u>\$ 725,193</u>	<u>\$ 466,904</u>

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

The following table summarizes the composition of the total investment pool at carrying value; the Hospital's interests in the pooled investment components are proportionate based on the ratio of its pooled investment balance to the total of the pool.

	December 31	
	2010	2009
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 44,204	\$ 53,690
Fixed income:		
Corporate bonds	58,219	44,186
U.S. government	343	8,975
Equities:		
U.S. equities	48,826	68,786
Non-U.S. equities	26,806	23,308
Alternative investments:		
Hedge funds:		
Long only equity	55,233	60,745
Long/short equity ^(a)	198,824	159,007
Long/short credit ^(b)	86,114	80,624
Multi-strategy ^(c)	103,682	127,385
Open mandate ^(d)	227,896	200,300
Macro ^(e)	76,196	—
Real assets ^(f)	38,019	31,183
Private investments:		
Equity ^(g)	48,043	28,958
Credit/distressed ^(h)	57,400	63,845
Real assets ⁽ⁱ⁾	25,817	24,909
Total	\$ 1,095,622	\$ 975,901

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

The following table summarizes the composition of the Hospital's share of the total investment pool at carrying value:

	December 31	
	2010	2009
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 18,891	\$ 23,034
Fixed income:		
Corporate bonds	24,881	18,956
U.S. government	147	3,850
Equities:		
U.S. equities	20,866	29,510
Non-U.S. equities	11,456	9,999
Alternative investments:		
Hedge funds:		
Long only equity	23,605	26,060
Long/short equity ^(a)	84,970	68,216
Long/short credit ^(b)	36,802	34,589
Multi-strategy ^(c)	44,310	54,650
Open mandate ^(d)	97,395	85,931
Macro ^(e)	32,563	—
Real assets ^(f)	16,248	13,378
Private investments:		
Equity ^(g)	20,532	12,423
Credit/distressed ^(h)	24,531	27,391
Real assets ⁽ⁱ⁾	11,033	10,686
Total	\$ 468,230	\$ 418,673

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

- (a) Investments consisting primarily of publicly traded equity holdings with both long and short positions.
- (b) Investments consisting primarily of publicly traded credit holdings with both long and short positions.
- (c) Investments with lower correlations to stock and bond markets with a balanced mix of assets and strategies. Underlying exposures primarily include publicly traded equity and credit positions in event-driven, relative value and various arbitrage strategies.
- (d) Investments with lower correlations to stock and bond markets. Underlying exposures primarily include publicly traded equity and credit positions with a fundamental value bias. Portfolios may reflect a tilt towards equity or credit positions, involve portfolio level hedging, and hold large cash positions if value opportunities are not found.
- (e) Investments focused on global macro dislocations rather than micro driven opportunities. Holdings are both long and short in equity, fixed income, currency, and futures markets.
- (f) Investments in publicly traded commodity linked exposures.
- (g) Investments targeting buyout and growth equity opportunities that require time to reach realization.
- (h) Investments in structured credit, claims, distressed positions of either a minority or controlling interest that require time to reach realization.
- (i) Real estate and natural resources investments that require time to reach realization.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

The return on pooled investments comprises the following for the years ended December 31, 2010 and 2009:

	2010	2009
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 915	\$ 1,055
Net realized gains	46,628	8,349
Change in net unrealized gains and losses and change in value of alternative investments	71,579	174,021
Total	\$ 119,122	\$ 183,425

The Hospital was allocated a total investment return from the pool based on agreements among the pool participants and donor stipulations of approximately \$43.0 million and \$67.5 million in 2010 and 2009, respectively.

Investment income and net realized gains on sales of securities comprise the following for the years ended December 31:

	2010	2009
	<i>(In Thousands)</i>	
Interest, dividend and other income	\$ 8,953	\$ 4,651
Net realized gain (loss) on sales of securities	14,642	(462)
	\$ 23,595	\$ 4,189

Assets Limited as to Use

Assets limited as to use consist of the following at December 31:

	2010	2009
	<i>(In Thousands)</i>	
Assets held under long-term debt agreements:		
Debt service fund	\$ 9,332	\$ 21,548
Debt service reserve fund	32,973	48,670
Internally designated for debt service	7,627	7
Funded depreciation	32,463	32,417
	\$ 82,395	\$ 102,642

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

The Medical Center has a bank letter of credit for \$1.0 million for the benefit of a captive insurance company in which the Hospital participates (see Note 6). The letter of credit is collateralized by \$1.0 million of marketable securities held by the Hospital.

4. Property, Plant and Equipment

A summary of property, plant and equipment is as follows at December 31:

	2010	2009
	<i>(In Thousands)</i>	
Land and improvements	\$ 14,221	\$ 14,221
Buildings and improvements	330,796	328,947
Fixed equipment	448,308	526,835
Movable equipment	414,797	441,188
	1,208,122	1,311,191
Less leasehold interest of the School of Medicine	68,146	68,146
	1,139,976	1,243,045
Less accumulated depreciation and amortization	776,294	873,642
	363,682	369,403
Capital projects in progress	42,763	14,347
	\$ 406,445	\$ 383,750

The Hospital capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. In 2010 and 2009, approximately \$6.4 million and \$6.9 million were capitalized, respectively.

In 2010 and 2009, the Hospital wrote off approximately \$171.5 million and \$264.9 million, respectively, of fully depreciated assets that were no longer in use. In 2010, fixed equipment and movable equipment were adjusted by approximately \$89.1 million and \$82.4 million, respectively. In 2009, fixed equipment and movable equipment were adjusted by approximately \$29.1 million and \$235.8 million, respectively.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

4. Property, Plant and Equipment (continued)

The School of Medicine has entered into a long-term lease with the Hospital relating to a portion of the Hospital-owned Annenberg Building, which is used by the School of Medicine. Accordingly, the Hospital reflects the School of Medicine's leasehold interest as a reduction of total property, plant and equipment. Under the terms of the lease, the School of Medicine makes payments for its share of the building's operating expenses.

At December 31, 2010 and 2009, approximately \$11.8 million is included in buildings and improvements representing amounts paid by the Hospital to the School of Medicine relating to a portion of a multipurpose building owned by the School of Medicine that is leased and used by the Hospital. Under the terms of a lease agreement relative to this space, the Hospital made payments of approximately \$5.3 million in each of 2010 and 2009 for its share of the operating costs.

The Hospital entered into a lease agreement with the School of Medicine for a portion of the Center for Advanced Medicine building that is used by the Hospital. At December 31, 2010 and 2009, approximately \$4.7 million is included in the accompanying consolidated statements of operations representing amounts paid by the Hospital to the School of Medicine relating to the portion of the building used by the Hospital. In each of 2010 and 2009, under the terms of this lease, the Hospital paid the School of Medicine approximately \$2.8 million in rent, based on the operating costs of the related portion of the building.

Future minimum rental commitments under various leases with the School of Medicine are approximately \$8.1 million in 2011; \$7.8 million in 2012; \$7.6 million in 2013; \$7.4 million in 2014; \$7.2 million in 2015 and \$86.9 million thereafter.

Substantially all property, plant and equipment have been pledged as collateral under various debt agreements.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-term Debt

A summary of long-term debt is as follows at December 31:

	2010	2009
	<i>(In Thousands)</i>	
Series 2000A bonds; interest rates ranging from 5.875% to 6.75% ^(a)	\$ —	\$ 320,645
Series 2000C bonds; interest rates ranging from 5.0% to 5.5% ^(a)	—	78,175
Series 2010 bonds; interest rates ranging from 1.8% to 5.0% ^(a)	359,690	—
Accounts receivable financing ^(b)	24,863	25,500
	384,553	424,320
Add bond premium	16,336	—
Less discount	—	650
Less current portion	17,803	43,045
	\$ 383,086	\$ 380,625

- (a) In 2000, the Dormitory Authority of the State of New York (“DASNY”) issued \$681.0 million in tax-exempt bonds (“Series 2000”) on behalf of the Mount Sinai NYU Health Obligated Group (the “Obligated Group”). The bonds were issued to refinance and/or refund certain outstanding long-term debt of the Obligated Group’s members and to make available additional capital. The Obligated Group consisted of the Hospital, NYU Hospitals Center and the Hospital for Joint Diseases/Orthopaedic Institute (“HJD”). Subsequently, through a series of transactions, the debt was refinanced and the original Obligated Group was dissolved. Consequently, the Hospital was responsible only for the Series 2000 reflected in the accompanying December 31, 2009 consolidated statement of financial position.

In June 2010, the Hospital refunded and refinanced its outstanding Series 2000 bonds, partially at par and partially at 101%. In connection with the refunding and refinancing, the Hospital recognized a loss in 2010 of approximately \$9.5 million principally related to the write off of deferred financing costs and the payment of the call premiums. The new bonds (Series 2010) were issued as both taxable and tax-exempt series (approximately \$28.5 million par amount in taxable bonds and approximately \$331.2 million par amount in tax-exempt bonds issued through DASNY). The bonds mature serially through July 1, 2026.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-term Debt (continued)

As security for its obligations under the Series 2010, the Hospital provided a gross revenue pledge and executed a mortgage on its patient care property. Furthermore, the Hospital agreed to limitations on its ability to transfer assets, borrow additional funds as well as other limitations.

The Hospital agreed to maintain certain financial ratios, including a debt service coverage ratio, days cash-on-hand ratio and to maintain certain debt service and other reserve funds (included in assets limited as to use). The ratios are calculated semiannually. At December 31, 2010 and 2009, the Hospital was in compliance with the required financial ratios.

- (b) The Hospital has a revolving, amortizing loan with a commercial bank that is scheduled to expire on October 21, 2013. Interest is payable at the 30-day LIBOR plus 0.50% (0.76% at December 31, 2010) on a quarterly basis; principal also is payable quarterly. Under the terms of the agreement, the Hospital is required to maintain certain financial ratios and was in compliance with these ratios at December 31, 2010 and 2009.

Principal payments on long-term debt subsequent to December 31, 2010 are as follows (in thousands):

2011	\$	17,803
2012		19,057
2013		36,728
2014		17,730
2015		18,555

Interest paid for each of the years ended December 31, 2010 and 2009 aggregated approximately \$26.7 million. In 2010, the Hospital capitalized net interest of approximately \$2.2 million relating to construction activity in progress (\$1.0 million in 2009).

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-term Debt (continued)

Future minimum lease payments under noncancellable operating leases, excluding leases with related parties (see Notes 4 and 10), with initial or remaining terms of one year or more at December 31, 2010 consisted of the following (in thousands):

2011	\$ 2,761
2012	2,471
2013	3,089
2014	746
2015	746
Total minimum lease payments	<u>\$ 9,813</u>

Rental expense to unrelated parties approximated \$14.2 million in 2010 and \$12.4 million in 2009.

6. Professional Liabilities Insurance Program

Beginning in April 1977, primary coverage of professional and general liability incidents has been provided through participation in a pooled program with certain other health care facilities (principally hospitals) affiliated with the Federation of Jewish Philanthropies of New York. This occurrence basis insurance coverage participation is with captive insurance companies and commercial insurance companies. The Hospital follows the equity method of accounting for its investment in the captive insurance company associated with its medical malpractice insurance program. Additionally, in connection with the pooled insurance program, the Hospital has recognized the present value of its allocated share of a portion of the program's accumulated surplus.

The aggregate net carrying value of the Hospital's interests in the insurance program was approximately \$48.8 million and \$43.0 million at December 31, 2010 and 2009, respectively, which is included in other investments in the accompanying consolidated statements of financial position.

The Hospital changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998. Under the terms of the revised program, a portion of the Hospital's coverage became self-retained. In conjunction with the program, the Hospital, together with several other hospitals, invested in pooled investment unit trusts (remaining fair value of approximately \$0.9 million at December 31, 2010 and 2009, respectively). Under such arrangement, the units were

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

6. Professional Liabilities Insurance Program (continued)

not subject to redemption for five years from the date of the initial investment other than for payment of malpractice claims and claim-related expenses. At December 31, 2010 and 2009, the Hospital's consolidated statements of financial position reflected undiscounted professional liabilities of approximately \$0.9 million and \$1.0 million, respectively, for the actuarial present value of the self-retained component of malpractice insurance. Effective January 1, 1999, the revised program was terminated prospectively.

For the period beginning January 1, 1999, the Hospital's malpractice insurance program reverted to a coverage arrangement similar to the arrangement that existed prior to January 1, 1998. The Hospital no longer maintains a self-retained component for the period beginning January 1, 1999.

The Hospital, as part owner of its malpractice captive, guarantees a certain level of investment return. As a result of market losses in 2008, the Hospital and the School of Medicine are required to fund their share of market losses which totaled approximately \$36.4 million, with \$25.5 million allocated to the Hospital. The liability was to be paid over a period of four years beginning in 2009. During 2010 and 2009, this liability was reduced and eliminated as a result of payments that were made and market gains, except for approximately \$2.1 million of accrued interest that is included in other current liabilities at December 31, 2010. The balance of the liability, included in other current and other liabilities, was approximately \$8.6 million at December 31, 2009.

7. Pension and Similar Plans and Other Postretirement Benefits

The Hospital provides pension and similar benefits to its employees through several defined benefit multiemployer union plans and tax sheltered annuity plans. Contributions to the defined benefit multiemployer union plans are made in accordance with contractual agreements under which contributions are generally based on salaries. Payments to the tax sheltered annuity plans are generally based on percentages of annual salaries. It is the Hospital's policy to fund accrued costs under these plans on a current basis. The Hospital's pension expense under all plans for the years ended December 31, 2010 and 2009 aggregated approximately \$37.0 million and \$34.3 million, respectively.

Additionally, the Hospital and the School of Medicine jointly offer a 457(b) plan to certain of their respective employees. Contributions, through payroll deductions, are made solely by the employees. The contributions are maintained in individual accounts held by a custodian and remain an asset and liability of the employer until the participant terminates employment. At December 31, 2010 and

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

2009, approximately \$3.6 million and \$3.1 million, respectively, is included in other assets and other liabilities in the accompanying consolidated statements of financial position related to the 457(b) plan.

In addition to the Hospital's pension plans, the Hospital provides health care benefits, including prescription drug benefits and life insurance benefits to its retired employees if they reach normal retirement age while still working for the Hospital.

Prior to 2004, the Hospital-sponsored plan provided postretirement medical and life insurance benefits to full-time employees who had worked ten years and attained the age of 62 while in service with the Hospital. During 2004, the Hospital curtailed the plan to include the requirement that employees have 20 years of consecutive service, or have attained the age of 50 with ten or more years of service by January 1, 2004 to be eligible for benefits.

The postretirement plan contains cost-sharing features such as deductibles and coinsurance. The postretirement plan is unfunded and the Hospital does not sponsor any other postretirement benefit plans.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits plan, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as cost. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be subsequently recognized as a component of net periodic pension cost through amortization.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

The following tables provide a reconciliation of the changes in the postretirement plan's benefit obligation and a statement of the funded status of the plan as of December 31:

	2010	2009
	<i>(In Thousands)</i>	
Reconciliation of the benefit obligation		
Obligation at January 1	\$ 17,527	\$ 15,339
Service cost	186	183
Interest cost	1,076	1,065
Actuarial net loss	2,471	2,539
Benefit payments	(1,931)	(1,599)
Obligation at December 31	\$ 19,329	\$ 17,527
Funded status		
Net amount recognized – current portion	\$ 1,481	\$ 1,429
Net amount recognized – long-term portion	17,848	16,098
Total	\$ 19,329	\$ 17,527

Included in other changes in unrestricted net assets at December 31, 2010 and 2009 are the following amounts that have not yet been recognized in postretirement cost:

	2010	2009
	<i>(In Thousands)</i>	
Postretirement benefits		
Unrecognized prior service cost	\$ (42)	\$ (42)
Unrecognized actuarial loss	2,324	2,462
Total	\$ 2,282	\$ 2,420

The prior service cost and actuarial loss included in unrestricted net assets at December 31, 2010 and 2009, and expected to be recognized in postretirement cost in the future are as follows:

	2010	2009
	<i>(In Thousands)</i>	
Postretirement benefits		
Unrecognized prior service cost	\$ 33	\$ 75
Unrecognized actuarial loss	5,131	2,807
Total	\$ 5,164	\$ 2,882

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

The estimated amount to be recognized in 2011 is \$333,000.

The Hospital expects to pay the following future plan benefit payments, which reflect expected future service (in thousands):

2011	\$ 1,613
2012	1,776
2013	1,792
2014	1,785
2015	1,763
2016 to 2020	8,322

The following table provides the components of the net periodic benefit cost for the plan for the years ended December 31:

	2010	2009
	<i>(In Thousands)</i>	
Service cost	\$ 186	\$ 183
Interest cost on projected benefit obligation	1,076	1,065
Net amortization	188	119
Total net periodic benefit cost	\$ 1,450	\$ 1,367

The weighted-average discount rate used in the measurement of the Hospital's benefit obligation was 5.33% and 6.17% for 2010 and 2009, respectively. The weighted-average discount rate used in the measurement of net periodic benefit cost was 6.17% for 2010 and 6.29% for 2009.

For measurement purposes relative to 2010, an annual rate of increase in the per capita cost of covered health care benefits was assumed to be initially 10.0%, grading down to an ultimate rate of 5.0% in 2014. A 5.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The measurement date is December 31, 2010.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects:

	2010		2009	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic benefit cost	\$ 37	\$ (33)	\$ 37	\$ (33)
Effect on the health care component of the accumulated benefit obligation	689	(615)	647	(579)

8. Temporarily and Permanently Restricted Net Assets

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity and invested by the Hospital. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as they relate to its permanently restricted contributions and net assets, effective upon New York State’s enactment of the legislation in September 2010.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets (continued)

possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Hospital; and (8) the investment and spending policies of the Hospital. The Hospital's policies provide the guidelines for setting the annual spending rate (5%) and the treatment of any investment returns in excess of the annual spending rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified as temporarily restricted net assets, unless also appropriated for expenditure. The Hospital expends the income distributed from certain restricted assets on an annual basis in support of health care services (2010 distributions totaled approximately \$18.1 million).

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner and adhere to the established guidelines.

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. Temporarily restricted net assets are restricted as follows at December 31:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Plant replacement and plant operating funds	\$ 27,396	\$ 28,236
Other specific purpose funds	75,705	58,945
	<u>\$ 103,101</u>	<u>\$ 87,181</u>

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted as follows at December 31:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Investments to be held in perpetuity, the income from which is restricted for School of Medicine research and other purposes	\$ 27,137	\$ 27,137
Investments to be held in perpetuity, the income from which is unrestricted as to use	<u>47,284</u>	<u>46,704</u>
	<u>\$ 74,421</u>	<u>\$ 73,841</u>

During 2010 and 2009, temporarily restricted net assets were released from restrictions as follows:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Capital acquisitions	\$ 8,822	\$ 349
Specific purpose funds (various services)	<u>23,979</u>	<u>30,941</u>
	<u>\$ 32,801</u>	<u>\$ 31,290</u>

9. Functional Expenses

The Hospital provides inpatient and outpatient health care and related services, including graduate medical education, to patients throughout the world. It is not practicable to separately identify the expenses relating to each of the Hospital's programs. Expenses related to its services were as follows:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Health care related services	\$ 1,338,103	\$ 1,272,810
General and administrative	<u>199,946</u>	<u>190,190</u>
	<u>\$ 1,538,049</u>	<u>\$ 1,463,000</u>

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

10. Related Organizations

Amounts due from (to) the Hospital's related organizations consisted of the following at December 31:

	2010	2009
	<i>(In Thousands)</i>	
The School of Medicine, net ^(a)	\$ 62,387	\$ 56,850
Realty Corp. ^(b)	(510)	749
8 East 102 nd Street LLC ^(c)	6,866	–
Other, net	470	(174)
Total due from related organizations	\$ 69,213	\$ 57,425

- (a) Transactions charged (at cost) by the Hospital to the School of Medicine totaling approximately \$792.7 million in 2010 (\$725.0 million in 2009) include payroll and benefits charges (89%) and various other shared services (11%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to the School of Medicine. Accordingly, the Hospital recognizes the actuarially determined liability (included in accrued salaries and related liabilities) for unreported health claims on behalf of the School of Medicine. These claims are reported as expenses on the School of Medicine's financial statements.

Additionally, the Hospital purchases professional services from the School of Medicine for the clinical care of its patients, teaching and supervision of its residents, research, the performance of certain administrative functions, and in relation to various strategic initiatives. The Hospital paid approximately \$112.8 million and \$92.1 million in 2010 and 2009, respectively, for these services.

At December 31, 2010 and 2009, the Hospital was owed approximately \$8.2 million and \$15.9 million, respectively, by the School of Medicine in relation to capital building projects that are under construction.

In 2010 and 2009, the Hospital transferred approximately \$1.1 million and \$22.1 million, respectively, to the School of Medicine to support certain joint strategic programs that are expected to promote the common missions of the Hospital and the School of Medicine. This amount is included as a component of other changes in unrestricted net assets in the accompanying consolidated statements of operations.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

10. Related Organizations (continued)

- (b) The payable to and receivable from Realty Corp. primarily relate to property, equipment and office space rental transactions as well as other administrative transactions. All of Realty Corp.'s income collected, net of expenses and reasonable estimates of anticipated liabilities, was distributed to the Hospital in 2010 and 2009 in accordance with an agreement among Realty Corp.'s members (included in investment income). Realty Corp. distributed approximately \$3.1 million and \$3.0 million in 2010 and 2009, respectively. During 2009, the Hospital made a contribution to Realty Corp. for approximately \$9.5 million, allowing Realty Corp. to repay its mortgage note.
- (c) The receivable from 8 East 102nd Street LLC is related to construction that has been funded by the Hospital during 2010. These amounts are repaid periodically from the proceeds of the 8 East 102nd Street LLC bond issuance.

The Hospital has entered into a lease agreement for the rental of certain property and equipment from Realty Corp. for a term of 30 years. Rental expense in 2010 and 2009 relative to the lease agreement with Realty Corp. was approximately \$4.9 million for each year. Future minimum rental commitments under the lease are approximately \$4.9 million in 2011, \$4.6 million in 2012, \$4.3 million in 2013, \$4.3 million in 2014, \$4.3 million in 2015 and \$62.5 million thereafter.

Summarized financial information for Realty Corp., in which the Hospital, School of Medicine and the Medical Center are members, at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Total assets	\$ 27,499	\$ 27,899
Total liabilities	<u>(33,966)</u>	<u>(34,366)</u>
Net deficit	<u>\$ (6,467)</u>	<u>\$ (6,467)</u>

The School of Medicine and/or the Medical Center guarantee a significant portion of annual debt service and/or debt issued by Realty Corp.

During 2003, as part of a financing transaction with the School of Medicine and Realty Corp., the Hospital contributed to MSMCRRC, at net book value, property totaling approximately

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

10. Related Organizations (continued)

\$17.4 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring or disposing of real property for their benefit. MSMCRRC's members are the Hospital, the School of Medicine, Realty Corp. and MSMC Residential Realty Manager, Inc.

Property and equipment contributed by the Hospital, the School of Medicine and Realty Corp. were utilized by MSMCRRC to secure \$125.0 million in financing from a bank, which was subsequently increased to \$145.0 million as a part of a refinancing during 2006. MSMCRRC paid approximately \$51.3 million in cash to the Hospital. The total amount received by the Hospital was based on the relative fair value of the property contributed, as compared to properties contributed by the School of Medicine and Realty Corp. that were part of the \$125.0 million financing. The amount received in excess of the net book value of the property and equipment transferred (approximately \$33.9 million) was recorded as a deferred gain on transfer of real estate. A gain will only be recognized in the consolidated statements of operations upon the sale of the property and equipment transferred to MSMCRRC to an entity that is not related to the Hospital by common ownership or control.

During 2009, MSMCRRC sold one of the properties contributed to MSMCRRC by the Hospital. As a result of this transaction, the Hospital recognized a gain of approximately \$6.8 million. Additionally, MSMCRRC distributed the proceeds of the sale of \$42.0 million to its members; \$22.1 million, representing the Hospital's share of such proceeds and other distributions was distributed to the Hospital and, subsequently, to the School of Medicine. In 2010, MSMCRRC distributed \$1.1 million to the Hospital, which was subsequently distributed to the School of Medicine.

Summarized financial information for MSMCRRC at December 31, 2010 and 2009 is as follows:

	2010	2009
	<i>(In Thousands)</i>	
Total assets	\$ 103,480	\$ 108,239
Total liabilities	(148,589)	(148,796)
Net deficit	\$ (45,109)	\$ (40,557)

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

10. Related Organizations (continued)

During 2010, 8 East 102nd Street LLC was formed under the New York State Limited Liability Company Law for the sole purpose of supporting its member corporation by managing, maintaining, holding, developing, acquiring or disposing of real property for its benefit. The School of Medicine, the Medical Center and the Hospital are the members of 8 East 102nd Street Manager LLC, which is the sole member of 8 East 102nd Street LLC. The Hospital guarantees a letter of credit which supports bonds issued by 8 East 102nd Street LLC; the debt had an outstanding balance of \$111,040,000 at December 31, 2010, with a maximum borrowing capacity of \$143,700,000.

Summarized financial information for 8 East 102nd Street LLC at December 31, 2010 is as follows:

	<u>2010</u>
	<i>(In Thousands)</i>
Total assets	\$ 118,362
Total liabilities	<u>(118,362)</u>
Member's capital	<u>\$ —</u>

Transfers to Affiliates

Transfers to affiliates represent the Hospital's funding of the School of Medicine's community practice plan deficits (approximately \$8.0 million – 2010; \$1.5 million – 2009).

11. Commitments and Contingencies

Litigation

The Hospital is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on the Hospital's consolidated financial position.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Collective Bargaining Agreements

Approximately 65% of the Hospital's employees are union employees who are covered under the terms of various collective bargaining agreements. Approximately 25% of the Hospital's employees are covered by collective bargaining agreements that expire within the next year.

Other

The Hospital is self-insured, based on individual employees' elections, for medical, dental and pharmaceutical benefits. The Hospital also is self-insured for unemployment benefits. Liabilities have been accrued at December 31, 2010 and 2009 based on expected future payments pertaining to such years (included in accrued salaries and related liabilities).

12. Fair Values of Financial Instruments

For assets and liabilities requiring fair value measurement, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Hospital follows a fair value hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

12. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value by the Hospital as of December 31, 2010 and 2009 are classified in the table below in one of the three categories described above:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 282,352	\$ —	\$ —	\$ 282,352
Fixed income:				
U.S. government	86,098	—	—	86,098
Corporate bonds	74,374	—	—	74,374
Equities:				
U.S. equities and debt securities	161,190	—	—	161,190
Non-U.S. equities	11,456	—	—	11,456
	\$ 615,470	\$ —	\$ —	\$ 615,470
	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 410,400	\$ —	\$ —	\$ 410,400
Fixed income:				
U.S. government	3,850	—	—	3,850
Corporate bonds	18,956	—	—	18,956
Equities:				
U.S. equities and debt securities	132,152	—	—	132,152
Non-U.S. equities	9,999	—	—	9,999
	\$ 575,357	\$ —	\$ —	\$ 575,357

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

12. Fair Values of Financial Instruments (continued)

The tables above exclude investments reported using the equity method of accounting. Fair value for Level 1 is based upon quoted market prices.

The following is a summary of total investments in the investment pool with restrictions to redeem the investments at the measurement date, any unfunded capital commitments and investments strategies of the investees:

Description of Investment	Carrying Value	Unfunded Commitments	Redemption Frequency	Notice Period	Funds Availability
<i>(In Thousands)</i>					
Hedge funds:					
Long only equity	\$ 55,233	\$ —	Tiered annually/rolling 5 years	30 to 180 days	30 to 60 days
Long/short equity	198,824	—	Quarterly/bi-annually	30 to 60 days	15 to 30 days
Multi-strategy	103,682	—	Quarterly/annually	45 to 60 days	5 to 30 days
Macro	76,196	—	Monthly/quarterly	45 to 90 days	30 days
Long/short credit	86,114	—	Quarterly/annually	90 days	30 to 60 days
Open mandate	227,896	—	Monthly/annually	45 to 180 days	15 to 30 days
Real assets	38,019	—	Tiered annually	60 days	30 days
Private investments:					
Equity	48,043	18,353	n/a	n/a	n/a
Credit/distressed	57,400	16,076	n/a	n/a	n/a
Real assets	25,817	11,562	n/a	n/a	n/a
	<u>\$ 917,224</u>	<u>\$ 45,991</u>			

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value at December 31, 2010 and 2009 are as follows:

	2010		2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>(In Thousands)</i>				
Long-term debt	\$ 398,055	\$ 400,889	\$ 430,441	\$ 423,670

The fair value of long-term debt is based on quoted market prices.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

13. Gain on Membership Change of Senior Health Partners, Inc.

In August 2010, the Hospital participated in the execution of a Membership Change Agreement (the “Agreement”) whereby the Hospital relinquished its membership interest in Senior Health Partners, Inc., a managed long-term care plan.

In accordance with the Agreement, the Hospital received proceeds of approximately \$23.7 million, of which approximately \$2.2 million was in the form of a promissory note, payable in three equal annual installments beginning in 2011.

The Hospital has recorded a gain on the change in membership of approximately \$7.7 million in unrestricted net assets, and a gain on the change in membership of approximately \$16.0 million as an increase to temporarily restricted net assets until the proceeds are utilized for specific health service programs for the frail and elderly. During 2010, approximately \$3.7 million was used for such purposes and, accordingly, such amount has been reclassified to unrestricted net assets and reported as net assets released from restrictions in the accompanying consolidated statements of operations.

14. Medical Residents FICA Tax Refund

In March 2010, the Internal Revenue Service (“IRS”) announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (“FICA”) taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college, or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest.

For the year ended December 31, 2010, the Hospital has recorded estimated net revenue of approximately \$13.1 million related to FICA medical resident refund claims that are expected to meet the IRS requirements to be eligible for refunds. At December 31, 2010, the Hospital has recorded a net receivable of approximately \$13.1 million, included in other noncurrent assets. This amount relates to the portion of the refund that is applicable to the Hospital and does not relate to any amounts that may be received on behalf of and due to the medical residents and other health care providers. The Hospital has established its estimate based on information presently available; the estimate is subject to change as the IRS adjudicates the claims.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

15. Subsequent Events

Generally accepted accounting principles establish standards for accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued. For purposes of the accompanying consolidated financial statements, the Hospital has considered for accounting and disclosure events that occurred through March 29, 2011, the date the consolidated financial statements were issued. There were no subsequent events or transactions which either resulted in recognition in the accompanying financial statements or required additional disclosure.

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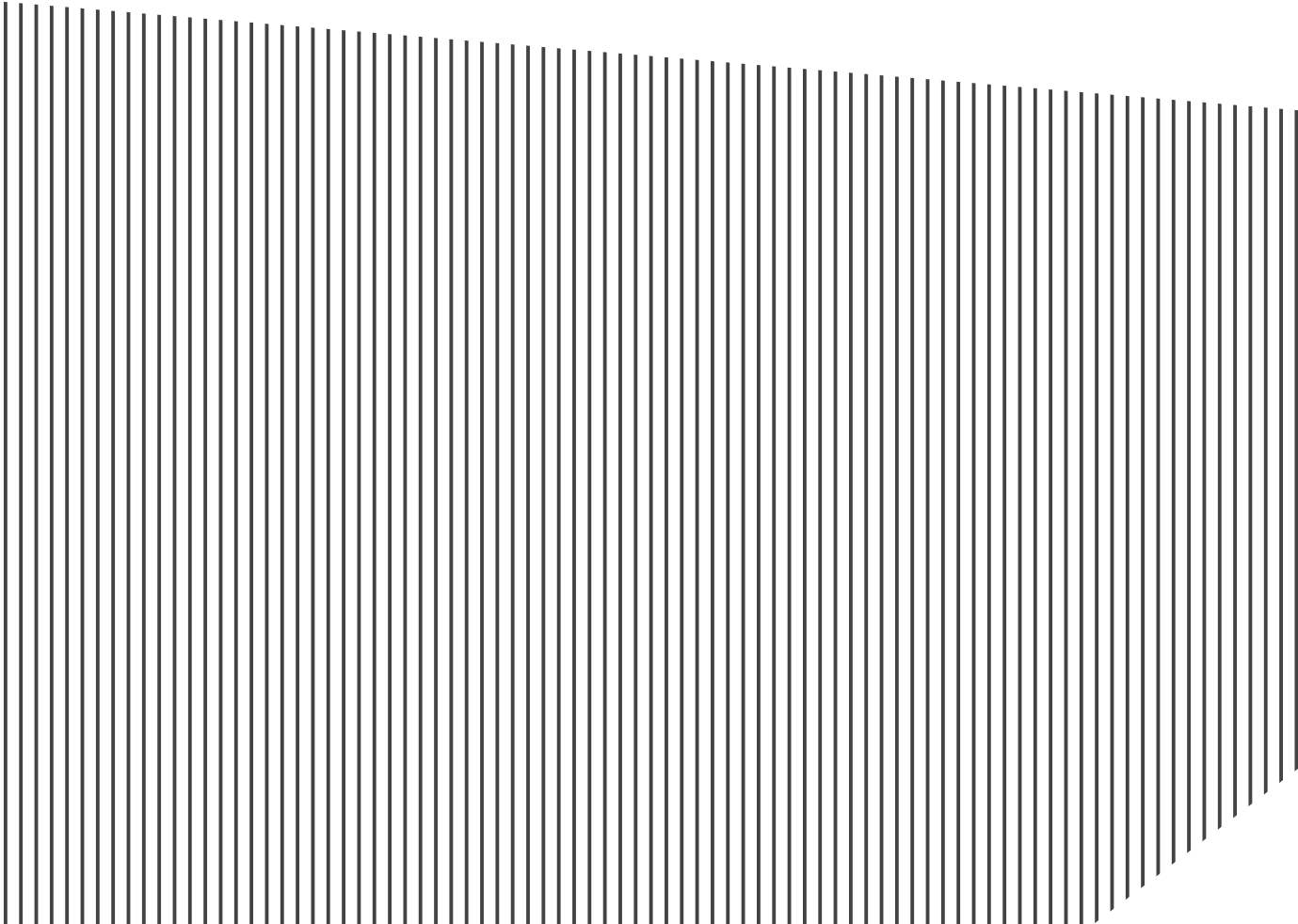
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APPENDIX B-2

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
OF THE MOUNT SINAI HOSPITAL
AS OF JUNE 30, 2011 AND 2010
AND FOR THE SIX-MONTH PERIODS THEN ENDED**

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THE MOUNT SINAI HOSPITAL OBLIGATED GROUP
QUARTERLY FINANCIAL DISCLOSURE
As of June 30, 2011

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Forward Looking Information:

This Report contains disclosures that contain “forward looking statements” within the meaning of the federal securities laws. Forward looking statements include all statements that do not relate solely to historical or current fact and can be identified by the use of words “expect”, “anticipate”, “intend”, “project”, “likely”, “may”, “might”, “estimate”, “budget” and similar words or expressions. These forward looking statements are based on the current plans and expectations of The Mount Sinai Hospital (“MSH”) as of the date of this report and are subject to a number of known and unknown risks and uncertainties inherent in the operation of health care facilities, many of which are beyond MSH’s control that could significantly affect current plans and expectations and MSH’s future financial position and results of operations. Important factors that could cause results to differ materially from those expected by management include, but are not limited to, general, economic and business conditions, competition from other healthcare facilities in MSH’s service area, an unfavorable pricing environment, failure to continue current cost control and pricing strategies, inability to achieve expected efficiencies in operations or effectively control health care costs, the efforts of insurers and others to contain health care costs, increased collections risks associated with uninsured accounts and the co-pay and deductible portions of insured accounts, payor or insurance company financial problems or bankruptcy, delays in receiving payments as has been periodically experienced in New York as a result of budget constraints, changes in Medicare or Medicaid reimbursement formulas, the risk that managed care provider arrangements will not be negotiated or renewed on acceptable terms, results of reviews of MSH’s cost reports, future divestitures or acquisitions which may have a financial impact, availability and terms of capital to fund future expansion and ongoing capital needs, ability to obtain appropriate insurance coverage or for independent physicians on MSH’s medical staff to obtain appropriate insurance coverage, loss experience under general and professional liability, self-insurance programs and similar matters, new laws or regulations, the possible enactment of federal or state health care reform, fines or penalties related to regulatory matters, changes in accounting standards and practices, the outcome of pending and future litigation and government investigations, labor issues and the ability to attract and retain qualified management and other personnel, including physicians, nurses and medical support personnel. Given these uncertainties, bondholders and prospective bondholders are cautioned not to unduly rely on such forward looking statements when evaluating the information presented in this quarterly report. MSH disclaims any obligation and makes no promise to update any such factors or forward looking statements or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward looking statement, whether as a result of changes in underlying factors, to reflect new information, as a result of the occurrence of events or developments or otherwise.

The Mount Sinai Hospital
Consolidated Statements of Operations
(\$ in '000's)

Unaudited
For the Six Months Ended

June 30, 2011 **June 30, 2010**

	June 30, 2011	June 30, 2010
Operating Revenue		
Net Patient Service Revenue	\$ 798,769	\$ 757,448
Investment Income and Net Realized Gains on Sale of Securities	11,511	11,852
Contributions	147	214
Other Revenue	11,143	12,349
Net Assets Released from Restrictions for Operations	16,472	13,096
Total Operating Revenue before Other Items	838,042	794,959
Operating Expenses		
Salaries and Wages	317,139	300,575
Employee Benefits	96,893	90,685
Supplies and Other	331,641	300,215
Depreciation	39,373	37,732
Interest and Amortization	8,380	13,371
Bad Debts	11,268	14,308
Total Operating Expenses before Other Items	804,694	756,886
Excess of Operating Revenue over Operating Expenses before Other Items	33,348	38,073
Net Change in Unrealized Gain/Loss on Investments and Change in Value of Alternative Investments	4,438	(5,794)
Third Party Reimbursement Settlements	-	7,508
Loss on Refunding and Refinancing of Debt	-	(9,470)
Net Change in Investment in Captive Insurance Program	3,021	-
Malpractice Insurance Program Interest Rate Surplus/(Shortfall)	1,334	(1,840)
Excess of Revenue over Expenses	42,141	28,477
Other Changes in Unrestricted Net Assets		
Transfers to Affiliates	(5,361)	(1,931)
Distribution from MSMC Residential Realty, LLC	512	775
Transfer to The Mount Sinai School of Medicine	(512)	(775)
Net Assets Released from Restrictions for Capital Asset Acquisition:	719	541
Net Change in Unrestricted Net Assets	\$ 37,499	\$ 27,087

The Mount Sinai Hospital
Consolidated Statements of Financial Position
(\$ in '000's)

	<u>Unaudited</u> <u>June 30, 2011</u>	<u>Audited</u> <u>December 31, 2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 243,938	\$ 253,908
Short-Term Investments	229,118	220,928
Total Cash and Short-Term Investments	473,056	474,836
Patient Accounts Receivable, Less Allowances for Uncollectibles	192,870	186,513
Professional Liabilities Insurance Recoveries Receivable	28,106	-
Assets Limited as to Use	23,631	16,959
Due from Related Organizations, net	73,654	69,213
Inventories	20,443	20,836
Other Current Assets	22,537	32,494
Total Current Assets	834,297	800,851
Marketable Securities, Other Investments and Alternative Investments	514,497	504,265
Assets Limited as to Use	65,448	65,436
Self-insurance Funds	889	889
Other Assets	39,617	41,324
Deferred Financing Costs	7,768	8,225
Professional Liabilities Insurance Recoveries Receivable	159,270	-
Property, Plant and Equipment, net	438,249	406,445
Total Assets	\$ 2,060,035	\$ 1,827,435

The Mount Sinai Hospital
Consolidated Statements of Financial Position
(\$ in '000's)

	Unaudited	Audited
	June 30, 2011	December 31, 2010
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 118,838	\$ 118,233
Accrued Salaries and Related Liabilities	69,404	66,250
Accrued Interest Payable	8,362	9,388
Accrued Construction & Capital Asset Liabilities	7,285	8,530
Current Portion of Long-Term Debt	17,803	17,803
Professional Liabilities	28,106	-
Other Current Liabilities	14,638	15,228
Total Current Liabilities	264,436	235,432
Long-Term Debt, Less Current Portion	380,967	383,086
Accrued Postretirement Liability	17,848	17,848
Reserve for Self-Insurance Liability	861	861
Deferred Gain on Transfer of Real Estate	27,055	27,055
Professional Liabilities	159,270	-
Other Liabilities	344,416	341,674
Total Liabilities	1,194,853	1,005,956
Net Assets		
Unrestricted	681,456	643,957
Temporarily Restricted	109,305	103,101
Permanently Restricted	74,421	74,421
Total Net Assets	865,182	821,479
Total Liabilities and Net Assets	\$ 2,060,035	\$ 1,827,435

The Mount Sinai Hospital
Consolidated Statements of Changes in Net Assets
(\$ in '000's)

	Unaudited Six Months Ended	
	June 30, 2011	June 30, 2010
Unrestricted:		
Net assets at beginning of period	\$ 643,957	\$ 485,021
Net change in unrestricted net assets	37,499	27,087
Net assets at end of period	681,456	512,108
Temporarily Restricted:		
Net assets at beginning of period	103,101	87,181
Donor restricted contributions, net	23,395	14,867
Net assets released from restrictions for operations	(16,472)	(13,096)
Net assets released from restrictions for capital	(719)	(541)
Total change in temporarily restricted net assets	6,204	1,230
Net assets at end of period	109,305	88,411
Permanently Restricted:		
Net assets at beginning of period	74,421	73,841
Net assets released from restrictions for operations	-	-
Total change in permanently restricted net assets	-	-
Net assets at end of period	74,421	73,841
Total Net Assets at end of period	\$ 865,182	\$ 674,360

The Mount Sinai Hospital
Consolidated Statements of Cash Flows
(\$ in '000's)

	Unaudited	
	For the Six Months Ended	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 43,703	\$ 28,317
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	39,373	37,458
Amortization of deferred financing fees and bond premium/discount	(386)	274
Net change in unrealized gains and losses on investments and change in value of alternative investments	(4,438)	5,794
Net change in investment in captive insurance company	(3,021)	-
Loss on refunding of debt	-	9,470
Changes in:		
Patient accounts receivable	(6,357)	(2,812)
Professional Liabilities Insurance Recoveries Receivable	(187,376)	-
Professional Liabilities	187,376	-
Accounts payable and accrued expenses	605	(2,571)
Accrued salaries and related liabilities	3,154	5,388
Accrued interest payable	(1,026)	708
Due to/from related organizations	(4,441)	(11,047)
Other operating liabilities	907	(7,535)
Other operating assets	12,056	6,731
Net cash provided by operating activities	<u>80,129</u>	<u>70,175</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(71,177)	(45,318)
Increase in investments - net	(10,963)	(9,761)
(Increase)/Decrease in assets limited as to use	(6,684)	36,691
Net cash used in investing activities	<u>(88,824)</u>	<u>(18,388)</u>
Cash flows from financing activities		
Refunding of long-term debt	-	(402,895)
Proceeds of issuance of long-term debt	-	376,869
Payment of financing fees	-	(8,683)
Principal payments on long term debt	(1,275)	-
Net cash used in financing activities	<u>(1,275)</u>	<u>(34,709)</u>
Net (decrease)/increase in cash and cash equivalents	(9,970)	17,078
Cash and cash equivalents at beginning of period	<u>253,908</u>	<u>386,484</u>
Cash and cash equivalents at end of period	<u><u>\$ 243,938</u></u>	<u><u>\$ 403,562</u></u>

The Mount Sinai Hospital Obligated Group

Notes to Consolidated Financial Statements

(Unaudited)

Note A – Basis of Presentation

The accompanying interim consolidated financial statements as of June 30, 2011 and for the six months then ended have been prepared in accordance with U.S. generally accepted accounting principles applied on a basis substantially consistent with that of the 2010 audited consolidated financial statements of The Mount Sinai Hospital (“MSH”), except as discussed in Note E. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

MSH presumes that users of this interim financial information have read or have access to MSH’s audited financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. MSH’s audited financial statements for the years ended December 31, 2010 and 2009 are on file, pursuant to MSH’s continuing disclosure requirements and the information contained therein is incorporated herein. Accordingly, footnotes and other disclosures, including disclosures related to the composition of the investment pool and details of investments, that would substantially duplicate the disclosures contained in MSH’s most recent audited financial statements have been omitted.

Patient volumes and net operating revenue and results are subject to seasonal variations caused by a number of factors. Monthly and periodic operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or infrequent items and other seasonal fluctuations. These same considerations apply to year-to-year comparisons.

Note B – Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. For the six months ended June 30, 2010, MSH recognized an approximate \$7.5 million change in estimate on third party settlements (cash received) related to prior years.

Note C – Fair Value Measurement

For assets and liabilities required to be measured at fair value, MSH measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, MSH follows a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

The Mount Sinai Hospital Obligated Group

Notes to Consolidated Financial Statements

(Unaudited)

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, MSH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. All of MSH's financial assets that are carried at fair value (cash and cash equivalents, marketable securities and assets limited as to use) are categorized as level one. The table below excludes investments reported using the equity method of accounting. Fair value for Level 1 is based upon quoted market prices.

	Level 1	Level 2	Level 3	Total
	(\$ in '000's)			(\$ in '000's)
Cash and Cash Equivalents	\$ 294,001	-	-	\$ 294,001
Fixed Income				
U.S. Government	85,492	-	-	85,492
Corporate Bonds	80,614	-	-	80,614
Equities				
U.S. Equities and Debt Securities	151,583	-	-	151,583
Non-U.S. Equities	12,334	-	-	12,334
Total	\$ 624,024	-	-	\$ 624,024

The carrying value and fair value of MSH's financial instruments that are not required to be carried at fair value at June 30, 2011 are as follows (in thousands):

	Fair Value	Carrying Value
Long-term debt	\$402,561	\$398,770

The fair value of long-term debt is based on quoted market prices.

Note D – Long-Term Debt

A summary of long-term debt is as follows at June 30, 2011 (\$ in thousands):

Series 2010A bonds (including unamortized original issue premium of \$15,493; maturing through 2026 with interest rates varying from 4.00% to 5.00% per annum (a))	\$ 346,687
Series 2010 taxable bonds; maturing through 2012 with interest rates varying from 1.81% to 2.21% per annum (b))	28,495
Accounts receivable financing (c))	23,588
Total	\$ 398,770

The Mount Sinai Hospital Obligated Group

Notes to Consolidated Financial Statements

(Unaudited)

- (a) In June 2010, the Dormitory Authority of the State of New York (the “Authority”) issued the Series 2010A bonds on behalf of MSH with a face amount of approximately \$331.2 million and a premium of approximately \$17.1 million. The Series 2010A bonds carry rates of 4.00% to 5.00%. The proceeds from the Series 2010A and the proceeds from the Series 2010 taxable bonds (see below), net of debt service funding requirements and costs of issuance, and a \$2.8 million equity contribution by MSH were used to retire the outstanding bonds.

MSH incurred a loss on the refinancing of approximately \$9.5 million.

As security for its obligations under the Series 2010, MSH provided a gross revenue pledge and executed a mortgage on its patient care property. Furthermore, MSH agreed to limitations on its ability to transfer assets, borrow additional funds as well as other limitations. MSH agreed to maintain certain financial ratios including a debt service coverage ratio (calculated semi-annually) and days cash on hand ratio (calculated annually) and to maintain a debt service reserve fund (included in assets limited as to use).

- (b) In June 2010, MSH issued the Series 2010 taxable bonds with a face amount of approximately \$28.5 million. The Series 2010 taxable bonds carry rates of 1.81% to 2.21%. The proceeds from the Series 2010 taxable bonds and the Series 2010A bonds, net of debt service funding requirements and costs of issuance, and a \$2.8 million equity contribution by MSH were used to retire the outstanding bonds.
- (c) In October 2006, MSH entered into a term loan agreement with JP Morgan Chase Bank, N.A. The term loan agreement was extended in 2010 and re-structured as a 3-year loan with 10-year amortization. The loan was extended to expire on October 2013. Interest is payable at the 30-day LIBOR plus 0.50% on a quarterly basis. Under the terms of the agreement, MSH is required to maintain certain financial ratios and was in compliance with these ratios at June 30, 2011.

Principal payments on long-term debt subsequent to June 30, 2011 are as follows (in thousands):

2011:	\$16,799
2012:	\$19,057
2013:	\$36,728
2014:	\$17,730
2015:	\$18,555

MSH anticipates entering into a tax-exempt/taxable bond financing in the third quarter of 2011. The financing will pay, in part, for The Mount Sinai Hospital Cancer Treatment Center. MSH will consider adding other infrastructure projects for a total project cost of approximately \$100 million.

Note E – Insurance Claims and Related Insurance Recoveries

In 2011, MSH adopted Financial Accounting Standards Board Accounting Standards Update No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (“ASU 2010-24”). ASU 2010-24 clarifies that, for medical malpractice claims or similar contingent liabilities, a health care entity, such as MSH, should not net insurance recoveries against related claims liabilities and that claims liabilities should be determined without consideration of insurance recoveries. Health care entities that are indemnified for these liabilities should recognize insurance receivables at the same time that they recognize the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts. In the

The Mount Sinai Hospital Obligated Group

Notes to Consolidated Financial Statements

(Unaudited)

accompanying financial statements, MSH has recognized claims liabilities and insurance receivables of approximately \$187.4 million (\$28.1 million current and \$159.3 million long-term). MSH's statement of financial position for 2010 has not been restated to reflect the adoption of this accounting pronouncement, which had no effect on MSH's net assets.

Note F – Subsequent Events

Generally accepted accounting principles establish standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standards are to be applied to subsequent events not addressed in other applicable accounting principles generally accepted in the United States. The standards set forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures an entity should make about events or transactions that occurred after the balance sheet date. For purposes of the accompanying interim consolidated financial statements, MSH has considered for accounting and disclosure events that occurred through August 29, 2011.

APPENDIX C
SUMMARY OF CERTAIN PROVISIONS OF
THE LOAN AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used herein have the meanings ascribed to them in Appendix A.

Termination

The Loan Agreement will 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 have been made or provision made for the payment thereof; provided, however, that the provisions under the caption "Arbitrage" and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the Loan Agreement will nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority will deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of its duties under the Loan Agreement, including the release or surrender of any security interests granted by the Institution to the Authority pursuant to the Loan Agreement.

(Section 40)

Project Financing

The Authority agrees to use its best efforts to issue and deliver the Bonds. The proceeds of the Bonds will be applied as specified in the Resolution, the Series Resolutions authorizing the issuance of the Bonds or the respective Bond Series Certificate relating to such Bonds.

(Section 4)

Construction of Projects

The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution, the Series Resolution and under the Loan Agreement, the Institution will complete the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of each Project in connection with which the Authority has issued Bonds, substantially in accordance with the Contract Documents related thereto. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Applicable Construction Fund, cause the Institution to be reimbursed for, or pay, any costs and expenses incurred by the Institution which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority and the Department of Health, which approval will not be unreasonably withheld.

(Section 5)

Amendment of a Project; Cost Increases; Additional Bonds

A Project may be amended by the Institution upon compliance with Governmental Requirements and with the prior written consent of an Authorized Officer of the Authority and the Department of Health to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing, furnishing and equipping of a Project which the Authority is authorized to undertake.

Except as provided in the Loan Agreement, the Institution covenants that it will not transfer, sell, encumber or convey any interest in a Project or any part thereof or interest therein, including development

rights, without complying with Governmental Requirements and obtaining the prior written consent of the Authority.

(Section 6)

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

1. Except to the extent that moneys are available therefor under the Resolution or under the Loan Agreement, including moneys in the Applicable Debt Service Fund, but excluding moneys from the Applicable Debt Service Reserve Fund, and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Fund, the Institution unconditionally agrees to pay or cause to be paid, so long as Applicable Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it, including payments to be made under the Master Indenture:

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

(b) On or before the date of delivery of Bonds of a Series, such amount, if any, as is required in addition to the proceeds of such Bonds available therefor, to pay the Costs of Issuance of such Bonds, and other costs in connection with the issuance of such Bonds;

(c) On the thirtieth (30th) day of each month immediately preceding the date on which such interest becomes due, all of the interest coming due on all Bonds issued by the Authority for the benefit of the Institution, on the immediately succeeding interest payment date for such Bonds;

(d) On the thirtieth (30th) day of each month immediately preceding the July 1 on which the principal or a Sinking Fund Installment of Bonds becomes due, all of the principal and Sinking Fund Installments on the Bonds coming due on such July 1;

(e) Unless otherwise subject to the condition that sufficient money is available on the redemption date or the purchase date or unless waived by the Authority, at least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds or Bonds contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds;

(f) On December 10 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with each Series of Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year;

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement, any Mortgage, the Resolution, the Master Indenture and any Obligations issued under the Master Indenture securing any Bonds in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorneys fees in connection with performance of their duties under the Resolution, and (v) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of a Series of Bonds or the financing or construction of a Project or Projects;

(h) On the date a Series of Bonds, other than the Series 2010A Bonds or the Series 2011A Bonds, is issued, an amount equal to the Authority Fee;

(i) Promptly upon demand by an Authorized Officer of the Authority (a copy of which will be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to the provisions described under the caption “Defaults and Remedies” below;

(j) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with a series of Bonds or otherwise available therefor under the Resolution and the amount required to be rebated or otherwise paid to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds of such Series;

(k) On the Business Day immediately preceding an interest payment date, if the amount on deposit in the Debt Service Fund is less than the amounts required for the payment of principal or Sinking Fund Installments of, or interest on, Bonds due and payable on such interest payment date, its proportionate share of the amount of such deficiency; and

(l) On November 10, 2011 and on the tenth (10th) day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee, if applicable, as described in the regulations of the Department of Health.

Subject to the provisions of the Resolution and the Loan Agreement, the Institution will receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (d) above on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through Sinking Fund Installments on the next succeeding July 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit will be equal to the principal amount of the Bonds so delivered.

The Authority directs the Institution, and the Institution agrees, to make the payments required by paragraphs (c), (d), (e), (i), and (k) above directly to the Applicable Trustee for deposit and application in accordance with the Resolution, the payments required by paragraph (b) above directly to the Applicable Trustee for deposit in a Construction Fund or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraphs (a), (f), (g) and (h) above directly to the Authority, the payments required by paragraph (j) above to or upon the order of the Authority and the payments required by paragraph (l) above, directly to the Department of Health.

The Institution agrees that it is also obligated to make all payments when due on the Obligations to the applicable holders of the Obligations, and that the applicable holders will be entitled to so receive all payments when due on the Obligations, it being the intention of the parties to the Loan Agreement that the Obligations and the Loan Agreement are separate (but not duplicative) obligations of the Institution (and, to the extent provided in the Obligations, of the Obligated Group), that payments by the Institution (or the Obligated Group) to the Applicable Trustee pursuant to the Obligations relating to the Bonds, will serve as a credit against amounts due from the Institution to the Authority pursuant to the Loan Agreement with regard to the Applicable Bonds and that payments by the Institution to or upon the order of the Authority pursuant to the Loan Agreement will serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the Applicable Obligation.

2. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in the provisions described under this caption), all moneys paid by the Institution to the Applicable Trustee pursuant to the Loan Agreement or otherwise held by the Applicable Trustee will be applied in reduction of the Institution’s indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Applicable Trustee for the payment of interest on Outstanding Bonds, and, with respect to the

principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with the Resolution. Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in this subdivision), (i) all moneys paid by the Institution to the Applicable Trustee pursuant to paragraphs (c), (d), (e), (i), and (k) above (other than moneys received by the Applicable Trustee pursuant to the section of the Resolution pertaining to compensation of the Trustee, which will be retained and applied by the Applicable Trustee for its own account) will be received by the Applicable Trustee as agent for the Authority in satisfaction of the Institution's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Applicable Trustee of any moneys (other than moneys described in clause (i) of this subdivision) held by it in the Applicable Construction Fund to the Applicable Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution will be deemed, upon such transfer, receipt by the Authority from the Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Applicable Trustee will hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of each Applicable Series of Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of each Applicable Series of Bonds.

3. The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement will be complete and unconditional and the amount, manner and time of making such payments will not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Applicable Trustee, or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete a Project(s) or the completion thereof with defects, failure of the Institution to occupy or use a Project(s), any declaration or finding that the Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Applicable Trustee; provided, however, that nothing in the Loan Agreement will be construed to release the Authority from the performance of any agreements on its part contained in the Loan Agreement or any of its other duties or obligations, and in the event the Authority fails to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority has no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project(s), beyond the extent of moneys available in the applicable Construction Fund established for such Project(s).

4. The Authority has the right in its sole discretion to make on behalf of the Institution any payment required pursuant to the provisions described under this caption "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" which has not been made by the Institution when due. No such payment by the Authority will limit, impair or otherwise affect the rights of the Authority under the provisions of the caption "Defaults and Remedies" below arising out of the Institution's failure to make such payment and no payment by the Authority will be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

5. The Institution, if it is not then in default under the Loan Agreement, will have the right to make voluntary payments in any amount to the Applicable Trustee. In the event of a voluntary payment, the amount so paid will be deposited in accordance with the directions of an Authorized Officer of the Authority in the Applicable Debt Service Fund or held by the Applicable Trustee for the payment of Bonds in accordance with the Resolution. Upon any voluntary payment by the Institution or upon any deposit in a Debt Service Fund made pursuant to the Loan Agreement, the Authority agrees to direct the Applicable Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the Applicable Trustee irrevocable instructions in accordance with the Resolution with respect to such Series of Bonds; provided, however, that in the event

such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with the Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Applicable Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with the Resolution.

(Section 9)

Reserve Funds

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

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

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

All Government Obligations, Exempt Obligations or other Securities deposited with the Applicable Trustee pursuant to the Loan Agreement for deposit to a Debt Service Reserve Fund will be fully negotiable (subject to provisions for registration thereof) and the principal thereof and the interest, dividends or other income payable with respect thereto will be payable to bearer or to the registered owner. All Government Obligations, Exempt Obligations or other Securities in registered form will be registered in the name of the Applicable Trustee (in its fiduciary capacity) or its nominee. Record ownership of all Government Obligations, Exempt Obligations or other Securities will be transferred promptly following their delivery to the Applicable Trustee into the name of the Applicable Trustee (in its fiduciary capacity) or its nominee. The Institution hereby appoints the Applicable Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

The Institution agrees that upon each delivery to the Applicable Trustee of Government Obligations, Exempt Obligations or other Securities, whether initially or upon later delivery or substitution, the Institution will deliver to the Authority and the Applicable Trustee a certificate of an Authorized Officer of the Institution to the effect that the Institution warrants and represents that the Government Obligations, Exempt Obligations

or other Securities delivered by the Institution (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition of such Government Obligations, Exempt Obligations or other Securities as contemplated hereby or by the Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Institution duly had and taken.

(Section 10)

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

The Institution consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Applicable Trustee of the Authority's rights to receive the payments required to be made pursuant to paragraphs (c), (d), (e), (i) and (k) of paragraph 1 under the above caption "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" and any or all security interests granted by the Institution under the Loan Agreement. The Government Obligations, Exempt Obligations and other Securities pursuant to the provisions of subdivision 1 under the above caption "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the above caption "Reserve Fund" and all funds and accounts established by the Resolution and pledged thereby in each case to secure any payment or the performance of any obligation of the Institution under the Loan Agreement or arising out of the transactions contemplated hereby whether or not the right to enforce such payment or performance will be specifically assigned by the Authority to the Applicable Trustee. The Institution further agrees that the Authority may pledge and assign to the Applicable Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Applicable Trustee authorized by the provisions under this caption "Consent to Pledge and Assignment by the Authority," the Applicable Trustee will be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor hereby or by law, any of such rights directly in its own name. Any such pledge and assignment will be limited to securing the Institution's obligation to make all payments required hereby and to performing all other obligations required to be performed by the Institution under the Loan Agreement.

The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its charter and by-laws or resolutions duly adopted pursuant thereto to enter into the Loan Agreement, the Mortgage, the Master Indenture and the Continuing Disclosure Agreement to incur the indebtedness contemplated in the Loan Agreement and to pledge, grant a security interest in and assign to the Authority and the Applicable Trustee for the benefit of the Holders of the Bonds, the Government Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement in the manner and to the extent provided in the Loan Agreement and in the Resolution, subject to Federal and State laws and regulations that limit security interests in Medicaid and Medicare receivables. The Institution further covenants, warrants and represents that except with respect to additional Bonds, or Alternative Parity Indebtedness, any and all pledges, security interests in and assignments made or to be made pursuant to the Loan Agreement are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto other than Permitted Encumbrances, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant to the Loan Agreement, and that all corporate action on the part of the Institution to that end has been duly and validly taken. The Institution further covenants that the provisions of the Loan Agreement are and will be valid and legally enforceable obligations of the Institution in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights. The Institution further covenants that it will at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Government Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement and all of the rights of the Authority under the Loan Agreement and the Holders of Bonds under the Resolution against all claims and demands of all persons whomsoever. The Institution further covenants, warrants and represents that the execution and delivery of the Loan Agreement, and the consummation of the transaction

contemplated in the Loan Agreement and compliance with the provisions of the Loan Agreement, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Exempt Obligations and Securities delivered to the Applicable Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or by-laws of the Institution or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Institution is party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institution or any of its properties.

(Section 13)

Tax-Exempt Status

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a “private foundation,” as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that (a) it will not perform any act or enter into any agreement which will adversely affect such federal income tax status and will conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it will not perform any act or enter into any agreement which could adversely affect the exclusion of interest on any of the Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 14)

Maintenance of Corporate Existence

The Institution covenants that, except as permitted under the Master Indenture, it will maintain its corporate existence, will continue to operate as a not-for-profit organization as set forth in its certificate of incorporation, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institution (including the Projects) as an institution as set forth in its certificate of incorporation, providing such services as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written notice shall have been given to the Authority and the Applicable Trustee, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of Bond Counsel adversely affect the exclusion from gross income of the interest on the Bonds for purposes of federal income taxes, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and is qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution hereunder, under the Continuing Disclosure Agreement and furnishes to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation,

merger or acquisition such corporation shall be in compliance with each of the provisions hereof and shall meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, shall provide the Authority with such other certificates and opinions as may reasonably be required by the Authority.

(Section 16)

Use of Project

Subject to the rights, duties and remedies of the Authority under the Loan Agreement and the statutory and regulatory powers of the Department of Health, the Institution has sole and exclusive control of, possession of and responsibility for (i) any Project financed under the Loan Agreement; (ii) the operation of such Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of such Projects.

(Section 18)

Restrictions on Religious Use

The Institution agrees that with respect to any Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or portion thereof will not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction will not prohibit the free exercise of any religion; and provided, further, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit a Project or portion thereof to be used without regard to the above stated restriction, said restriction will not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as an Authorized Officer of the Authority deems necessary to determine whether any Project or any portion thereof financed by Bonds is being used for any purpose proscribed hereby. The Institution further agrees that prior to any disposition of any portion of a Project for less than fair market value, it will execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in the Project, the real property on or in which such portion of such Project is situated) will exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project will not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction will further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction will also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of a Project, or the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction will be without any force or effect. For the purposes of the provisions under this caption "Restrictions on Religious Use," an involuntary transfer or disposition of a Project or a portion thereof, upon foreclosure or otherwise, will be considered a sale for the fair market value thereof.

(Section 19)

Maintenance, Repair and Replacement

The Institution agrees that, throughout the term of the Loan Agreement, it will, at its own expense, hold, operate and maintain an Applicable Project in a careful, prudent and economical manner, and keep the

same, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and will from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of an Applicable Project may be properly and advantageously conducted. The Institution will have the right to remove or replace any type of fixtures, furnishings and equipment in the Project(s) which may have been financed by the proceeds of the sale of any series of Bonds provided the Institution substitutes for any removed or replaced fixtures, furnishings and equipment, additional fixtures, furnishings and equipment having equal or greater value and utility than the fixtures, furnishings and equipment so removed or replaced. With regard to equipment, furniture and fixtures that have not been financed by the proceeds of the Bonds, the Institution may convey any such equipment, furniture and fixtures outside of the Obligated Group as permitted by the Master Indenture for fair market value. As permitted in the Master Indenture, subject to compliance with all applicable Governmental Requirements, the Institution may transfer any equipment, furniture and fixtures at any time to any other Member of the Obligated Group. Notwithstanding the foregoing, in all cases such transfers cannot be made unless they will not adversely affect the tax-exempt status of the Bonds.

The Institution further agrees that it will pay at its own expense all extraordinary costs of maintaining, repairing and replacing an Applicable Project except insofar as funds are made available therefor from proceeds of insurance, condemnation or eminent domain awards.

(Section 21)

Damage or Condemnation

In the event of a taking of a Project or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of such Project, which results in receipt by the Institution of at least \$250,000 in insurance, condemnation or eminent domain proceeds or which otherwise substantially impairs the use of such Project or part thereof for its intended purpose, then and in such event the net proceeds of any insurance, condemnation or eminent domain award shall be paid upon receipt thereof by the Institution or the Authority to the Applicable Trustee for deposit in the Applicable Construction Fund established in connection with such Project; for the purposes of this Section, net proceeds shall mean Applicable Obligation holder's interest in such proceeds determined on a ratable basis in direct proportion to the amount then due and owing under the Applicable Obligation.

(Section 23)

Taxes and Assessments

The Institution will pay when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Institution or any of its property. The Institution will file exemption certificates as required by law.

(Section 24)

Defaults and Remedies

1. As used in the Loan Agreement the term "Event of Default" means:
 - (a) the Institution defaults in the timely payment of any amount payable pursuant to the caption "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or in the delivery of Securities or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement or with the Resolution, and such default continues for a period in excess of seven (7) days;

(b) the Institution defaults in the due and punctual performance of any other covenant contained in the Loan Agreement and such default continues for thirty (30) days after written notice requiring the same to be remedied has been given by the Authority or the Applicable Trustee, provided that, if, in the determination of the Authority, such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it will not constitute an Event of Default if corrective action is instituted by the Institution within such period and is diligently pursued until the default is corrected;

(c) as a result of any default in payment or performance required of the Institution or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority will be in default in the payment or performance of any of its obligations under the Resolution or an “Event of Default” (as defined in the Resolution) has been declared under the Resolution so long as such default or Event of Default remains uncured or the Applicable Trustee or Holders of the Bonds will be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Obligated Group will be in default under the Master Indenture or under any Obligation issued under the Master Indenture, and in either case such default continues beyond any applicable grace period;

(e) the Institution will (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction will enter an order appointing, without consent by the Institution, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief will be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institution, or any petition for any such relief will be filed against the Institution and such petition will not be dismissed within ninety (90) days;

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

(h) a petition to dissolve the Institution will be filed by the Institution with the Secretary of State of the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Institution;

(i) an order of dissolution of the Institution will be made by the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Institution which order will remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition is filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution which petition will remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction is made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order will remain undismissed or unstayed for the earlier of (x) three (3) business days prior to the date provided

for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order will have been entered; or

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

2. Upon the occurrence of an Event of Default, the Authority will provide written notice of such Event of Default to the Department of Health and the Applicable Trustee upon receiving knowledge thereof, provided, however, that failure to give such notice will in no manner impair or diminish the Authority's ability to take any action under the Loan Agreement. The Authority may take any one or more of the following actions upon the occurrence of an Event of Default:

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

(b) direct the Applicable Trustee in writing to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Applicable Construction Fund or otherwise to which the Institution may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the Institution under the Loan Agreement or under any Obligation or against any or all members of the Obligated Group under the Master Indenture or the Obligation to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of the Master Indenture or the Applicable Obligation;

(e) permit, direct or request the Applicable Trustee in writing to liquidate all or any portion of the assets of the Applicable Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installment, if any, or redemption price of and interest on the Bonds, or any other obligation or liability of the Institution or the Authority arising from the Loan Agreement or from the Resolution;

(f) to the extent permitted by law, (i) enter upon any Project and complete the construction of any Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the Institution, consent to such entry being hereby given by the Institution, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action undertaken by the Institution and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (iii) assume any construction contract made by the Institution in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Institution, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of any Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or

compromise all bills or claims which may become liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution will be liable to the Authority for all sums paid or incurred for construction of any Project whether the same will be paid or incurred pursuant to the provisions of this paragraph (f) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever will be paid by the Institution to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the Institution hereby irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Institution;

(g) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, any Mortgage, or by law, including foreclosure of any Mortgage, and any other action or proceeding permitted by the terms of the Loan Agreement, or by law; and

(h) in the event of a taking of a Project or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of such Project, which results in receipt by the Institution of at least \$250,000 in insurance, condemnation or eminent domain proceeds or which otherwise substantially impairs the use of such Project or part thereof for its intended purpose, then and in such event the net proceeds of any insurance, condemnation or eminent domain award shall be paid upon receipt thereof by the Institution or the Authority to the Applicable Trustee for deposit in the Applicable Construction Fund established in connection with such Project; for the purposes of this Section, net proceeds shall mean Applicable Obligation holder's interest in such proceeds determined on a ratable basis in direct proportion to the amount then due and owing under the Applicable Obligation.

3. All rights and remedies given or granted to the Authority in the Loan Agreement are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy will effect a waiver of the Authority's right to exercise such remedy thereafter.

4. At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to subdivision 2 of this caption "Defaults and Remedies" and its consequences if such Events of Default will be cured. No such annulment will extend to or affect any subsequent default or impair any right consequent thereto.

5. The Institution will give the Authority and the Department of Health telephone and written notice within one business day of receiving information that the Master Trustee has appointed or intends to appoint a receiver in accordance with the Master Indenture.

(Section 28)

Arbitrage

The Institution covenants that it will not take any action or inaction, nor fail to take any action or permit any action to be taken, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Institution covenants that it will comply with the instructions and

requirements of the tax certificate and agreement, which is incorporated in the Loan Agreement as if set forth fully in the Loan Agreement. Unless otherwise advised by Bond Counsel, the Institution (or any related person, as defined in Section 147(a)(2) of the Code) will not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority. The Institution will, on a timely basis, provide the Authority with all necessary information and, to the extent of the Institution's Rebate Requirement or Yield Reduction Payments (each as defined in the tax certificate and agreement) required to be paid, funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution.

(Section 33)

Amendments to Loan Agreement

The Loan Agreement may be amended only in accordance with the Resolution and each amendment will be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which will be filed with the Applicable Trustee; provided however, that no amendment or waiver of any provisions of the Loan Agreement may be made without the prior written consent of the Department of Health.

(Section 39)

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its Bonds in one or more Series, each such Series to be authorized by a separate Applicable Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds will be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series will not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the Applicable Series Resolution authorizing such Series of Bonds. With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued under the Resolution and under the Applicable Series Resolution by those who will hold or own the same from time to time, the Resolution and the Applicable Series Resolution will be deemed to be and will constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of an Applicable Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority will be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issue or maturity, will be of equal rank without preference, priority or distinction of any Bonds of a Series over any other Bonds of such Series except as expressly provided in or permitted by the Resolution or by the Applicable Series Resolution.

(Section 1.03)

Option of Authority to Assign Certain Rights and Remedies to the Trustee

As security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, Outstanding Bonds of a Series and for the performance of each other obligation of the Authority under the Resolution, the Authority may grant, pledge and assign to the Trustee all of the Authority's estate, right, title, interest and claim in, to and under the Applicable Loan Agreement, or Applicable Obligation, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under such Loan Agreement or Applicable Obligation, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the Resolution) all Revenues, Gross Receipts and other payments and other security now or later made payable to or receivable by the Authority under such Loan Agreement or Applicable Obligation, and the right to make all waivers and agreements in the name and on behalf of the Authority, as Trustee for the benefit of the Applicable Bondholders, and to perform all other necessary and appropriate acts under the Applicable Loan Agreement or Applicable Obligation, subject to the following conditions: (a) that, unless and until the Authority grants, pledges or assigns such rights under the Applicable Loan Agreement or the Applicable Obligation to the Trustee, the Authority may, in its sole discretion, unless the consent of the Applicable Credit Facility Issuer, if any, is required, and without the consent of the Applicable Trustee or Bondholders, modify, amend or release any provisions of such Applicable Loan Agreement, or the Applicable Obligation only as provided in the Resolution; (b) that the Holders of the Applicable Bonds, if any, will not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; (c) that, unless and until the Trustee will, in its discretion when an "Event of Default" (as defined in the Applicable Loan Agreement) under the Applicable Loan Agreement will have occurred and will be continuing, so elect, by instrument in writing delivered to the Authority and the Applicable Institution (and then only to the extent that the Trustee will so elect), the Trustee will not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions

contained in the Applicable Loan Agreement to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision); the Authority, however, is to remain liable to observe and perform all the conditions and covenants in the Applicable Loan Agreement to be observed and performed by it; provided, however, that any grant, pledge and assignment by the Authority of moneys, revenues, accounts, rights or other property of the Applicable Institution made with respect to the Applicable Loan Agreement pursuant to this paragraph will secure, in the case of the Applicable Loan Agreement or any applicable portion thereof, only the payment of the amounts payable under such Applicable Loan Agreement.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in the preceding paragraph, the Trustee will accept such grant, pledge and assignment which acceptance will be evidenced in writing and signed by an Authorized Officer of the Trustee.

Upon (i) the occurrence of an Event of Default under the Resolution (other than an event of default specified in paragraph (c) in the caption “Events of Default” below) and (ii) the written request of the Applicable Bond Trustee, the Authority will assign the Obligation to the Trustee.

(Section 1.04)

Refunding Bonds

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered to refund all Outstanding Bonds of one or more Series of Bonds, one or more series of bonds or other obligations, a portion of a Series of Outstanding Bonds or a portion of a series of bonds or other obligations, a portion of a maturity of a Series of Outstanding Bonds or a portion of a maturity of bonds or other obligations. The Authority by resolution of its members may issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds or by the provisions of the resolution or resolutions authorizing the bonds or other obligations issued by the Authority, as the case may be.

The proceeds, including accrued interest, of such Refunding Bonds will be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Series Resolution authorizing such Refunding Bonds.

With respect to the Refunding Bonds issued to refund all or any portion of any bonds or other obligations issued by the Authority, the proceeds, including accrued interest, will be applied simultaneously with the delivery of such Refunding Bonds in the manner provided or as determined in accordance with the resolution or resolutions authorizing such bonds or other obligations.

(Section 2.04)

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien created by the Resolution and pursuant to an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of an Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to an Applicable Series Resolution.

(Section 2.05)

Pledge of Revenues

The proceeds from the sale of an Applicable Series of Bonds, the Revenues and all funds authorized by the Resolution and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund, are by the Resolution, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under an Applicable Series Resolution with respect to such Series, all in accordance with the provisions of the Resolution and thereof. The pledge made by the Resolution, subject to the adoption of an Applicable Series Resolution, will relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge will not secure any such other Series of Bonds. The pledge made by the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Revenues and all funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution which are pledged by the Resolution and pursuant to the Applicable Series Resolution will immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge will be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds of each Applicable Series will be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Revenues and the funds established by and pursuant to the Applicable Series Resolution, which pledge will constitute a first lien thereon.

(Section 5.01)

Establishment of Funds

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;

Debt Service Fund;

Debt Service Reserve Fund; and

Arbitrage Rebate Fund

Accounts and sub-accounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created by the Resolution, other than the Applicable Arbitrage Rebate Fund, will be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but will nevertheless be disbursed, allocated and applied solely in connection with an Applicable Series of Bonds for the uses and purposes provided in the Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of proceeds from the sale of an Applicable Series of Bonds, the Authority will apply such proceeds as specified in the Resolution and in an Applicable Series Resolution authorizing such Series or in the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of an Applicable Series of Bonds will be deposited in the appropriate account in the Applicable Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Construction Fund

For purposes of internal accounting, an account in an Applicable Construction Fund may contain one or more subaccounts, as the Authority or the Trustee may deem necessary or desirable. As soon as practicable after the delivery of an Applicable Series of Bonds, the Trustee will deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority will remit to the Trustee and the Trustee will deposit in the appropriate account in the Applicable Construction Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from the Applicable Project.

Except as otherwise provided in the Resolution and in the Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Fund will be used only to pay the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project(s) in connection with which such Bonds were issued.

Payments for Costs of an Applicable Project will be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Such certificate or certificates will be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Institution, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on the Applicable Series of Bonds will be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Applicable Construction Fund to the Applicable Debt Service Fund.

Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or an Institution with respect to an Applicable Project will be deposited in the appropriate account in the Applicable Construction Fund and, if necessary, such fund may be reestablished for such purpose and if not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Fund for the redemption of the Applicable Series of Bonds in accordance with the Applicable Loan Agreement.

An Applicable Project will be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Institution which certificate will be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Institution and the Trustee of a certificate of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate will state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Institution, will specify the

date of completion, or if any portion of the Project has been abandoned and will not be completed, will so state.

Upon receipt by the Trustee of the certificate required pursuant to the Resolution, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the direction of the Authority for the payment of any Costs of Issuance of such Applicable Series of Bonds and Costs of the Applicable Project then unpaid, will be paid by the Trustee as follows and in the following order of priority:

- First: Upon the direction of the Authority, to the Applicable Arbitrage Rebate Fund, the amount set forth in such direction;
- Second: To the Applicable Debt Service Reserve Fund, such amount as will be necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and
- Third: To the Applicable Debt Service Fund for the redemption or purchase of the Applicable Series of Bonds in accordance with the Resolution and the Applicable Series Resolution, any balance remaining.

(Section 5.04)

Enforcement of Obligations, Deposit of Revenues and Allocation Thereof

(a) To the extent an Applicable Institution fails to make any timely payment under the Applicable Loan Agreement, which payment would constitute a credit for payment of the Applicable Obligation in accordance with the terms thereof, the Trustee will promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

(b) The Revenues, including all payments received under the Applicable Loan Agreement, Master Indenture and the Obligations, will be deposited upon receipt by the Trustee to the appropriate account of the Applicable Debt Service Fund in the amounts, at the times and for the purposes specified in the Applicable Series Resolution or Applicable Loan Agreement. To the extent not required to pay the interest, principal, Sinking Fund Installments and moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund will be paid by the Trustee on or before the Business Day preceding each interest payment date as follows and in the following order of priority:

- First: To reimburse, pro rata, the Applicable Facility Provider, if any, for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to the Applicable Facility Provider, if any;
- Second: Upon the direction of an Authorized Officer of the Authority, to the Applicable Arbitrage Rebate Fund in the amount set forth in such direction;
- Third: To the Applicable Debt Service Reserve Fund, such amount, if any, necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and
- Fourth: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agent, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Applicable Project, including expenses incurred by the Authority to

compel full and punctual performance of all the provisions of the Applicable Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Fourth.

(c) After making the payments required by paragraph (a) of this section, the balance, if any, of the Revenues then remaining will, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Applicable Construction Fund or the Applicable Debt Service Fund, or paid to the Applicable Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created by the Resolution. The Trustee will notify the Authority and the Institution promptly after making the payments required by paragraph (b) of this section, of any balance of Revenues then remaining.

(d) In the event that any payments received by the Trustee under the Resolution are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments will be applied pro rata to each such Series of Bonds based upon the amounts then due and payable.

(Section 5.05)

Debt Service Fund

1. The Trustee will on or before the Business Day preceding each interest payment date pay, from the Applicable Debt Service Fund, to itself and any other Paying Agent:

- (a) the interest due on all Outstanding Bonds of the Applicable Series on such interest payment date;
- (b) the principal amount due on all Outstanding Bonds of the Applicable Series on such interest payment date;
- (c) the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series on such interest payment date; and
- (d) moneys required for the redemption of Bonds of the Applicable Series in accordance with the Resolution.

The amounts paid out pursuant to the Resolution will be irrevocably pledged to and applied to such payments.

2. In the event that on the fourth Business Day preceding any interest payment date the amount in the Applicable Debt Service Fund will be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or for the payment of the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee will withdraw from the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments. The Trustee will notify the Authority, the Applicable Facility Provider, if any, Credit Facility Issuer, if any, Master Trustee, Obligated Group Representative and each member of the Obligated Group of a withdrawal from the Applicable Debt Service Reserve Fund.

3. Notwithstanding the provisions of paragraph 1 of this section, the Authority may, at any time subsequent to the first principal payment date of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Applicable Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by the Institution(s) and delivered to the Trustee in accordance with the Loan Agreement(s) will be canceled upon receipt thereof by the Trustee and evidence of such cancellation will be given to the Authority. The principal amount of each Term Bond so canceled will be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

4. Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Applicable Outstanding Bonds payable on or prior to the next succeeding principal payment date, the interest on Applicable Outstanding Bonds payable on the next succeeding interest payment date, and the purchase price or Redemption Price of Applicable Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, will be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of Applicable Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority will direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Applicable Debt Service Fund, such moneys may be applied by the Trustee: (i) in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Bonds as provided in the Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Bond Series Certificate or (ii) as may otherwise be directed by the Authority.

(Section 5.06)

Debt Service Reserve Fund

1. (a) The Trustee will deposit to the credit of the Applicable Debt Service Reserve Fund such proceeds of the sale of Bonds of the Applicable Series, if any, as will be prescribed in the Applicable Series Resolution or the Applicable Bond Series Certificate, and any Revenues, moneys, Government Obligations and Exempt Obligations as, by the provisions of the Loan Agreement(s), are delivered to the Trustee by the Applicable Institution(s) for the purposes of the Applicable Debt Service Reserve Fund.

(b) In lieu of or in substitution for moneys, Government Obligations or Exempt Obligations, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Applicable Debt Service Reserve Requirement; provided (i) that any such surety bond or insurance policy will be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of such insurance company or association is rated in the highest rating category accorded by a nationally recognized insurance rating agency or (B) obligations insured by a surety bond or an insurance policy issued by such company or association are rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in the highest rating category at the time such surety bond or insurance policy is issued by Moody’s and S&P or, if Outstanding Bonds of a Series are not rated by both Moody’s and S&P, by whichever of said rating services that then rates such Outstanding Bonds and (ii) that any letter of credit will be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law, or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter

of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in at least the second highest rating category by Moody’s and S&P or, if such Outstanding Bonds are not rated by Moody’s and S&P, by whichever of said rating services that then rates such Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility will be deposited in full or partial satisfaction of a Debt Service Reserve Fund Requirement unless the Trustee will have received prior to such deposit (i) an opinion of counsel acceptable to an Applicable Credit Facility Issuer to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority, and (iii) in the event such Reserve Fund Facility is a letter of credit, an opinion of counsel acceptable to the Trustee substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority or the Applicable Institution thereunder or under any applicable provisions of the Debtor and Creditor Law of the State and (iv) the written consent of all Applicable Credit Facility Issuers, if any.

Notwithstanding the foregoing, if at any time after a Reserve Fund Facility has been deposited with the Trustee the unsecured or uncollateralized long term debt of the Facility Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Facility Provider is reduced below the ratings required by the second preceding paragraph, the Authority will, unless at the time such ratings are reduced such Facility Provider is the Credit Facility Issuer of all Outstanding Bonds, either (i) replace or cause to be replaced said Reserve Fund Facility with another Reserve Fund Facility which satisfies the requirements of the second preceding paragraph or (ii) deposit or cause to be deposited in the Applicable Debt Service Reserve Fund an amount of moneys, Government Obligations or Exempt Obligations which meet the requirements of the Resolution which is equal to the value of the Reserve Fund Facility of such Facility Provider, such deposits to be, as nearly as practicable, in ten equal semi-annual installments commencing on the earlier of the January 1 or July 1 next succeeding the reduction in said ratings.

Each such surety bond, insurance policy or letter of credit will be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without obtaining payment under such Reserve Fund Facility.

For the purposes of the Resolution, in computing the amount on deposit in the Applicable Debt Service Reserve Fund, a Reserve Fund Facility will be valued at the amount available to be paid thereunder on the date of computation; provided that, if the unsecured or uncollateralized long term debt of such Facility Provider, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Facility Provider has been reduced below the ratings required by the Resolution, said Reserve Fund Facility will be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of which is the aggregate number of interest payment dates which has elapsed since such ratings were reduced and the denominator of which is ten.

2. Moneys held for the credit of the Applicable Debt Service Reserve Fund will be withdrawn by the Trustee and deposited to the credit of the Applicable Debt Service Fund at the times and in the amounts required to comply with the provisions of the Resolution; provided that no payment under an Applicable Reserve Fund Facility will be sought unless and until moneys are not available in the Applicable Debt Service Reserve Fund and the amount required to be withdrawn from the Applicable Debt Service Reserve Fund pursuant to this section cannot be withdrawn therefrom without obtaining payment under such Reserve Fund Facility; provided further, that, if more than one Reserve Fund Facility is held for the credit of the Debt Service Reserve Fund at the time moneys are to be withdrawn therefrom, the Trustee will obtain payment under each

such Reserve Fund Facility, pro rata, based upon the respective amounts then available to be paid thereunder. The Trustee will provide notification as set forth in the Resolution of any withdrawal of moneys from the Debt Service Reserve Fund or payment of a Reserve Fund Facility immediately upon such withdrawal or payment.

With respect to any demand for payment under any Reserve Fund Facility, the Trustee will make such demand for payment in accordance with the terms of such Reserve Fund Facility at the earliest time provided therein to assure the availability of moneys on the interest payment date for which such moneys are required.

3. (a) Moneys and investments held for the credit of an Applicable Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement, upon direction of an Authorized Officer of the Authority, will be withdrawn by the Trustee and (i) deposited in the Applicable Arbitrage Rebate Fund, Debt Service Fund or Construction Fund, (ii) paid to the Institution(s) or (iii) applied by the Authority to pay the principal or Redemption Price of and interest on bonds of the Authority issued in connection with the Applicable Institution pursuant to resolutions other than the Resolution, in accordance with such direction; provided, however, with respect to Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes, that no such amount will be withdrawn and deposited, paid or applied unless in the opinion of Bond Counsel such deposit, payment or application will not adversely affect the exclusion of interest on any such Bonds from gross income for federal income tax purposes.

(b) Notwithstanding the provisions of the Resolution, if, upon a Bond having been deemed to have been paid in accordance with the “Defeasance” section of the Resolution or redeemed prior to maturity from the proceeds of Bonds, bonds, notes or other obligations issued for such purpose, the moneys and investments held for the credit of the Applicable Debt Service Reserve Fund will exceed the Applicable Debt Service Reserve Fund Requirement, then the Trustee will, simultaneously with such redemption or a deposit made in accordance with the “Defeasance” section of the Resolution, withdraw all or any portion of such excess from the Applicable Debt Service Reserve Fund upon the direction of an Authorized Officer of the Authority and either (i) apply such amount to the payment of the principal or Redemption Price of and interest on such Bond in accordance with the irrevocable instructions of the Authority or (ii) fund any reserve for the payment of the principal and sinking fund installments of or interest on the bonds, notes or other obligations, if any, issued to provide for payment of such Bond if, in the opinion of Bond Counsel, application of such moneys to the use authorized in this clause (ii) will not adversely affect the exclusion of interest on any Applicable Bonds from gross income for federal income tax purposes, or (iii) pay such amount to the Authority for deposit to the Applicable Construction Fund if, in the opinion of Bond Counsel, application of such moneys to the payment of Costs of the Project(s) will not adversely affect the exclusion of interest on any Bonds of an Applicable Series from gross income for federal income tax purposes; provided that after such withdrawal the amount remaining in the Applicable Debt Service Reserve Fund will not be less than the Applicable Debt Service Reserve Fund Requirement.

4. If upon a valuation, the moneys, investments and Reserve Fund Facilities held for the credit of a Debt Service Reserve Fund are less than the Applicable Debt Service Reserve Fund Requirement, the Trustee will immediately notify the Authority and the Applicable Institution of such deficiency and such Institution will, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys, Government Obligations, Exempt Obligations or Reserve Fund Facilities the value of which is sufficient to increase the amount in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. If the Applicable Institution has not made timely payment, the Trustee will immediately notify the Authority, the Obligated Group Representative and the Master Trustee of such non-payment and will seek payment under the Applicable Obligation in accordance with the terms thereof.

(Section 5.07)

Arbitrage Rebate Fund

The Trustee will deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution(s) for deposit therein and, notwithstanding any other provisions of the Resolution, will transfer to the Applicable Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as will be set forth in such directions.

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

If and to the extent required by the Code, the Authority will periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Applicable Series of Bonds and direct the Trustee to (i) transfer from any other of the Applicable funds held by the Trustee under the Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of Bonds and (ii) pay out of the Applicable Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if, upon the computation of assets of an Applicable Debt Service Fund and the Debt Service Reserve Fund pursuant to the section in the Resolution entitled "Computation of Assets of Certain Funds," the amounts held in the appropriate accounts in the Applicable Debt Service Fund and the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds be redeemable, the Trustee will so notify the Authority and the Applicable Institution(s). Upon receipt of such notice, the Authority may request the Trustee to redeem all such Outstanding Bonds unless the Applicable Institution objects in writing within five (5) Business Days. The Trustee will, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds hereby and by the Applicable Series Resolution as provided in the Resolution.

(Section 5.09)

Computation of Assets of Certain Funds

The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of an Applicable Institution, but not more frequently than once a calendar month, and (iv) at such other times as may be necessary in connection with a withdrawal and deposit made pursuant to the Resolution, will compute the value of the assets in the Applicable Debt Service Reserve Fund, in the case of the requirement under (i) above, on the last day of each such month, in the case of a request pursuant to (ii) or (iii) above, at the date of such request, or, in the case of a withdrawal and deposit, at the date of such withdrawal and deposit, and notify the Authority and the Applicable Institution as to the results of such computation and the amount by which the value of the assets in the Applicable Debt Service Reserve Fund exceeds or is less than the Applicable Reserve Fund Requirement.

(Section 5.11)

Investment of Funds Held by the Trustee

Money held under the Resolution by the Trustee in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, will, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing (which direction will specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations or Exempt Obligations; *provided, however*, that each such investment will permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution.

In lieu of the investments of money in obligations authorized in this Section, the Trustee will, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest money in the Construction Fund in any Permitted Investment; provided, however, that each such investment will permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution, provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment will have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral will be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral will be free and clear of claims of any other person.

Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held by the Trustee under the provisions of the Resolution will be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof will be retained in, credited or charged to, as the case may be, such fund or account unless otherwise provided in a Series Resolution.

In computing the amount in any fund or account held by the Trustee under the provisions hereof, each Permitted Investment will be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in a Debt Service Reserve Fund will be valued at the market value thereof, plus accrued interest and except that Investment Agreements will be valued at original cost, plus accrued interest.

The Authority, in its discretion, may direct the Trustee to, and the Trustee will sell, or present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in this Section. Except as otherwise provided in the Resolution, the Trustee will sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant hereto whenever it will be necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee will advise the Authority and the Institution in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of this Section. The details of such investments will include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee will also describe all withdrawals, substitutions and other transactions occurring in each such fund in the previous month.

No part of the proceeds of any Applicable Series of Bonds or any other funds of the Authority will be used directly or indirectly to acquire any Securities or investments the acquisition of which would cause any Bond to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

(Section 6.02)

Enforcement of Duties and Obligations of the Institution

The Authority will take all legally available action to cause an Institution to perform fully all duties and acts and comply fully with the covenants of such Institution required by the Applicable Loan Agreement in the manner and at the times provided in such Loan Agreement; provided, however, that the Authority may delay, defer or waive enforcement of one or more provisions of said Loan Agreement (other than provisions requiring the payment of moneys or the delivery of Securities to the Trustee for deposit to any fund or account established under the Resolution) if the Authority determines such delay, deferment or waiver will not materially adversely affect the interests of the Holders of the Bonds of an Applicable Series.

(Section 7.06)

Deposit of Certain Moneys in the Construction Fund

In addition to the proceeds of Bonds of an Applicable Series to be deposited in the Applicable Construction Fund, any moneys paid or letter of credit or other security payable to the Authority for the acquisition, construction, reconstruction, renovation or equipment of an Applicable Project(s) and any moneys received in respect of damage to or condemnation of such Project(s) will be deposited in the Applicable Construction Fund.

(Section 7.07)

Amendment of Loan Agreements and Master Indenture

The Authority may not amend, change, modify, alter or terminate a Loan Agreement or consent to the amendment, change, modification, alteration or termination of the Master Indenture, in either case so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section; provided, further, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by an Institution under its Applicable Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof or reduce the amount of any payment required to be made under the Obligations held by the Authority. Notwithstanding any provision under this caption "Amendment of Loan Agreements and Master Indenture" to the contrary, the Authority may consent to the waiver, amendment or removal of any covenant or provision which, pursuant to the Master Indenture, may be waived by the Authority without the consent of the Holders of the Bonds or the Trustee. A Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Projects or which may be added to or adjacent to the Projects or the issuance of Bonds, to cure any ambiguity, to provide for the issuance of a Series of Bonds or to correct or supplement any provisions contained in a Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement. Notwithstanding anything in this Section to the contrary, if a Loan Agreement or the Master Indenture expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement or the Master Indenture, such consent will be required to be obtained as provided in the Loan Agreement or the Master Indenture. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority will be filed with the Trustee.

For the purposes of this Section, a Series of Bonds will be deemed to be adversely affected by an amendment, change, modification or alteration of an Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination will be binding and conclusive on an Applicable Institution, the Authority and all Holders of Bonds.

For all purposes of this Section, the Trustee will be entitled to rely upon an opinion of counsel, which counsel will be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Section 7.10)

Notice as to Event of Default Under Loan Agreement

The Authority will notify the Trustee and any Applicable Credit Facility Issuer in writing that an “Event of Default” under a Loan Agreement, as such term is defined in such Loan Agreement, has occurred and is continuing, which notice will be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Tax Exemption: Rebates

Except as otherwise provided in a Series Resolution, in order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Applicable Series, the Authority will comply with the provisions of the Code applicable to the Bonds of each Applicable Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each Applicable Series of Bonds, reporting of earnings on the Gross Proceeds of each Applicable Series of Bonds and rebates of Excess Earnings to the Department of the Treasury of the United States of America. Except as otherwise provided in the Resolution, the Authority will comply with the letter of instructions as to compliance with the Code with respect to each such Series of Bonds, to be delivered by Bond Counsel at the time the Bonds of an Applicable Series are issued, as such letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority will not take any action or fail to take any action, which would cause the Bonds of an Applicable Series to be “arbitrage bonds” within the meaning or Section 148(a) of the Code.

Notwithstanding any other provision of the Resolution to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds of an Applicable Series will not entitle the Holder of Bonds of any other Applicable Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions of the Resolution or of the Code.

(Section 7.12)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution will become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, the Master Indenture, or any Applicable Series Resolution, the Revenues, or any pledge of any other moneys, Securities or funds;

(e) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution in any other respects, provided that such modifications will not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution will cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution will contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, provided that such modification will not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(Section 9.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution and an Applicable Series Resolution may also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by the Authority.

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority which will be deemed to affect an Applicable Series of Bonds and of the Holders of the Bonds of such Applicable Series under the Resolution, in any particular, may be made by an Applicable Supplemental Resolution, with the written consent given as hereinafter provided in the section of the Resolution entitled "Consent of Bondholders," (i) of the Holders of at least two-thirds (2/3) in principal amount of the Bonds Outstanding of an Applicable Series at the time such consent is given, or (ii) in case the modification or

amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two-thirds (2/3) in principal amount of the Bonds of the Applicable Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of an Applicable Series or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or will reduce the percentages or otherwise affect the classes of Bonds of an Applicable Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, an Applicable Series will be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of an Applicable Series or maturity would be affected by any modification or amendment of the Resolution and any such determination will be binding and conclusive on the Authority and all Holders of Bonds of an Applicable Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of an Applicable Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds of an Applicable Series under the Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of such Supplemental Resolution certified by the Authority and the consent of the Holders of all of the Bonds then Outstanding of the Applicable Series, such consent to be given as provided in the Resolution, except that no notice to such Bondholders either by mailing or publication will be required.

(Section 10.03)

Events of Default

An event of default will exist under the Resolution and under an Applicable Series Resolution (herein called “event of default”) if:

- (a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments or Redemption Price of any such Bond will not be made by the Authority when the same will become due and payable, either at maturity or by proceedings for redemption or otherwise; or
- (b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond will not be made by the Authority when the same will become due and payable; or
- (c) With respect to the Applicable Series of Bonds, the Authority will default in the due and punctual performance of the covenants contained in the “Tax Exemption: Rebates” section of the Resolution and, as a result thereof, the interest on the Bonds of such Series will no longer be excludable from gross income under Section 103 of the Code; or
- (d) With respect to the Applicable Series of Bonds, the Authority will default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Resolution or in the Bonds of such Series or in

the Applicable Series Resolution on the part of the Authority to be performed and such default continues for thirty (30) days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by the Trustee (unless such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof), which may give such notice in its discretion and will give such notice at the written request of the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series; or

(e) The Authority will have notified the Trustee that an “Event of Default”, as defined in the Applicable Loan Agreement, arising out of or resulting from the failure of the Applicable Institution to comply with the requirements of the Applicable Loan Agreement will have occurred and be continuing and all sums payable by the Applicable Institution under the Applicable Loan Agreement will have been declared to be immediately due and payable, which declaration will not have been annulled.

An event of default under the Resolution in respect of an Applicable Series of Bonds will not in and of itself be or constitute an event of default in respect of any other Applicable Series of Bonds.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in the above caption “Events of Default,” other than an event of default specified in paragraph (c) in the above caption “Events of Default,” then and in every such case the Trustee may, and, upon the written request of (i) the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of an Applicable Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers, if any, have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Applicable Outstanding Bonds due upon the acceleration thereof, upon the request of the Credit Facility Issuer, if any, or Credit Facility Issuers, if any, making such deposit, will: (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable immediately and (B) request that the Master Trustee declare all applicable Outstanding Obligations (as defined in the Master Indenture) to be immediately due and payable. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest will become and be immediately due and payable, anything in the Resolution or in any Series Resolution or in the Bonds to the contrary notwithstanding. In the event that a Credit Facility Issuer will make any payments of principal of or interest on any Bonds pursuant to a Credit Facility and the Bonds are accelerated, such Credit Facility Issuer may at any time and at its sole option, pay to the Bondholders all or such portion of amounts due under such Bonds prior to the stated maturity dates thereof. At any time after the principal of the Bonds will have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee will, with the written consent of the Credit Facility Issuers, if any, which have issued Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Bonds not then due by their terms and then Outstanding, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, with the written consent of the Applicable Credit Facility Issuers, if any, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys will have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys will have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this Section) will have been paid or a sum sufficient to pay the same will have been

deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in the Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this Section) will have been remedied to the satisfaction of the Trustee. No such annulment will extend to or affect any subsequent default or impair any right consequent thereon.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee may proceed, and upon the written request of the Applicable Credit Facility Issuers, if any, which have issued Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, or of the Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds with the consent of the Credit Facility Issuers, if any, or, in the case of a happening and continuance of an event of default specified in paragraph (c) of the above caption "Events of Default," upon the written request of the Applicable Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, will proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider, if any, under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under the Applicable Series Resolution or in aid or execution of any power in the Resolution or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee will deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee will be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Series Resolution or of the Applicable Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in any Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Priority of Payments After Default

If at any time the moneys held by the Trustee in the Applicable funds and accounts and under the Applicable Series Resolution will not be sufficient to pay the principal of and interest on the Bonds of the Applicable Series as the same become due and payable (either by their terms or by acceleration of maturity under the provisions of the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, will be applied (after payment of all amounts owing to the Trustee under the Resolution) as follows:

- (a) Unless the principal of all the Bonds of the Applicable Series will have become or been declared due and payable, all such moneys will be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of such maturity of the installments of such interest, and, if the amount available will not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds; or

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which will have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available will not be sufficient to pay in full all of such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds of the Applicable Series will have become or been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of such Series over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in said Bonds.

The provisions of this Section are in all respects subject to the other provisions of the Resolution.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose will constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Authority, to any Holder of Bonds of any Applicable Series or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee will exercise such discretion in applying such moneys, it will fix the date (which will be on an interest payment date unless the Trustee will deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the fixing of any such date.

(Section 11.05)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the consent of the Applicable Credit Facility Issuers, if any, or, in the case of an event of default specified in paragraph (c) of the above caption "Events of Default," the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series with the consent of the Applicable Credit Facility Issuers, if any, will have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under the Applicable Series Resolution, provided, such direction will not be otherwise than in accordance with law or the provisions of the Resolution and of the Applicable Series

Resolution, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

No Holder nor the Credit Facility Issuer of a Credit Facility of any of the Bonds of an Applicable Series will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder or Credit Facility Issuer previously will have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) of the above caption "Events of Default," the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series with the consent of the Applicable Credit Facility Issuer, will have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there will have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee will have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and thereunder. It is understood and intended that no one (1) or more of the Credit Facility Issuers of an Applicable Series of Bonds secured by the Resolution and by an Applicable Series Resolution will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity will be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of an Applicable Series will have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right will not be impaired without the consent of such Holder.

(Section 11.08)

Defeasance

If the Authority will pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Revenues or other moneys and Securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Trustee in the Applicable Loan Agreement(s), and the Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Trustee, on demand of the Authority, will release the lien of the Resolution and Applicable Series Resolution but only with respect to such Applicable Series of Bonds, except as it covers moneys and Securities provided for the payment of such Bonds, and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution(s) and will turn over to the Institution(s) or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Trustee may reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or

Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; provided that if any, of such Bonds are to be redeemed prior to the maturity thereof, the Authority will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice will have been given to the Trustee.

Bonds of an Applicable Series for which moneys will have been set aside, will be held in trust by the Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in this Section. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in the Resolution, notice of redemption on said date of such Bonds, (b) there will have been deposited with the Trustee either moneys in an amount which will be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority will have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority will give written notice to the Trustee of its selection of the maturity for which payment will be made in accordance with this Section. The Trustee will select which Bonds of such Series and which maturity thereof will be paid in accordance with the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in the Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, will, to the extent certified by the Trustee to be in excess of the amount required hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement(s) for fees and expenses of the Authority or pursuant to any indemnity; and, then, as directed by the Authority and any such moneys so paid by the Trustee will be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement(s).

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of an Applicable Series which remain

unclaimed for three (3) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, will at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent will thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series will look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date will be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

No principal or Sinking Fund Installment of or installment of interest on a Bond will be considered to have been paid, and the obligation of the Authority for the payment thereof will continue, notwithstanding that a Credit Facility Issuer, if any, pursuant to the Credit Facility issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

Prior to any defeasance becoming effective under the Resolution, each Applicable Credit Facility Issuer will have received (a) the final official statement delivered in connection with the refunding of Bonds, if any, (b) a copy of the accountants' verification report, (c) a copy of the escrow deposit agreement or letter of instructions in form and substance acceptable to such Credit Facility Issuer, and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to such Credit Facility Issuer, to the effect that such Bonds have been paid within the meaning and with the effect expressed in the Resolution and the Series Resolution, and that the covenants, agreements and other obligations of the Authority to the Holders of such Bonds have been discharged and satisfied.

(Section 12.01)

Authority to Act as Holder of Obligations

In the event that any request, direction or consent is required or permitted by the Master Indenture to be given with respect to an Obligation issued thereunder to secure any Bonds, the Authority or its successor or assign will be the registered owner of the Applicable Obligation for such Series of Bonds for the purpose of any such request, direction or consent. To the extent any such Obligation secures a Series of Bonds that is secured by a Credit Facility, the written consent of the Applicable Credit Facility Issuer, unless a Credit Facility Default has occurred and be continuing, will be required for any such request, direction or consent. To the extent any such Obligation secures a Series of Bonds that is not secured by a Credit Facility, the Authority may only give such request, direction or consent if the Rating Services providing a rating on the Applicable Series of Bonds confirms that the ratings on the Applicable Series of Bonds will not be reduced as a result of the request, direction or consent.

(Section 14.08)

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APPENDIX E
SUMMARY OF CERTAIN PROVISIONS OF THE
MASTER INDENTURE

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE

The Master Trust Indenture (the “Master Indenture”) contains terms and conditions relating to the issuance and sale of the Obligations under it, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Master Indenture, and reference is made to such Master Indenture, copies of which are available from the Authority or the Master Trustee. This summary uses various terms defined in the Master Indenture and such terms as used in the Master Indenture will have the same meanings as so defined.

MASTER TRUST INDENTURE

Amount of Indebtedness

Subject to the terms, limitations and conditions established in the Master Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Indenture or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created hereunder are not limited, except as limited by the provisions of the Master Indenture, including the provisions described under “Limitations on Indebtedness” set forth below, or of any Supplement. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation issued under the Master Indenture. (*Section 2.01*)

Security; Restrictions on Encumbering Property; Payment of Principal and Interest

(a) Any Obligation issued pursuant to the Master Indenture shall be a general obligation of each Member of the Obligated Group. To secure, among other things, the prompt payment of the principal of, redemption premium, if any, and the interest on the initial Obligations issued under the Master Indenture, a Mortgage shall be granted by the Institution to the Master Trustee. Each Member of the Obligated Group shall grant to the Master Trustee a Mortgage on all Health Care Facilities owned by such Member that are either: (i) financed or refinanced with the proceeds of Indebtedness secured by an Obligation issued under the Master Indenture; or (ii) owned by a new Member of the Obligated Group at the time of such admission, subject to any liens or security interests permitted to remain outstanding under subsection (e) under “Parties Becoming Members of the Obligated Group” set forth below, and each Member of the Obligated Group pledges, assigns and grants under this Section to the Master Trustee a security interest in its Gross Receipts. Upon receipt, all such security shall be held in trust for the holders from time to time of all Obligations issued and Outstanding under the Master Indenture, without preference or priority of any one Obligation over any other Obligation, with all proceeds realized from such security to be applied, proportionally and ratably to all Obligations issued under the Master Indenture.

If any Event of Default under subsections (a), (d), (e) or (f) under the heading “Events of Default” below shall have occurred, any Gross Receipts then on deposit in any fund or account of a Member of the Obligated Group (unless such account has been pledged as security as permitted in the Master Indenture), and any Gross Receipts thereafter received, shall immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to Section 4.03 hereof. Upon receipt, all such Gross Receipts shall be held by the Master Trustee in trust for the Holders from time to time of all Obligations issued and Outstanding hereunder, without preference or priority of any one Obligation over any other Obligation. Prior to its receipt of a request from the Master Trustee pursuant to the Master Indenture, any Member of the Obligated Group may transfer, or pledge as security, all or any part of its Gross Receipts free of such security interest, as permitted pursuant to the provisions of the Master Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee shall execute a release of its security interest with respect to the assets so transferred.

In addition to the preceding paragraph, upon an Event of Default under subsections (a), (d), (e) or (f) under the heading “Events of Default” below, the Members of the Obligated Group hereby agree to take no

action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated hereby, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

With respect to all Obligations issued, executed and delivered under the Master Indenture, there shall be delivered to the Master Trustee duly executed financing statements evidencing the security interests of the Master Trustee in the Gross Receipts of the Members of the Obligated Group in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State of the State of New York.

Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Indenture as may be necessary or appropriate to include as security under the Master Indenture the Gross Receipts. In addition, each Member of the Obligated Group covenants that it will prepare and file such financing statements or amendments to or terminations of existing financing statements which shall, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to the Master Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to the Master Indenture. In particular, each Member of the Obligated Group covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to continue the security interest created hereunder pursuant to applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such financing statement, the Master Trustee shall prepare and file or cause each Member of the Obligated Group to prepare and file such continuation statements in a timely manner to assure that the security interest in Gross Receipts shall remain perfected.

(b) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens as set described under “Limitations on Creation of Liens” below) any of its Property.

(c) Each Obligation shall be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Each Member of the Obligated Group covenants that, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with the Master Indenture. (*Section 3.01*)

Covenants as to Corporate Existence, Maintenance of Properties, Etc.

Each Member of the Obligated Group covenants:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other legal existence and all its material rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing contained in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property in all material respects to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of a Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof (including, but not limited to, the Public Health Law of the State of New York for as long as there are Related Bonds of the Authority or its predecessors outstanding) and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing contained in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding under the Master Indenture) whose validity, amount or collectability is being contested in good faith.

(f) At all times to comply in all material respects with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; provided, however, that it need not comply with this subsection (g) of this Section if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Indenture shall remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it shall not take any action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, or fail to take any action which failure, in the Opinion of Bond Counsel, would result in the interest on any Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes. (*Section 3.02*)

Insurance

Except as may otherwise be required in a Related Loan Agreement, each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations. (*Section 3.03*)

Insurance and Condemnation Proceeds

(a) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that do not exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities shall be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; *provided, however*, that, subject to the terms of the Related Loan Agreement, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within twelve (12) months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in subsection (i) of this section to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and any Related Loan Agreement and Mortgage, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section. (*Section 3.04*)

Limitations on Creation of Liens

(a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

- (i) Liens arising by reason of good faith deposits by any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;
- (ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;
- (iii) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;
- (iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than one hundred eighty (180) days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof;
- (v) Any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under the Master Indenture, which is set forth on Schedule A attached thereto, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien thereunder;
- (vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to the Master Indenture;

- (vii) Any Lien securing Non-Recourse Indebtedness permitted by paragraph (d) under the heading “Limitations on Indebtedness” herein;
- (viii) Any Lien on Property acquired by a Member of the Obligated Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions under the heading “Limitations on Indebtedness” herein, and if an Officer’s Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations of the Master Indenture on creation of Liens on Property of the Obligated Group;
- (ix) So long as no Event of Default exists under the Master Indenture, any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained under the heading “Limitations on Indebtedness” herein;
- (x) Any Lien on Property including moveable equipment which secures Indebtedness or Derivative Agreements that does not exceed in the aggregate 20% of Total Operating Revenue as reflected in the most recent Audited Financial Statements;
- (xi) Any Lien on Equipment used at a Health Care Facility provided the Indebtedness secured by such Lien was incurred in accordance with the provisions under the heading “Limitations on Indebtedness”;
- (xii) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;
- (xiii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;
- (xiv) Any Lien securing all Obligations on a parity basis;
- (xv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;
- (xvi) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;
- (xvii) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;
- (xviii) Any Lien created in the Related Loan Agreements;
- (xix) Any Mortgage; and
- (xx) Any Lien on Excluded Property. (*Section 3.05*)

Limitations on Indebtedness

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such

Indebtedness could not be incurred pursuant to any one of subsections (a) to (g) inclusive, set forth under this heading. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such subsections. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements of the Master Indenture, and a certified resolution of the Governing Board of such Member of the Obligated Group.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that:

(A) The cumulative principal amount of all then outstanding Long-Term Indebtedness incurred pursuant to the provisions described in this subsection (a)(i)(A) of this Section, together with the Indebtedness then to be issued does not exceed 20% of Total Operating Revenues as reflected in the most recently Audited Financial Statements, or

(B) The Long-Term Debt Service Coverage Ratio for each of the most recent two (2) periods of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Financial Statements available, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.10; or

(ii) (1) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for each of the two (2) periods mentioned in subsection (a)(i)(B) under this heading, excluding the proposed Long-Term Indebtedness, is at least 1.10 and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.20 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance Capital Additions, each of the two (2) full Fiscal Years succeeding the date on which such Capital Additions are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing Capital Additions or in the case of a Guaranty, each of the two (2) full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that compliance with the tests set forth in this subparagraph (a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio set forth in this clause (a)(ii)(2) is equal to or greater than 1.50; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred if, prior to the incurrence of such Long-Term Indebtedness, (i) the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness, there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and

application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness and there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the Related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15%.

(c) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed 20% of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve (12) consecutive months for which Audited Financial Statements are available; *provided, however*, if Related Bonds issued by the Authority are Outstanding, the Obligated Group must first obtain the written consent of the Authority prior to issuing Short-Term Indebtedness in excess of 15% of Total Operating Revenues for the most recent period of twelve (12) consecutive months for which Audited Financial Statements are available; and provided further, that there shall be a period of at least thirty (30) consecutive calendar days during each such period of twelve (12) consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed 5% of Total Operating Revenues. For purposes of this paragraph (c), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set forth in this paragraph (c), Short-Term Indebtedness secured by accounts receivable shall not be taken into account except to the extent provided in paragraph (f) under this heading.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last paragraph under this heading; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in paragraph (c) under this heading.

(g) Indebtedness may be incurred in an amount limited to the cost of completion for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which Indebtedness has theretofore been incurred, provided there shall be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

Indebtedness incurred pursuant to any one of subsections (a)(i) or a(ii) under this heading may be reclassified as Indebtedness incurred pursuant to any other of such subsections if the tests set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a “put” or “tender” provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such “put” or “tender” provision, and the “put” or “tender” provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to this Section.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance herewith in an aggregate amount not exceeding 50% of the three (3) month average outstanding accounts receivable of the Obligated Group that are one hundred and twenty (120) days old or less as calculated in accordance with generally accepted accounting principles. With the written consent of the Authority, or if the Long Term Debt Service Coverage Ratio is 2.00 or greater, the percentage of accounts receivable identified in the preceding sentence may be increased to 75%. The three (3) month average shall be calculated based on the month end available balances for the three (3) full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. (*Section 3.06*)

Long-Term Debt Service Coverage Ratio

(a) The Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such prior Fiscal Year; *provided, however*, that in any case where Long-Term Indebtedness has been incurred to acquire or construct a Capital Addition, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such Capital Addition unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof, as derived from the most recent Audited Financial Statements for the most recent Fiscal Year, is not met, the Obligated Group covenants to retain a Consultant within thirty (30) days of the delivery of the aforementioned Audited Financial Statements to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. Any Consultant so retained shall be required to submit such recommendations within forty-five (45) days after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by Governmental Restrictions, follow the recommendations of the Consultant. So long as a Consultant shall be retained and each Member of the Obligated Group shall follow such Consultant’s recommendations to the extent permitted by such Governmental Restrictions, this subsection (b) of this heading shall be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; *provided, however*, that the revenues of the Obligated Group shall not be less than the amount required to pay when due the total operating expenses of the Obligated Group and to pay when due the debt service on all Indebtedness of the Obligated Group for such Fiscal Year and further provided, however, that the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this subsection (b) more frequently than biennially.

(c) Notwithstanding anything else in this Section to the contrary, it shall be an event of default under Section 4.01 of the Master Indenture if at the end of any Fiscal Year the Long-Term Debt Service Coverage Ratio is less than 1.00. (*Section 3.07*)

Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts

(a) Each Member of the Obligated Group agrees that it will not (1) transfer Property in any Fiscal Year (or other twelve (12) month period for which Audited Financial Statements are available) or (2) excluding payments to the Affiliated School, donate, transfer, exchange or otherwise dispose of cash, marketable securities or other liquid investments to any Person other than a Member of the Obligated Group, except:

(i) To any Person provided such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person provided there shall be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with the requirements set forth under the heading "Long-Term Debt Service Coverage Ratio" and the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Audited Financial Statements have been reported upon by independent certified public accountants and such Long-Term Debt Service Coverage Ratio is not less than 1.10 and not less than sixty-five percent (65%) of what it would have been were such Transfer not to take place.

(iv) To any Person if the aggregate Book Value of the Property Transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed 10% of the Book Value of all Property of the Obligated Group as shown in the Audited Financial Statements for the most recent Fiscal Year; provided, however, that transfers to the Affiliated School shall be excluded for the purposes of calculating the amount as transferred.

(v) To any Person if the Property Transferred pursuant to this subsection (v) was transferred in the ordinary course of business, and at fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; *provided further, however*, that the proceeds from such Property Transferred are used only to acquire Property or to repay Long-Term Indebtedness.

(vi) To a Person which at the time of the Transfer is not a Member of the Obligated Group or successor corporation pursuant a merger or consolidation permitted by the Master Indenture, without limit, if such Person or successor corporation shall, at the time of such Transfer, become a Member of the Obligated Group pursuant to the Master Indenture.

(b) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group shall receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group and if such sale, pledge, assignment or other disposition meets the limitations contained in the paragraph under the heading "Limitations on Indebtedness" regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(c) Nothing contained under this heading is intended to prohibit the Transfer of Property, including cash, for payment of goods and services in the ordinary course of business of, or for the acquisition of Property by, the Members of the Obligated Group. (*Section 3.08*)

Consolidation, Merger, Sale or Conveyance

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture and any Supplement hereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(iii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iv) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale of assets had occurred at the end of the most recent period of twelve (12) full consecutive calendar months for which Audited Financial Statements are available (which period of twelve (12) full consecutive months shall have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate), the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" herein would have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness and (B) the unrestricted net assets plus temporarily restricted net assets of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor corporation as reflected in the most recent Audited Financial Statements.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall comply with the requirements of set forth under the heading "Parties Becoming Members of the Obligated Group" herein, and shall succeed to and be substituted for its predecessor, as a Member of the Obligated Group. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the

same security position and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under the Master Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iv) under this heading has been delivered, the Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group in accordance with the provisions of the Master Indenture shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect regardless of whether such Indebtedness could have been incurred pursuant to the provisions of the Master Indenture immediately after such Person or successor corporation became a Member of the Obligated Group.

(f) All references in the Master Indenture to successor corporations shall be deemed to include the surviving corporation in a merger. (*Section 3.09*)

Parties Becoming Members of the Obligated Group

Persons which are not Members of the Obligated Group may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under the Master Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture, (ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Indenture will be paid in accordance with the terms thereof and of the Master Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders

thereof, there shall be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended, or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative shall be provided to the Master Trustee demonstrating that (i) after giving effect to the admission of such Person as a Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of the Obligated Group including such Person is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person shall become a member of the Obligated Group, and (ii) the conditions described in subsection (a)(i)(B) under the heading "Limitation of Indebtedness" herein have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, assuming that the Person or corporation which is becoming a Member of the Obligated Group had become a Member at the beginning of the most recent period of twelve (12) full consecutive calendar months for which Audited Financial Statements are available (which period of twelve (12) full consecutive months shall have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate).

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions described under the heading "Limitations on Indebtedness" herein immediately after such Person became a Member of the Obligated Group.

(f) Each new Member of the Obligated Group shall grant to the Master Trustee a Mortgage on all Health Care Facilities owned by such Member that are either: (i) financed or refinanced with the proceeds of Indebtedness secured by an Obligation issued under the Master Indenture; or (ii) owned by such Member at the time of its admission to the Obligated Group, subject to any liens or security interests permitted to remain outstanding under subsection (e) hereof. (*Section 3.10*)

Withdrawal from the Obligated Group

(a) No Member of the Obligated Group may withdraw from the Obligated Group without providing for the payment or extinguishment of any Obligations (or portions thereof) relating to Related Bonds or indebtedness incurred primarily for its benefit, and without the prior written consent of the Obligated Group Representative; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) The Obligated Group shall have provided one of the following (A) an Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payments or extinguishment of Obligations to be made in connection therewith had occurred at

the beginning of the calculation periods described below (1) the Long-Term Debt Service Coverage Ratio of the remaining Members for each of the most recent two (2) periods of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Financial Statements available taking all Long-Term Indebtedness incurred after such period into account is not less than 1.10, (2) the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person withdraws from the Obligated Group, the conditions described in subsection (a)(i)(B) under the heading “Limitations on Indebtedness” herein have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, assuming such withdrawal to have occurred at the end of the most recent period of twelve (12) full consecutive calendar months for which Audited Financial Statements are available (which period of twelve (12) full consecutive months shall have ended not more than eighteen (18) calendar months prior to the date of the Officer’s Certificate); and

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee, the Authority and each Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of the Master Indenture and any agreements or other documents relating to the Master Indenture, the Obligations or the Related Bonds.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this heading, any guaranty by such Member pursuant hereto shall be released and discharged in full, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Obligation Holders, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease. (*Section 3.11*)

Events of Default

Event of Default, as used in the Master Indenture, will mean any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the premium, if any, or interest or other amounts on any Obligations issued and Outstanding under the Master Indenture within three (3) days of when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture or of any Supplement, unless otherwise indicated in the applicable Obligation;

(b) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding or by the Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; *provided, however*, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued under the Master Indenture;

(d) Any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Indenture), which

Indebtedness is in an aggregate principal amount greater than 2% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or (ii) there shall occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than 2% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if within thirty (30) days written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith shall commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and

(f) The institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due. (*Section 4.01*)

Acceleration; Annulment of Acceleration

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, shall, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of the Master Indenture to the contrary notwithstanding. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements,

advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied or waived pursuant to the Master Indenture, then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. (Section 4.02)

Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default under the Master Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or upon the request of the Credit Facility Issuer, if any, with respect to any series of Obligations or Related Bonds, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Bring suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State of New York;

(vi) Enforcement of any Mortgage granted by any Member of the Obligated Group to secure any one or more Obligations; and

(vii) Enforcement of any other right of the Holders conferred by law or by the Master Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

(c) Upon the occurrence of an Event of Default pursuant to subsection (a) under the heading “Events of Default” herein, the Master Trustee shall, and upon the occurrence of any other Event of Default,

the Master Trustee may realize upon any security interest which the Master Trustee may have in Gross Receipts and shall establish and maintain a Gross Receipts Revenue Fund into which shall be deposited all Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund shall be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplement for application (i) to the payment of the reasonable and necessary operating expenses of the Obligated Group, all in accordance with budgeted amounts proposed by the Obligated Group Representative and, if Related Bonds of the Authority are Outstanding, approved by the Authority or the Authority's designee, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) such other amounts as may be required by the Master Indenture and any Supplement thereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund shall be held for the equal and ratable benefit of all Obligations Outstanding; provided, that amounts held in the Gross Receipts Revenue Fund for making of debt service payments on or after the due date for Obligations shall be reserved and set aside solely for the purpose of making such payment. In addition, with regard to Gross Receipts, the Master Trustee may take any one or more of the following actions: (i) during normal business hours enter the offices or facilities of any Member of the Obligated Group and examine and make copies of the financial books and records of the Member relating to the Gross Receipts and take possession of all checks or other orders for payment of money and moneys in the possession of the Members of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify any account debtors obligated on any Gross Receipts to make payment directly to the Master Trustee, (iii) following such notification to account debtors, collect, or, in good faith compromise, settle, compound or extend amounts payable as Gross Receipts which are in the form of accounts receivable or contract rights from each Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member whether or not the full amount of any such account receivable or contract right owing shall be paid to the Master Trustee, as the Authority may direct; (iv) forbid any Member to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Gross Receipts, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (v) endorse in the name of the applicable Member any checks or other orders for the payment of money representing any unpaid assigned Gross Receipts or the proceeds thereof. (*Section 4.03*)

Application of Moneys after Default

During the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article shall be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to the Master Indenture and, with respect to the payment of Obligations thereunder, as follows:

(a) Unless all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations or regularly scheduled payments on an Obligation issued in connection with a Derivative Agreement ("Regularly Scheduled Swap Payments") in the order of the maturity of such installments or payments, and, if the amount available shall not be sufficient to pay in full all installments or payments due on any date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations or payments on any Obligation issued in connection with a Derivative Agreement other than

Regularly Scheduled Swap Payments (“Other Swap Payments”) which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference;

Third: To the extent there exists a Credit Facility Issuer with respect to any series of Obligations or Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above; and

Fourth: To the payment of all other Outstanding Obligations (including, without limitation, Obligations securing Derivative Agreements) ratably, according to amounts due thereunder without any discrimination or preference.

(b) If all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of all amounts then due and unpaid upon Obligations without preference or priority of principal or Other Swap Payments over interest or Regularly Scheduled Swap Payments, or of interest or Regularly Scheduled Swap Payments over principal or Other Swap Payments, or of any installment of interest or payment of Regularly Scheduled Swap Payments over any other installment of interest payment of Regularly Scheduled Swap Payments, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, interest, and all amounts due under any Derivative Agreements, to the Persons entitled thereto without any discrimination or preference.

(c) If all amounts due with respect to all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of paragraph (b) of this Section in the event that all amounts due with respect to all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Moneys held in the Gross Receipts Revenue Fund shall be invested in Government Obligations which mature or are redeemable at the option of the holder not later than such times as shall be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments shall be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments. Unless otherwise provided in the Master Indenture, the Master Trustee shall sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer’s Certificate or whenever it shall be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee shall not be liable or responsible for making any such investment in the manner provided above and shall not be liable for any loss resulting from any such investment. Any investment income derived from any investment of moneys on deposit in the Gross Receipts Revenue Fund shall be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct. (*Section 4.04*)

Holders' Control of Proceedings

If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and provided further that nothing in this Section shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by the Holders; provided, further, however, that the Credit Facility Issuer, if any, with regard to any series of Obligations or any series of Related Bonds secured by Obligations, and not the Holders, shall have the right to control proceedings with respect thereto in the manner described in this Section. (*Section 4.07*)

Waiver of Event of Default

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy thereunder.

(c) Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) under the heading "Acceleration; Annulment of Acceleration" herein, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. (*Section 4.09*)

Appointment of Receiver

Upon the occurrence of any Event of Default described in subsection (a) (e) or (f) under the heading “Events of Default” herein, unless the same shall have been waived as provided in the Master Indenture, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer. Each Member of the Obligated Group, respectively, consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver. (*Section 4.10*)

Notice of Default

The Master Trustee shall, within ten (10) days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) under the heading “Events of Default” herein, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders. (*Section 4.12*)

Removal and Resignation of the Master Trustee

The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created by the Master Indenture. Written notice of such resignation or removal shall be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group Representative within thirty (30) days of the date notice of resignation or removal is given, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves

aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment under the Master Indenture, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties under the Master Indenture, shall mail a notice of such assumption to each registered Holder. (*Section 5.04*)

Supplements Not Requiring Consent of Holders

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Indenture.
- (b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Indenture.
- (d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of Indebtedness as permitted under the Master Indenture, so long as no Event of Default has occurred and is continuing under the Master Indenture.
- (f) To obligate a successor to any Member of the Obligated Group as provided in the provisions described under the heading “Parties Becoming Members of the Obligated Group”.
- (g) To comply with the provisions of any federal or state securities law.
- (h) So long as no Event of Default has occurred and is continuing under the Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under the Master Indenture has occurred and is continuing, to make any change to the provisions of the Master Indenture (except as set forth below) if, with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled.

(i) To substitute Obligations provided (a) the ratings on the Related Bonds are not lowered or withdrawn as a result of the substitution; (b) the ratings on the Related Bonds are at least “A2” by Moody’s and at least “A” by S&P; and (c) the pro forma Long-Term Debt Service Coverage Ratio is not less than 2.00 for the obligor on the Related Bonds immediately following such substitution. (*Section 6.01*)

Supplements Requiring Consent of Holders

(a) Other than Supplements referred to under the heading “Supplements Not Requiring Consent of Holders” above and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding shall have the right, with consent of each Credit Facility Issuer, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, nothing in this Section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in the Master Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three (3) years, as shall be prescribed by each Member of the Obligated Group following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by the Master Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with

each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as provided in the Master Indenture, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof. (*Section 6.02*)

Satisfaction and Discharge of Indenture

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. Each Member of the Obligated Group, respectively, agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations. (*Section 7.01*)

Evidence of Acts of Holders

(a) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of any Obligation securing an issue of Related Bonds, the registered owners of such Related Bonds then outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of such series of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds of such series then outstanding; provided however that if any portion of such Related Bonds is secured by a Credit Facility that is also secured by a separate Obligation issued hereunder, the principal amount of the Obligation that secures the Related Bonds deemed outstanding for purposes of any such request, direction or consent shall be reduced by the amount of Related Bonds that are secured by such Credit Facility for the purpose of any such request, direction or consent and the Holders of the Related Bonds that are secured by such Credit Facility shall not be consulted or counted.

(b) As to any request, direction, consent or other instrument provided hereby to be signed and executed by the Holders, such action may be in any number of concurrent writings, shall be of similar tenor, and may be signed or executed by such Holders in person or by agent appointed in writing.

(c) Proof of the execution of any such request, direction, consent or other instrument or of the writing appointing any such agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes hereof and shall be conclusive in favor of the Master Trustee and the Members of the Obligated Group, with regard to any action taken by them, or either of them, under such request, direction or consent or other instrument, namely:

i. The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in

such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

ii. The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(d) Nothing in this Section shall be construed as limiting the Master Trustee to the proof in the Master Indenture specified, it being intended that the Master Trustee may accept any other evidence of the matters in the Master Indenture stated which it may deem sufficient.

(e) Any action taken or suffered by the Master Trustee pursuant to any provision hereof upon the request or with the assent of any person who at the time is the Holder of any Obligation, shall be conclusive and binding upon all future Holders of the same Obligation.

(f) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of an Obligation that constitutes a Guaranty, for purposes of any such request, direction or consent, the principal amount of such Obligation shall be deemed to be the stated principal amount of such Obligation. *(Section 8.01)*

Supplemental Provisions relating to the Series 2011A Obligation

For so long as the Series 2011A Obligation remains Outstanding, the following provisions shall apply:

Mortgages

(a) To secure, among other things, the prompt payment of the principal of and the interest on the Series 2011A Obligation issued under the Master Indenture, a Mortgage will be granted to the Master Trustee. In addition, each Member of the Obligated Group shall grant to the Master Trustee a Mortgage on all Health Care Facilities owned by such Member that are either: (i) financed or refinanced with the proceeds of Indebtedness secured by an Obligation issued under the Master Indenture; or (ii) owned by a new Member of the Obligated Group at the time of such admission, subject to any liens or security interests permitted to remain outstanding under the Master Indenture. Upon receipt, all such security shall be held in trust for the holders from time to time of all Obligations issued and Outstanding hereunder, without preference or priority of any one Obligation over any other Obligation, with all proceeds realized from such security to be applied, proportionally and ratably to all Obligations issued hereunder. Notwithstanding the provisions of the Master Indenture and subject to the limitations set forth in paragraph (c) below, no Mortgage required under the Supplemental Indenture for the Series 2011A Obligation may be released, subordinated or amended in whole or in part without the consent of the Authority for so long as the Series 2011A Obligation and/or any Related Bonds of the Authority remain Outstanding (which consent shall not be unreasonably withheld with respect to Permitted Liens and in any event shall not require the consent of the Holders of Related Bonds secured by the Obligation authorized hereunder or the applicable Related Bond Trustee). In the event of such modification, subordination or release of such Mortgage, the Master Trustee shall execute a release of its security interest or other appropriate consent document with respect to such Mortgage so modified, subordinated or released.

(b) Subject to the limitations set forth in paragraph (c) below, in addition to any other releases or subordinations as may be permitted hereunder and not as a limitation, the Master Trustee, in its capacity as mortgagee under the Mortgage required under the Supplemental Indenture for the Series 2011A Obligation, shall, upon the Authority's direction for so long as the Series 2011A Obligation and/or any Related Bonds of the Authority remain Outstanding, execute and deliver consents, waivers, estoppels, releases, partial releases, subordination agreements, and such other documents as the Authority deems reasonably necessary or appropriate.

(c) Notwithstanding paragraphs (a) and (b) above or anything contained in the Master Indenture to the contrary, Health Care Facilities may not be released in whole or in part (other than with respect to Permitted Liens under the Master Indenture) from the lien of the Mortgage required under the Supplemental Indenture for the Series 2011A Obligation without the prior written consent of the holders of fifty-one percent (51%) of the principal amount of the then Outstanding Related Bonds under the Supplemental Indenture for the Series 2011A Obligation and, for so long as the Series 2011A Obligation and/or the Related Bonds remain Outstanding, the Authority. This paragraph (c) shall apply only to mortgaged property that constitutes “Health Care Facilities” at the time of the proposed release.

Filing of Audited Financial Statements, Quarterly Reports, Certificate of Compliance, Other Information

(a) The Institution and any other Members of the Obligated Group covenant that they shall comply with the covenants set forth below for so long as any Related Bonds remain Outstanding:

(a) No later than one hundred twenty (120) days after the end of each Fiscal Year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of the Audited Financial Statements as of the end of such fiscal reporting period accompanied by the opinion of independent certified public accountants. Such Audited Financial Statements shall be prepared in accordance with generally accepted accounting principles and shall include such statements necessary for a fair presentation of financial position, statement of activity and changes in net assets and cash flows of such fiscal reporting period.

(b) No later than one hundred twenty (120) days after the end of each Fiscal Year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested or on whose behalf the Master Trustee may have so requested, an Officer’s Certificate and a report of independent certified public accountants stating the Long-Term Debt Service Coverage Ratio and Days Cash on Hand for such fiscal reporting period and stating whether, to the best knowledge of the signers, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signers may have knowledge.

(iii) No later than sixty (60) days subsequent to the last day of each of the first three quarters in each fiscal year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested or on whose behalf the Master Trustee may have so requested, the following information: (A) the unaudited financial statements of the Obligated Group; (B) utilization statistics of each Member of the Obligated Group, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits and ambulatory surgery visits or, such other or different statistics as are appropriate at the time of calculation; and (C) discharges of the Obligated Group by major payor mix.

(iv) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee and the Authority (so long as there are Related Bonds of the Authority outstanding) such other financial statements and information concerning its operations and financial affairs (or of any consolidated or Obligated Group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours.

(v) Within thirty (30) days after its receipt thereof, file with the Master Trustee and the Authority (so long as there are Related Bonds of the Authority outstanding) a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

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APPENDIX F
PROPOSED FORM OF APPROVING OPINION
OF BOND COUNSEL

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FORM OF APPROVING OPINION OF BOND COUNSEL

October 27, 2011

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Re: Dormitory Authority of the State of New York
Mount Sinai Hospital Obligated Group Revenue Bonds, Series 2011A

Ladies and Gentlemen:

We have acted as bond counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with its issuance of \$65,390,000 aggregate principal amount of Mount Sinai Hospital Obligated Group Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), issued pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), including, without limitation, as amended by the Health Care Financing Consolidation Act, constituting Chapter 83 of the Laws of 1995 of New York (constituting Title 4-B of Article 8 of the New York Public Authorities Law), which authorized the Authority to issue bonds pursuant to the New York State Medical Care Facilities Finance Agency Act, as amended, constituting Chapter 392 of the Laws of 1973 of New York, as amended (constituting Chapter 6 of Title 18 of the New York Unconsolidated Laws), and the Authority's Mount Sinai Hospital Obligated Group Revenue Bond Resolution, adopted March 31, 2010 (the "Resolution"), and the Series 2011A Resolution Authorizing Up to \$75,000,000 Mount Sinai Hospital Obligated Group Revenue Bonds, Series 2011A, adopted September 21, 2011, including the Bond Series Certificate executed and delivered concurrently with the issuance of the Series 2011A Bonds related thereto (together, the "Series 2011A Resolution"). The Resolution and the Series 2011A Resolution are herein collectively referred to as the "Resolutions." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

The Authority has entered into an Amended and Restated Loan Agreement with The Mount Sinai Hospital ("MSH"), dated as of March 31, 2010, as amended and supplemented by Supplement No. 1 to the Amended and Restated Loan Agreement, dated as of September 21, 2011 (collectively, the "Loan Agreement"), providing, among other things, for a loan to MSH for the purposes permitted in the Loan Agreement and by the Resolutions.

The Series 2011A Bonds are secured by, among other things, funds and accounts held under the Resolutions and a pledge of payments to be made under the Loan Agreement. In addition, the Series 2011A Bonds are secured by payments to be made by MSH on its Obligation No. 1, dated as of October 1, 2011 (the "Series 2011A Obligation"), issued by MSH under a Master Trust Indenture, dated as of June 1, 2010 (the "Master Trust Indenture"), between MSH and The Bank of New York Mellon, as master trustee (the "Master Trustee"), as such Master Trust Indenture is supplemented by Supplemental Indenture No. 3, dated as of October 1, 2011 ("Supplement No. 3" and, together with the Master Trust Indenture, the "Master Indenture"), between MSH and the Master Trustee. The Series 2011A Obligation is being delivered to the Authority as evidence of MSH's obligation to repay the proceeds of the Series 2011A Bonds. The obligation of MSH under the Master Indenture will be secured by a mortgage on certain health care facilities of MSH.

In such connection, we have reviewed the Resolutions, the Loan Agreement, the Series 2011A Obligation, the Master Indenture, the Tax Certificate and Agreement dated as of the date hereof (the "Tax

Certificate”) between the Authority and MSH, opinions of counsel to the Authority, the Trustee and MSH, certificates of the Authority, the Trustee, MSH, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Michael McDonald, Executive Vice President and General Counsel of MSH, regarding, among other matters, the current qualification of MSH as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Series 2011A Bonds in activities that are not considered unrelated trade or business activities of MSH within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of MSH to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond financed facilities in activities that are considered unrelated trade or business activities of MSH within the meaning of Section 513 of the Code, may result in interest on Series 2011A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2011A Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any matters come to our attention after the date hereof. Accordingly, this opinion speaks only of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2011A Bonds has concluded with their issuance and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, parties other than the Authority. We have assumed, without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2011A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2011A Bonds, the Resolutions, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditor’s rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any real property or personal property described in or as subject to the lien of the Loan Agreement, the Master Indenture or the Mortgage or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2011A Bonds and express no opinion with respect thereto herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority has been duly created and is validly existing as a body corporate and politic constituting a public benefit corporation of the State of New York.

2. The Series 2011A Bonds have been duly and validly authorized to be issued and constitute the valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, will be payable solely from the sources provided therefor in the Resolutions, and will be entitled to the benefit of the Resolutions and the Act.

3. The Resolutions are in full force and effect, have been duly adopted by, and constitute the valid and binding obligations of, the Authority. The Resolutions create a valid pledge and a valid lien, to secure the payment of the principal of and interest on the Series 2011A Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Series 2011A Bonds) held by the Trustee in any fund or account established pursuant to the Resolutions, except the Arbitrage Rebate Fund, subject to the provisions of the Resolutions permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolutions.

4. The Loan Agreement has been duly executed and delivered by the Authority and, assuming due execution and delivery thereof by MSH, constitutes the valid and binding agreement of the Authority in accordance with its terms.

5. Interest on the Series 2011A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series 2011A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Interest on the Series 2011A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011A Bonds.

Faithfully yours,

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