



\$296,075,000

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK  
THE NEW YORK AND PRESBYTERIAN HOSPITAL  
FHA – INSURED MORTGAGE HOSPITAL REVENUE BONDS,  
SERIES 2007**

Dated: Date of Delivery

Due: as shown on the inside cover

**Payment and Security:** The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the “Series 2007 Bonds”) will be special obligations of the Dormitory Authority of the State of New York (the “Authority”) payable solely from, and secured by a pledge of, payments to be made by The New York and Presbyterian Hospital (the “Hospital”) under a Note (the “Note”) insured by the United States Secretary of Housing and Urban Development, acting by and through the Federal Housing Commissioner (“FHA”) and as provided in The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted by the Authority on February 28, 2007 (the “Bond Resolution”) and in The New York and Presbyterian Hospital Series Resolution Authorizing up to \$330,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007, adopted by the Authority on February 28, 2007 (the “Series 2007 Resolution” and, together with the Bond Resolution, the “Resolution”).

The Series 2007 Bonds will be secured by: (i) certain revenues received on behalf of the Authority from payments to be made by the Hospital under the Note and, in the event of a default by the Hospital thereunder, from the FHA Mortgage Insurance Benefits (as defined herein), and (ii) certain other moneys and funds (including investment income) held under the Resolution and as may be available pursuant to a Loan Agreement, dated as of February 28, 2007, by and between the Hospital and the Authority (the “Loan Agreement”).

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

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

**Bond Insurance:** The scheduled payment of principal of and interest on the Series 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by FINANCIAL SECURITY ASSURANCE INC. See “PART 5 – BOND INSURANCE.”



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

**Tax Matters:** In the opinion of Bond Counsel, based on existing statutes, regulations, rulings and court decisions, interest on the Series 2007 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance with certain covenants and the accuracy of certain representations. In the further opinion of Bond Counsel, interest on the Series 2007 Bonds is not an “item of tax preference” for purposes of the federal alternative minimum tax on individuals and corporations; however, such interest will be includable in adjusted current earnings used to calculate the federal alternative minimum tax on corporations. Bond Counsel is also of the opinion that interest on the Series 2007 Bonds is exempt under existing statutes from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 Bonds. See “PART 18—TAX MATTERS” herein.

*The Series 2007 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2007 Bonds may be subject to prior sale or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality of the Series 2007 Bonds by Winston & Strawn LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for Goldman Sachs Housing and Health Care Funding Company, the Mortgage Servicer, by its counsel, Krooth & Altman LLP, Washington, D.C.; for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York; and for the Hospital by its counsel, Dennett Law Offices, P.C., Great Neck, New York. The Authority expects to deliver the Series 2007 Bonds in definitive form in New York, New York, on or about September 20, 2007.*

## Goldman, Sachs & Co.

Banc of America Securities LLC

Bear, Stearns &amp; Co. Inc.

Citi

J.B. Hanauer &amp; Co.

Jackson Securities

JP Morgan Securities, Inc.

Lehman Brothers

Merrill Lynch

Morgan Stanley

MR Beal &amp; Company

**\$296,075,000**  
**THE NEW YORK AND PRESBYTERIAN HOSPITAL**  
**FHA – INSURED MORTGAGE HOSPITAL REVENUE BONDS,**  
**SERIES 2007**

**\$81,995,000 Serial Bonds**

<b>Maturity Date</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Number<sup>(1)</sup></b>	<b>Maturity Date</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Number<sup>(1)</sup></b>
February 15, 2011	\$2,925,000	4.000%	3.820%	649903SC6	August 15, 2016	\$3,735,000	4.250%	4.300%	649903SP7
August 15, 2011	2,985,000	4.000	3.850	649903SD4	February 15, 2017	3,815,000	4.400	4.400	649903SQ5
February 15, 2012	3,045,000	4.000	3.920	649903SE2	August 15, 2017	3,900,000	4.400	4.400	649903SR3
August 15, 2012	3,105,000	4.000	3.940	649903SF9	February 15, 2018	3,985,000	4.500	4.500	649903SS1
February 15, 2013	3,170,000	5.000	4.020	649903SG7	August 15, 2018	4,075,000	4.500	4.500	649903ST9
August 15, 2013	3,250,000	5.000	4.030	649903SH5	February 15, 2019	4,170,000	4.550	4.580	649903SU6
February 15, 2014	3,335,000	5.000	4.100	649903SJ1	August 15, 2019	4,265,000	4.550	4.580	649903SV4
August 15, 2014	3,415,000	5.000	4.100	649903SK8	February 15, 2020	4,365,000	4.625	4.650	649903SW2
February 15, 2015	3,505,000	4.200	4.200	649903SL6	August 15, 2020	4,465,000	4.625	4.650	649903SX0
August 15, 2015	3,580,000	4.200	4.200	649903SM4	February 15, 2021	4,570,000	4.625	4.700	649903SY8
February 15, 2016	3,655,000	4.250	4.300	649903SN2	August 15, 2021	4,680,000	4.625	4.700	649903SZ5

**\$14,700,000 4.75% Term Bonds due February 15, 2023 Yield 4.842% CUSIP Number<sup>(1)</sup> 649903TA9**

**\$27,085,000 Serial Bonds**

<b>Maturity Date</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Number<sup>(1)</sup></b>	<b>Maturity Date</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Number<sup>(1)</sup></b>
August 15, 2023	\$5,135,000	5.250%	4.760%†	649903TB7	February 15, 2025	\$5,555,000	5.250%	4.810%†	649903TE1
February 15, 2024	5,275,000	5.250	4.790 †	649903TC5	August 15, 2025	5,705,000	5.250	4.810 †	649903TF8
August 15, 2024	5,415,000	5.250	4.790 †	649903TD3					

**\$11,865,000 5.25% Term Bonds due August 15, 2026 Yield 4.830%† CUSIP Number<sup>(1)</sup> 649903TG6**  
**\$12,505,000 5.25% Term Bonds due August 15, 2027 Yield 4.850%† CUSIP Number<sup>(1)</sup> 649903TH4**  
**\$49,290,000 5.25% Term Bonds due February 15, 2031 Yield 4.950%† CUSIP Number<sup>(1)</sup> 649903TJ0**  
**\$98,635,000 5.00% Term Bonds due August 15, 2036 Yield 5.066% CUSIP Number<sup>(1)</sup> 649903TK7**

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

† Priced at the stated yield to the August 15, 2014 optional redemption date at a redemption price of 100%.

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

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

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

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

Other than with respect to information concerning Financial Security Assurance Inc. (the "Bond Insurer" or "Financial Security") contained in "PART 5 – BOND INSURANCE" and "Appendix F - Specimen Bond Insurance Policy", none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2007 Bonds; or (iii) the tax exempt status of the interest on the Series 2007 Bonds.

The Hospital has reviewed the parts of this Official Statement describing the Plan of Financing (except for the information in the paragraph immediately preceding the heading "Construction Fund Disbursements" and under the headings "Payment of FHA Mortgage Insurance Benefits" and "Prepayment of Note from Hazard Insurance Proceeds or Condemnation Awards"), the Project, Estimated Sources and Uses of Funds, the Hospital, General Factors Affecting the Hospital's Revenues and Expenses, Bondholders' Risks and Appendices B-1 and B-2. The Hospital shall certify as of the dates of sale and delivery by the Authority of the Series 2007 Bonds that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Hospital makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

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

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

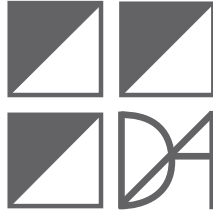
The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including the appendices, must be considered in its entirety.

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

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

## TABLE OF CONTENTS

PART 1 – INTRODUCTION .....	1	Legislative Regulatory and Contractual Matters Affecting	
Purpose of this Official Statement .....	1	Revenue .....	58
Authorization of Issuance .....	1	State Budget .....	59
Purpose of the Financing .....	2	Department of Health Regulations .....	59
Description of the Program .....	2	State Commission on Healthcare .....	59
The Authority .....	5	Managed Care and Other Private Initiatives .....	60
The Hospital .....	5	Medicare and Medicaid Managed Care .....	60
PART 2 – PLAN OF FINANCING .....	5	Regulatory Reviews and Audits .....	60
Application of Bond Proceeds and Other Moneys .....	5	Competition .....	61
Construction Fund Disbursements .....	5	Workforce Shortages .....	61
Procedures Upon Completion of Project .....	6	Increased Costs .....	62
Payment of Note and Series 2007 Bonds .....	6	Outlier Payments .....	62
Payment of FHA Mortgage Insurance Benefits .....	7	Federal and State “Fraud and Abuse” Laws and	
Prepayment of Note from Hazard Insurance Proceeds or		Regulations .....	62
Condemnation Awards .....	8	False Claims .....	63
PART 3 – THE SERIES 2007 BONDS .....	8	Restrictions on Referrals .....	64
Description of the Series 2007 Bonds .....	8	Joint Ventures .....	65
Security for the Series 2007 Bonds .....	9	HIPAA .....	66
Redemption and Purchase in Lieu of Redemption of the		Regulation of Patient Transfer .....	66
Series 2007 Bonds .....	10	Enforcement and Accreditation Activity .....	66
Additional Indebtedness .....	12	OIG Compliance Guidelines .....	67
Book-Entry Only System .....	12	Not-for-Profit Status .....	67
PART 4 – ESTIMATED DEBT SERVICE SCHEDULE		Internal Revenue Code Limitations .....	68
FOR THE SERIES 2007 BONDS .....	14	Tax Audits .....	69
PART 5 – BOND INSURANCE .....	16	Antitrust .....	69
The Bond Insurance Policy .....	16	Environmental Matters .....	69
Financial Security Assurance Inc. ....	17	Malpractice Lawsuits .....	70
PART 6 – FHA MORTGAGE INSURANCE .....	17	Technological Changes .....	70
General .....	17	Future Legislation .....	70
FHA Insurance Processing .....	18	Other Risk Factors .....	71
Construction .....	18	PART 13 – BONDHOLDERS’ RISKS .....	71
Default and Payment of Mortgage Insurance Benefits .....	19	General .....	71
Casualty Insurance Requirements .....	23	Adequacy of Revenues .....	72
PART 7 – CERTAIN PROVISIONS OF THE FHA		Forward Looking Statements .....	72
DOCUMENTS .....	24	Enforceability of Remedies Generally and Bankruptcy .....	72
The Note .....	24	Reduction or Loss of Mortgage Insurance .....	73
Prepayment Provisions .....	24	Event of Taxability .....	73
The Mortgage .....	24	Adequacy of the Debt Service Reserve Fund .....	73
The Building Loan Agreement .....	25	Secondary Market .....	74
The Regulatory Agreement .....	26	PART 14 – THE AUTHORITY .....	74
PART 8 – THE PROJECT .....	26	Background, Purposes and Powers .....	74
PART 9 – ESTIMATED SOURCES AND USES OF		Outstanding Indebtedness of the Authority (Other than	
FUNDS .....	27	Indebtedness Assumed by the Authority) .....	75
PART 10 – THE MORTGAGE SERVICER .....	27	Outstanding Indebtedness of the Agency Assumed by the	
PART 11 – THE HOSPITAL .....	28	Authority .....	76
Forward-Looking Statements .....	28	Governance .....	77
Introduction .....	28	Claims and Litigation .....	81
Services and Programs .....	29	Other Matters .....	81
Academic Affiliations: Joan and Sanford I. Weill Medical		PART 15 – LEGALITY OF THE SERIES 2007 BONDS FOR	
College of Cornell University and Columbia University		INVESTMENT AND DEPOSIT .....	81
Medical Center .....	34	PART 16 – STATE’S RIGHT TO REQUIRE REDEMPTION	
Existing Facilities .....	34	OF BONDS .....	81
Governance and Affiliated Organizations .....	35	PART 17 – NEGOTIABLE INSTRUMENTS .....	82
Senior Management .....	38	PART 18 – TAX MATTERS .....	82
Medical Staff .....	40	PART 19 – STATE AND FHA NOT LIABLE ON THE	
Educational Programs .....	43	SERIES 2007 BONDS .....	84
Service Area and Other Area Hospitals .....	43	PART 20 – COVENANT BY THE STATE .....	84
Utilization .....	46	PART 21 – LEGAL MATTERS .....	85
Summary of Historical Revenue and Expenses .....	47	PART 22 – UNDERWRITING .....	85
Sources of Patient Service Revenue and Reimbursement		PART 23 – CONTINUING DISCLOSURE .....	85
Methodologies .....	50	PART 24 – RATINGS .....	87
Liquidity .....	53	PART 25 – MISCELLANEOUS .....	87
Debt Service Coverage .....	53	Appendix A -Certain Definitions .....	A-1
Investments .....	54	Appendix B-1 -Audited Financial Statements of The New York	
Capitalization .....	54	and Presbyterian Hospital .....	B-1-1
Employees .....	55	Appendix B-2 -Unaudited Interim Financial Statements of The	
Licensure and Accreditation .....	56	New York and Presbyterian Hospital .....	B-2-1
Insurance .....	56	Appendix C -Summary of Certain Provisions of the	
Litigation .....	56	Bond Resolution .....	C-1
Capital Expenditures/Future Plans .....	56	Appendix D - Summary of Certain Provisions of the	
PART 12 – GENERAL FACTORS AFFECTING THE		Loan Agreement .....	D-1
HOSPITAL’S REVENUES AND EXPENSES .....	58	Appendix E - Form of Approving Opinion of Bond Counsel .....	E-1
General .....	58	Appendix F -Specimen Bond Insurance Policy .....	F-1



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

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

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**\$296,075,000**  
**THE NEW YORK AND PRESBYTERIAN HOSPITAL**  
**FHA – INSURED MORTGAGE HOSPITAL REVENUE BONDS,**  
**SERIES 2007**

**PART 1 – INTRODUCTION**

**Purpose of this Official Statement**

The purpose of this Official Statement, including the cover page, inside cover page and appendices hereto, is to set forth certain information concerning the Dormitory Authority of the State of New York (the “Authority”) and The New York and Presbyterian Hospital (the “Hospital”) in connection with the offering by the Authority of its \$296,075,000 The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the “Series 2007 Bonds”).

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

**Authorization of Issuance**

The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted by the Authority on February 28, 2007 (the “Bond Resolution”) authorizes the issuance of multiple Series of Bonds pursuant to separate Series Resolutions for the sole benefit of the Hospital. The Series 2007 Bonds will be issued pursuant to the Bond Resolution and The New York and Presbyterian Hospital Series Resolution Authorizing up to \$330,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007, adopted by the Authority on February 28, 2007 (the “Series 2007 Resolution” and, together with the Bond Resolution, the “Resolution”). Each Series of Bonds issued under the Bond Resolution and a respective Series Resolution, including the Series 2007 Bonds, is to be for the benefit of the Hospital and separately secured by (i) the funds and accounts established pursuant to the respective Series Resolution and (ii) certain revenues received by the Authority from payments to be made by the Hospital under the mortgage note relating to each such Series and, in the event of a default, from FHA mortgage insurance benefits with respect to such note. The Series 2007 Bonds are the first Series of Bonds issued pursuant to the Bond Resolution.

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

## **Purpose of the Financing**

Proceeds of the Series 2007 Bonds, together with funds of the Hospital, will be used to finance or refinance (i) the costs of the construction and equipping of improvements at the New York-Presbyterian Hospital/Columbia University Medical Center campus located at 168th Street between Broadway and Riverside Drive (the “Uptown Campus”) and the New York-Presbyterian Hospital/Weill Cornell Medical Center campus generally bounded by York Avenue, East 71st Street, the East River and East 68th Street (the “Midtown Campus”), (ii) capitalized interest on the Series 2007 Bonds, (iii) the required deposit to the Reserve Account of the Debt Service Reserve Fund, and (iv) costs of issuance in connection with the issuance of the Series 2007 Bonds. For a description of the improvements to be made at the Hospital’s Uptown and Midtown Campuses, see “PART 8 — THE PROJECT” and “PART 9 — ESTIMATED SOURCES AND USES OF FUNDS.” The proceeds of the Series 2007 Bonds will be loaned by the Authority to the Hospital pursuant to the Loan Agreement, dated as of February 28, 2007 between the Hospital and the Authority (the “Loan Agreement”) and the portion to be applied to the Costs of the Project will be disbursed by the Authority, as FHA mortgagee, pursuant to the provisions of the Building Loan Agreement and the Servicing Agreement.

## **Description of the Program**

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

As evidence of the loan (the “2007 FHA 241 Loan”) to be disbursed to the Hospital pursuant to the FHA Documents and insured by FHA under Section 241 of the National Housing Act, the Hospital will deliver to the Authority, as FHA mortgagee, a Note in the aggregate principal amount of \$278,500,000 (the “Note”). Pursuant to the Servicing Agreement, regular payments made by the Hospital on the Note less the Servicing Fee and Mortgagee Advances, if any, shall be applied to the payment of principal and interest on the Series 2007 Bonds. To secure payment of the Note, the Hospital will grant to the Authority a mortgage and a security interest in the Mortgaged Property (the “Mortgage”). The Mortgaged Property is comprised of substantially all of the real property, fixtures and equipment located at the Hospital’s four primary campuses, including the Uptown Campus and Midtown Campus. The Mortgage will constitute a subordinate lien on the Mortgaged Property which secures the Hospital’s existing FHA-insured loans as set forth below.

The Hospital was created in 1997 following the full asset merger of The Society of the New York Hospital (“New York Hospital”) and The Presbyterian Hospital in the City of New York (“Presbyterian Hospital”). Substantially all of the Hospital’s existing properties, including the Uptown Campus and the Midtown Campus, are subject to liens in connection with existing FHA-insured mortgage loans (collectively, the “FHA 242 Loans”) as follows:

- Two mortgage loans (collectively, the “1997 Mortgage Loans”), insured by FHA under Section 242 of the National Housing Act, were made to Presbyterian Hospital by the Authority in connection with the issuance by the Authority of its Hospital Insured Mortgage Revenue Bonds, 1997 Series A, the proceeds of which were used to refinance prior FHA-insured mortgage loans made to Presbyterian Hospital by the Authority and finance additional construction, in each case, for improvements to the Uptown Campus and the Allen Pavilion Campus at Inwood (“Allen Pavilion”). One of such mortgage loans is evidenced by a mortgage note (the “1997 Uptown Campus Note”) secured by a first mortgage lien on the Uptown Campus (the “1997 Uptown Campus Mortgage”) and the other mortgage loan is evidenced by a mortgage note (the “1997 Allen Pavilion Note”), secured by a first mortgage lien on real property, fixtures and equipment at Allen Pavilion (the “1997 Allen Pavilion Mortgage”).

- A third mortgage loan (the “1998 Mortgage Loan”), insured by FHA under Section 242 of the National Housing Act, was made to the Hospital by the Authority in connection with the issuance by the Authority of its FHA-Insured Mortgage Hospital Revenue Bonds, Series 1998, the proceeds of which were used to refinance a prior FHA-insured mortgage loan made to New York Hospital in 1995 by the Authority’s predecessor, the New York State Medical Care Facilities Finance Agency to finance construction of improvements to the Hospital’s Midtown Campus. Such mortgage loan is evidenced by a mortgage note (the “1998 Note”) secured by two mortgages - a first mortgage lien on the Hospital’s real property, fixtures and equipment at the Midtown Campus (the “1998 Midtown Campus Mortgage”) and a leasehold mortgage on a portion of the Hospital’s leasehold interest at the Westchester Division (the “1998 Westchester Campus Mortgage”).
- Two additional mortgage loans insured by FHA under Section 242 of the National Housing Act were made to the Hospital by the Authority in connection with the issuance by the Authority of its Hospital Insured Mortgage Revenue Bonds, 2004 Series A (the “2004 Mortgage Loans”), the proceeds of which were used to refinance certain other mortgage loans previously made to Presbyterian Hospital by the Authority for improvements to the Uptown Campus and Allen Pavilion. The 1997 Uptown Campus Note and the 1997 Allen Pavilion Note as well as the 1997 Uptown Campus Mortgage and the 1997 Allen Pavilion Mortgage were each amended in connection with the issuance of such bonds to provide security for the 2004 Mortgage Loans (as so amended, the 1997 Uptown Note and the 1997 Allen Pavilion Note are referred to herein as the “2004 Uptown Campus Note” and the “2004 Allen Pavilion Note”, respectively, and the 1997 Uptown Campus Mortgage and the 1997 Allen Pavilion Mortgage are referred to herein as the “2004 Uptown Campus Mortgage” and the “2004 Allen Pavilion Mortgage”, respectively). The 1998 Note, the 2004 Uptown Campus Note and the 2004 Allen Pavilion Note are collectively referred to herein as the “FHA 242 Notes”. The 1998 Midtown Campus Mortgage, the 1998 Westchester Mortgage, the 2004 Uptown Campus Mortgage and the 2004 Allen Pavilion Mortgage are collectively referred to herein as the “FHA 242 Mortgages”.

As of May 31, 2007, the 1998 Note was outstanding in the amount of \$403,923,318 and has a final maturity of August 1, 2025, and the 2004 Uptown Campus Note and the 2004 Allen Pavilion Note were outstanding in the aggregate amount of \$267,657,568 with a final maturity of April 15, 2015.

In connection with its approval of the merger of New York Hospital and Presbyterian Hospital in 1997 to form the Hospital, FHA requested and New York Hospital and Presbyterian Hospital agreed that in the event of a default with respect to any of the Hospital’s outstanding FHA-insured mortgages and notes, FHA may request that any or all of such mortgages and notes be assigned to FHA, and if such request is made, the Authority is required to assign such mortgages and notes to FHA for payment of mortgage insurance benefits. This agreement is being extended to include the 2007 FHA 241 Loan and, therefore, a default under any of the above FHA 242 Notes could result in the assignment of the 2007 FHA 241 Loan (and Note and Mortgage) to FHA for payment of Mortgage Insurance Benefits even though the 2007 FHA 241 Loan is not otherwise in default.

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

Pursuant to a commitment dated May 31, 2007, as amended (the “Commitment”), FHA has agreed to insure advances of funds with respect to the 2007 FHA 241 Loan under Section 241 of the National Housing Act, as amended, and the regulations promulgated thereunder. Under applicable FHA regulations, FHA mortgage insurance benefits are payable following assignment of a note and a mortgage to FHA upon a default by a borrower under such note and mortgage, in the form of cash, FHA debentures, or any combination thereof, at the option of FHA. However, in the Commitment, FHA has stated that the Mortgage Insurance Benefits will be paid in cash rather than in FHA debentures, and the Authority has covenanted in the Bond Resolution to request that Mortgage Insurance

Benefits be paid in cash. To the extent that the FHA Mortgage Insurance Benefits are paid, such benefits will be applied to the Extraordinary Mandatory Redemption of the Series 2007 Bonds. Any cash proceeds of the FHA Insurance remaining after the redemption of the Series 2007 Bonds and payment of reasonable expenses in connection therewith shall be returned to FHA. See “PART 6 — FHA MORTGAGE INSURANCE” and “PART 2 — PLAN OF FINANCING — Payment of FHA Mortgage Insurance Benefits” for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

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

The FHA Mortgage Insurance does not constitute a guaranty of timely or total payment of the principal of, Redemption Price or interest on the Series 2007 Bonds. FHA Mortgage Insurance Benefits will not be available immediately upon a default under the Note and Mortgage and assignment thereof to FHA. In addition, processing claims for FHA Mortgage Insurance Benefits may involve certain time delays and such FHA Mortgage Insurance Benefits may be subject to certain deductions. To provide a source of funds for the timely payment of the principal of and interest on the Series 2007 Bonds during the period from a default on the Note and Mortgage and their assignment to FHA to the receipt of FHA Mortgage Insurance Benefits, a Debt Service Reserve Fund has been established and funded at the Reserve Account Requirement. The use of the Debt Service Reserve Fund, its limitations and the application of FHA Mortgage Insurance Benefits and other moneys if there are insufficient funds to pay the maturing principal of and interest on the Series 2007 Bonds Outstanding are described below under “PART 13 — BONDHOLDERS’ RISKS — Adequacy of the Debt Service Reserve Fund,” “PART 2 — PLAN OF FINANCING — Payment of FHA Mortgage Insurance Benefits” and “Appendix C — Summary of Certain Provisions of the Bond Resolution.” For a discussion of how the FHA Mortgage Insurance Benefits may be paid in an amount that is less than the Outstanding principal amount of the Series 2007 Bonds, and the consequences thereof, see “PART 6 — FHA MORTGAGE INSURANCE” and “PART 13 — BONDHOLDERS’ RISKS — Reduction or Loss of Mortgage Insurance.”

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

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

*The Authority shall not be obligated to pay the principal of, or interest on, the Series 2007 Bonds except from the Trust Revenues and funds pledged therefor under the Resolution. Neither the faith and credit nor the taxing power of the State of New York (the “State”) or any municipality or political subdivision thereof is pledged to*



*the payment of the principal of, redemption premium, if any, or interest on the Series 2007 Bonds. The Authority has no taxing power.*

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

### **The Authority**

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, governmental and not-for-profit institutions. See “PART 14 — THE AUTHORITY.”

### **The Hospital**

The Hospital, created in 1997 following the full asset merger of New York Hospital and Presbyterian Hospital, is a 2,242 certified bed academic medical center, providing a full range of inpatient and outpatient services to residents of the New York Metropolitan area. The Hospital serves as the academic and tertiary hub of the New York-Presbyterian Healthcare System, which consists of a network of healthcare providers located primarily in New York, New Jersey and Connecticut. See “PART 11 — THE HOSPITAL.”

## **PART 2 – PLAN OF FINANCING**

### **Application of Bond Proceeds and Other Moneys**

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

Moneys in the Mortgage Account will be invested pending their disbursement pursuant to the terms of an Investment Repurchase Agreement among the Authority, the Trustee and Bayerische Landesbank, with an expiration date on June 1, 2010. The equity requirement of \$210,622,148 will be satisfied on the date of issuance of the Series 2007 Bonds by prepaid expenses of the Hospital approved by FHA and the balance by a deposit by the Hospital to the Equity Account of cash or a letter of credit issued by JPMorgan Chase Bank, National Association anticipated to be in the approximate amount of \$183,112,048. The Reserve Account Requirement for the Series 2007 Bonds deposited in the Reserve Account of the Debt Service Reserve Fund will be invested pursuant to the terms of an Investment Repurchase Agreement among the Authority, the Trustee and AIG Matched Funding Corp. with an expiration date on August 15, 2036. The Bond Resolution provides that net interest income on the Reserve Account will be deposited to the credit of the Investment Income Account of the Construction Fund until commencement of amortization of the Note and thereafter to the credit of the Debt Service Account of the Debt Service Fund.

### **Construction Fund Disbursements**

Concurrently with or prior to the delivery of the Series 2007 Bonds, FHA will initially endorse the Note for FHA Mortgage Insurance (the “Initial Endorsement”). Each month during the construction period, the Hospital will submit to the Mortgage Servicer, on behalf of the Authority, as FHA mortgagee, an “Application for Insurance of

Advance of Mortgage Proceeds” for payment of the Costs of the Project including the interest on the amount of the Note outstanding during the preceding month. This application, together with certain other documentation, will be submitted by the Mortgage Servicer to FHA for approval, which approval is necessary in order for the advance to be entitled to the benefit of the FHA Mortgage Insurance. Upon receipt of FHA’s approval of the advance, the Mortgage Servicer will deliver to the Authority the FHA approved advance and other documents or notifications required under the Servicing Agreement, and the Authority will cause payments to be made to the Hospital from the Construction Fund for the costs approved for such advance; provided, however, that the portion of such costs representing interest on the Note, less the Servicing Fee, shall be credited to the Investment Income Account.

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

- (a) from the Mortgage Account and the Equity Account to the Hospital pursuant to the Building Loan Agreement, the Loan Agreement and the Servicing Agreement, for payment of Costs of the Project, and certain costs incurred in connection with the issuance of the Series 2007 Bonds;
- (b) from the Costs of Issuance Account for payment of certain costs incurred in connection with the issuance of the Series 2007 Bonds; and
- (c) from the Investment Income Account to the Debt Service Account on the last business day preceding each February 15 and August 15, commencing on the last business day prior to February 15, 2008, until the Note has commenced amortization, such amount as may be required, together with the amount then on deposit in the Debt Service Account and available to pay interest, to provide funds for the interest becoming due on the Series 2007 Bonds.

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

### **Procedures Upon Completion of Project**

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

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

### **Payment of Note and Series 2007 Bonds**

Pursuant to the Commitment, FHA agreed to insure the Note in the aggregate amount of \$278,500,000. The Note will bear interest at a rate of 6.50% from Initial Endorsement up to and including May 31, 2010. Commencing on July 1, 2010, the Note will require equal monthly payments of principal and interest for a period of 300 months at an anticipated interest rate of 4.90%, which interest rate will become effective on June 1, 2010. However, if it is determined at Final Endorsement that the rate on the Note can be further reduced, the Authority

may consent to such a reduction; provided, however, that such a reduction only will be made to the extent that the timely payment of principal and interest on the Series 2007 Bonds will not be adversely affected.

The Hospital will make payments on the Note, which payments will be collected by the Mortgage Servicer on behalf of the Authority, and such payments will then be paid by the Mortgage Servicer, after deduction of the Servicing Fee and Mortgagee Advances, if any, to the Trustee for deposit into the Debt Service Account. The Bond Resolution provides that on the last business day prior to each Interest Payment Date the Trustee shall set aside monies in the Debt Service Account representing the following: (i) interest due on the Series 2007 Bonds on such Interest Payment Date; (ii) principal of the Series 2007 Bonds maturing on such Interest Payment Date; (iii) an amount equal to the fees due the Trustee and the Authority which shall be transferred to the Surplus Account; and (iv) an amount, if needed, to be transferred to the Surplus Account to the extent the balance in such account is less than its requirement (\$40,000). Any balance in the Debt Service Account after provision is made for items (i) through (iv) above shall be applied on each Interest Payment Date to the Sinking Fund Redemption of the Series 2007 Term Bonds. See “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds — *Sinking Fund Redemption*.” All net investment earnings in the Debt Service Account to the extent not needed to meet the required and anticipated payments on the Series 2007 Bonds shall be used to fund the Surplus Account to its requirement. Funds in the Surplus Account will be used, together with other sources, to pay the Trustee’s annual fee and all fees and expenses of the Authority; any excess in the Surplus Account over its requirement will be transferred to the Debt Service Account and may be used as a credit on subsequent payments due on the Note by the Hospital; provided, however, that said excess will not be deemed a prepayment of the Note.

#### **Payment of FHA Mortgage Insurance Benefits**

An event of default in connection with either the Note or the Mortgage constitutes an event of default under both such instruments. If a payment default occurs under the Note and is continuing for thirty days, subject to the FHA requirements described in “PART 6 — FHA MORTGAGE INSURANCE — Default and Payment of Mortgage Insurance Benefits,” the Note and the Mortgage shall be assigned to FHA in order for the Authority to receive the FHA Mortgage Insurance Benefits. Upon such event and until final payment by FHA of all FHA Mortgage Insurance Benefits, unless and until such default is waived in accordance with the Bond Resolution and the FHA Documents, the Trustee shall transfer from the Debt Service Reserve Fund to the Debt Service Account on the second business day preceding each Interest Payment Date an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest and principal then due on the Series 2007 Bonds Outstanding. For a description of possible limitations on transfers from the Debt Service Reserve Fund, see “PART 13 – BONDHOLDERS’ RISKS – Enforceability of Remedies Generally and Bankruptcy.” At the option of FHA, a default on any of the FHA 242 Loans may constitute a default under the Note and Mortgage and FHA could require acceleration of and the assignment to it of the Note and the Mortgage.

Notwithstanding the foregoing, no assurance can be given that moneys in the Debt Service Reserve Fund will be sufficient to make all payments of debt service on the Series 2007 Bonds from the time a payment default occurs until final payment of FHA Mortgage Insurance Benefits is made. See “PART 13 — BONDHOLDERS’ RISKS” and “PART 6 — FHA MORTGAGE INSURANCE.” The procedure to be followed by the Authority in filing claims for FHA Mortgage Insurance Benefits and the application of FHA Mortgage Insurance Benefits are described in “Appendix C — Summary of Certain Provisions of the Bond Resolution.”

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

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

FHA Mortgage Insurance Benefits may be paid in cash or debentures or any combination thereof at the discretion of FHA. However, in the Commitment, FHA has stated that the Mortgage Insurance Benefits will be paid in cash rather than in FHA debentures, and the Authority has covenanted to request Mortgage Insurance Benefits to be paid in cash. See “PART 6 — FHA MORTGAGE INSURANCE” for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

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

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

In the event of a default under the Note or Mortgage resulting in an assignment of the Note and Mortgage to FHA, it is anticipated that the Mortgage Insurance Benefits, together with the Trust Revenues held pursuant to the Bond Resolution, will be sufficient to pay the principal of and interest on the Series 2007 Bonds. The Mortgage Insurance, however, does not constitute a guarantee or assurance of the timely payment of the principal or Redemption Price of, and interest on, the Series 2007 Bonds. Furthermore, FHA Mortgage Insurance Benefits, together with other Trust Revenues held on deposit under the Resolution, may not be sufficient to pay the principal or Redemption Price of, and interest on, the Series 2007 Bonds, depending upon the timing of receipt of Mortgage Insurance Benefits and the amount, if any, of the offsets made by FHA in calculating the payment of a claim for FHA Mortgage Insurance Benefits. See “PART 6 — FHA MORTGAGE INSURANCE.”

#### **Prepayment of Note from Hazard Insurance Proceeds or Condemnation Awards**

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

### **PART 3 – THE SERIES 2007 BONDS**

#### **Description of the Series 2007 Bonds**

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

The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company (“DTC”), pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2007 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2007 Bonds, the Series 2007 Bonds will be exchangeable for other fully registered Series 2007 Bonds in any other authorized denominations of the same maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See “Book-Entry Only System” herein and “Appendix C — Summary of Certain Provisions of the Bond Resolution.”

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

#### **Security for the Series 2007 Bonds**

The principal amount or Redemption Price of and interest on the Series 2007 Bonds are payable: (1) from payments to be made by the Hospital under the Note (other than the Servicing Fee and Mortgage Advances or late payment charges), and certain amounts payable under the Loan Agreement; (2) from FHA Mortgage Insurance Benefits, in the event of a default by the Hospital under either the Note or the Mortgage and assignment thereof to FHA; and (3) from certain funds and accounts held by the Trustee pursuant to the Resolution and certain investment income thereon. The obligations of the Hospital under the Note are secured by the Mortgage and Security Agreement. For further description of the FHA Mortgage Insurance Benefits, see “PART 6 — FHA MORTGAGE INSURANCE.”

The Bond Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be issued for the benefit of the Hospital and authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds. The Holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series, including the Series 2007 Bonds. In the event of (i) an optional prepayment by the Hospital under the Note, (ii) the receipt of insurance or condemnation proceeds applied to the prepayment of the Note, (iii) a Special Mandatory Redemption of the Series 2007 Bonds following completion of the Project and Final Endorsement of the Note by FHA, (iv) the receipt of proceeds of a refunding mandated by FHA to prevent a default on the Note, or (v) a default under the Note or Mortgage and the receipt of FHA Mortgage Insurance Benefits, the Authority shall cause there to be prepared by a Financial Consultant a Cash Flow Statement, if the Authority determines that such a Cash Flow Statement is appropriate, and apply the above stated funds to the redemption of the Series 2007 Bonds in such a manner as to provide for the timely payment of the principal of and interest on all the Series 2007 Bonds after giving effect to such redemption. The Authority shall direct such funds to be applied to the redemption of the Series 2007 Bonds, all in accordance with the provisions of the Bond Resolution.

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

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

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

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

*Sinking Fund Redemption.* The Series 2007 Bonds maturing February 15, 2023, August 15, 2026, August 15, 2027, February 15, 2031 and August 15, 2036 are subject to Sinking Fund Redemption (within a maturity by lot) on each February 15 and August 15 after commencement of amortization of the Note from funds remaining in the Debt Service Account and available for such purpose under the Resolution after providing for the payment of maturing principal and interest then due on the Series 2007 Bonds, Trustee and Authority fees and replenishment of the Surplus Account to the Surplus Account Requirement. Sinking Fund Installments are expected to be made in accordance with the schedule set forth in “PART 4 — ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS” unless a Cash Flow Statement requires otherwise. If, on any Interest Payment Date, Sinking Fund Installments are to be made on more than one maturity of the Series 2007 Bonds, the Sinking Fund Installment to be made on the earlier maturing Series 2007 Bonds shall be made in full before any amounts are applied to the Sinking Fund Installment on the later maturing Series 2007 Bonds. Since the amount of funds available to be applied to make Sinking Fund Installments may vary, the Bond Resolution does not require that Sinking Fund Installments be made in any specific amount, but only to the extent that funds are available in the Redemption Account therefor.

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

*Optional Redemption.* The Series 2007 Bonds maturing after August 15, 2014 are subject to redemption prior to maturity by the Authority, but only upon the request of the Hospital, on or after August 15, 2014, in whole or in part at any time.

*Special Mandatory Redemption.* The Series 2007 Bonds are subject to Special Mandatory Redemption prior to maturity, in part, on the earliest practicable redemption date or dates following completion of the Project and Final Endorsement of the Note by FHA from the deposit into the Redemption Account (1) of moneys remaining in the Mortgage Account and the Investment Income Account and (2) of funds required to be deposited in the Redemption Account by the Hospital pursuant to the Loan Agreement. See “PART 4 — ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS” and “*Selection of Series 2007 Bonds to be Redeemed Upon Partial Optional Redemption, Special Mandatory Redemption or Extraordinary Mandatory Redemption*” herein.

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

- (1) the deposit into the Redemption Account of proceeds of casualty insurance on, or condemnation of, the Mortgaged Property as are not applied to the repair, rebuilding or restoration of the Mortgaged Property;
- (2) the deposit into the Redemption Account, upon the conditions specified in the Bond Resolution, of FHA Mortgage Insurance Benefits and certain amounts held in the funds and accounts established under the Bond Resolution; and

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

*Purchase in Lieu of Optional Redemption.* With the consent of the Bond Insurer, in lieu of calling Series 2007 Bonds for optional redemption, the Series 2007 Bonds are subject to mandatory or voluntary tender for purchase at the direction of the Authority upon request of the Hospital in whole or in part (and, if in part, in such manner as determined by the Hospital) on any date on or after August 15, 2014 at a purchase price equal to the principal amount thereof, plus accrued interest to the purchase date. Purchases of tendered Series 2007 Bonds (whether such tender is on a mandatory or voluntary basis) may be made without regard to any provision of the Resolution relating to the selection of Series 2007 Bonds in a partial optional redemption. Series 2007 Bonds purchased pursuant to any mandatory or voluntary tender(s) are not required to be cancelled, and if not so cancelled, shall, prior to any reoffering to the public, not be deemed Outstanding in connection with any subsequent partial optional redemption solely for purposes of those provisions of the Resolution relating to the selection of Series 2007 Bonds in a partial redemption.

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

Upon completion of the Project and Final Endorsement of the Note by FHA, it is expected that excess monies in the Investment Income Account will be applied to the Special Mandatory Redemption of the Series 2007 Term Bond maturing February 15, 2023, based upon a supporting Cash Flow Statement as provided in the preceding paragraph. See “PART 4 — ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS.”

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

such notice or any defect therein shall not affect the validity of a redemption of the Series 2007 Bonds with respect to which such notice has been given in accordance with the Bond Resolution.

Any notice of redemption may also state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on the Series 2007 Bonds to be redeemed or that the Authority retains the right to rescind such notice of redemption on or prior to the scheduled redemption date and that if such moneys are not so received or if the notice of redemption is rescinded such notice shall be of no force or effect and the Series 2007 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal, premium, if any, and interest on the Series 2007 Bonds are not received by the Trustee on or prior to the redemption date or the Authority rescinds such notice, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received, that the redemption did not occur and that the Series 2007 Bonds called for redemption and not so paid remain Outstanding. Any Series 2007 Bonds subject to a conditional redemption where redemption has not occurred shall remain Outstanding, and such failure to redeem shall not constitute an Event of Default.

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

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

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

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

### **Additional Indebtedness**

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

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC's



partnership nominee). One fully registered Series 2007 Bond certificate will be issued for each maturity of the Series 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, each a subsidiary of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). DTC has Standard & Poor's Ratings Services' ("Standard & Poor's") highest rating: AAA. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

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

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

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

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

Redemption proceeds and principal and interest payments on the Series 2007 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee or the Authority, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, 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 – ESTIMATED DEBT SERVICE SCHEDULE FOR THE SERIES 2007 BONDS**

The following table sets forth the estimated debt service schedule for the Series 2007 Bonds, including estimated schedules of Sinking Fund Redemption for the Series 2007 Bonds due February 15, 2023, August 15, 2026, August 15, 2027, February 15, 2031 and August 15, 2036. The Series 2007 Bonds and the estimate of Sinking Fund Redemption are based on the following assumptions: (i) that the first payment of principal on the Note will be made on July 1, 2010; (ii) that no event of default will occur under either the Note or the Mortgage requiring the Authority to assign the Note and the Mortgage to FHA; (iii) that net interest income on the Mortgage Account of the Series 2007 Bonds will be received at the rate of 4.51% per annum until June 1, 2010; (iv) that net interest income on the Reserve Account for the Series 2007 Bonds will be received at the rate of 5.15% per annum until August 15, 2036; (v) that the interest rate on the Note will be 6.50% per annum until May 31, 2010 and thereafter at 4.77% per annum; (vi) that the maturity of and final scheduled payment on the Note is February 1, 2035 and (vii) that the Note will be fully disbursed and finally endorsed for its initially approved amount and that the Note will not have any partial prepayments. The notes which follow the table set forth below describe circumstances under which the actual Sinking Fund Redemption of the Series 2007 Bonds due February 15, 2023, August 15, 2026, August 15, 2027, February 15, 2031 and August 15, 2036 will vary from that which is set forth below.

**Estimated Debt Service Schedule for Series 2007 Bonds**

<b>Date*</b>	<b>Principal Payments of Serial Bonds</b>	<b>Estimated Sinking Fund Redemption on Term Bonds Maturing</b>					<b>Interest Due</b>	<b>Total Debt Service</b>
		<b>02/15/23<sup>(1)</sup></b>	<b>08/15/26</b>	<b>08/15/27</b>	<b>02/15/31</b>	<b>08/15/36</b>		
February 15, 2008	\$	\$	\$	\$	\$	\$	\$5,878,062	\$ 5,878,062
August 15, 2008	—	—	—	—	—	—	7,296,905	7,296,905
February 15, 2009	—	—	—	—	—	—	7,296,905	7,296,905
August 15, 2009	—	—	—	—	—	—	7,296,905	7,296,905
February 15, 2010	—	—	—	—	—	—	7,296,905	7,296,905
August 15, 2010	—	6,600,000	—	—	—	—	7,296,905	13,896,905
February 15, 2011	2,925,000	—	—	—	—	—	7,140,155	10,065,155
August 15, 2011	2,985,000	—	—	—	—	—	7,081,655	10,066,655
February 15, 2012	3,045,000	—	—	—	—	—	7,021,955	10,066,955
August 15, 2012	3,105,000	—	—	—	—	—	6,961,055	10,066,055
February 15, 2013	3,170,000	—	—	—	—	—	6,898,955	10,068,955
August 15, 2013	3,250,000	—	—	—	—	—	6,819,705	10,069,705
February 15, 2014	3,335,000	—	—	—	—	—	6,738,455	10,073,455
August 15, 2014	3,415,000	—	—	—	—	—	6,655,080	10,070,080
February 15, 2015	3,505,000	—	—	—	—	—	6,569,705	10,074,705
August 15, 2015	3,580,000	—	—	—	—	—	6,496,100	10,076,100
February 15, 2016	3,655,000	—	—	—	—	—	6,420,920	10,075,920
August 15, 2016	3,735,000	—	—	—	—	—	6,343,251	10,078,251
February 15, 2017	3,815,000	—	—	—	—	—	6,263,883	10,078,883
August 15, 2017	3,900,000	—	—	—	—	—	6,179,953	10,079,953
February 15, 2018	3,985,000	—	—	—	—	—	6,094,153	10,079,153
August 15, 2018	4,075,000	—	—	—	—	—	6,004,490	10,079,490
February 15, 2019	4,170,000	—	—	—	—	—	5,912,803	10,082,803
August 15, 2019	4,265,000	—	—	—	—	—	5,817,935	10,082,935
February 15, 2020	4,365,000	—	—	—	—	—	5,720,906	10,085,906
August 15, 2020	4,465,000	—	—	—	—	—	5,619,966	10,084,966
February 15, 2021	4,570,000	—	—	—	—	—	5,516,713	10,086,713
August 15, 2021	4,680,000	—	—	—	—	—	5,411,031	10,091,031
February 15, 2022	—	4,910,000	—	—	—	—	5,302,806	10,212,806
August 15, 2022	—	3,190,000	—	—	1,720,000	—	5,186,194	10,096,194
February 15, 2023	—	—	—	—	5,030,000	—	5,065,281	10,095,281
August 15, 2023	5,135,000	—	—	—	30,000	—	4,933,244	10,098,244
February 15, 2024	5,275,000	—	—	—	25,000	—	4,797,663	10,097,663
August 15, 2024	5,415,000	—	—	—	25,000	—	4,658,538	10,098,538
February 15, 2025	5,555,000	—	—	—	30,000	—	4,515,738	10,100,738
August 15, 2025	5,705,000	—	—	—	30,000	—	4,369,131	10,104,131
February 15, 2026	—	—	5,855,000	—	30,000	—	4,218,588	10,103,588
August 15, 2026	—	—	6,010,000	—	35,000	—	4,064,106	10,109,106
February 15, 2027	—	—	—	6,170,000	30,000	—	3,905,425	10,105,425
August 15, 2027	—	—	—	6,335,000	30,000	—	3,742,675	10,107,675
February 15, 2028	—	—	—	—	6,535,000	—	3,575,594	10,110,594
August 15, 2028	—	—	—	—	6,710,000	—	3,404,050	10,114,050
February 15, 2029	—	—	—	—	6,885,000	—	3,227,913	10,112,913
August 15, 2029	—	—	—	—	7,070,000	—	3,047,181	10,117,181
February 15, 2030	—	—	—	—	7,255,000	—	2,861,594	10,116,594
August 15, 2030	—	—	—	—	7,450,000	—	2,671,150	10,121,150
February 15, 2031	—	—	—	—	370,000	7,275,000	2,475,588	10,120,588
August 15, 2031	—	—	—	—	—	7,840,000	2,284,000	10,124,000
February 15, 2032	—	—	—	—	—	8,035,000	2,088,000	10,123,000
August 15, 2032	—	—	—	—	—	8,240,000	1,887,125	10,127,125
February 15, 2033	—	—	—	—	—	8,450,000	1,681,125	10,131,125
August 15, 2033	—	—	—	—	—	8,660,000	1,469,875	10,129,875
February 15, 2034	—	—	—	—	—	8,885,000	1,253,375	10,138,375
August 15, 2034	—	—	—	—	—	9,100,000	1,031,250	10,131,250
February 15, 2035	—	—	—	—	—	32,150,000	803,750	32,953,750
August 15, 2035	—	—	—	—	—	—	—	—
February 15, 2036	—	—	—	—	—	—	—	—
August 15, 2036	—	—	—	—	—	—	—	—

(1) Reflects Special Mandatory Redemption of \$6,600,000 expected to be applied to Term Bond maturing February 15, 2023 on August 15, 2010.

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

1. The final interest rate on the Note (*i.e.*, the rate following the initial 6.50% rate) is based upon an assumed schedule of construction draws provided by the Hospital. If actual draws or moneys credited to the Investment Income Account vary from what has been assumed, the Special Mandatory Redemption of the Series 2007 Bonds set forth in the estimated schedule above will vary from what has been assumed and the final interest rate on the Note will differ from the rate assumed in the estimated schedule set forth above. In such event or if the principal amount of the Note approved by FHA at Final Endorsement is less than the principal amount of the Note approved at Initial Endorsement because the Costs of the Project as finally approved by FHA are less than originally approved, the remaining payments on the Note will be recast. Each succeeding payment due on the Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2007 Bonds as described in “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds — *Special Mandatory Redemption*” above.

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

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

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

## **PART 5 – BOND INSURANCE**

### **The Bond Insurance Policy**

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

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

## **Financial Security Assurance Inc.**

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

At June 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,642,612,000 and its total net unearned premium reserve was approximately \$2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, Financial Security's consolidated shareholder's equity was approximately \$2,686,026,000 and its total net unearned premium reserve was approximately \$1,655,217,000 in accordance with generally accepted accounting principles.

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

The Policy does not protect investors against changes in market value of the Series 2007 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption “PART 5 – BOND INSURANCE” for inclusion in the Official Statement.

## **PART 6 – FHA MORTGAGE INSURANCE**

### **General**

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

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

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

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

### **FHA Insurance Processing**

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

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

A mortgage insurance premium in an annual amount equal to one-half of one percent (1/2 of 1%) of the outstanding principal balance of the Note is charged by FHA. The mortgage insurance premium is capitalized in the FHA loan proceeds for a period of approximately four years and is paid from loan proceeds at Initial Endorsement of the Note for the following one year period and annually thereafter until such capitalized mortgage insurance premium is fully disbursed or Final Endorsement, whichever is earlier, after which it is collected from the Hospital on a monthly basis by the Mortgage Servicer on behalf of the Authority, as FHA mortgagee, through the maturity of the Note.

### **Construction**

Construction of the Project is required to proceed in accordance with the Building Loan Agreement. (See below, "PART 7 – CERTAIN PROVISIONS OF THE FHA DOCUMENTS – The Building Loan Agreement.") During construction, an architect hired by the Hospital and an FHA inspector will make periodic inspections to ensure on-site conformity with FHA approved plans and specifications. Under the Building Loan Agreement, funds are disbursed based on actual costs incurred and approved by FHA. Prior to any disbursement, certain conditions, including the completion of certain inspections of the construction, updated title evidence satisfactory to the FHA mortgagee and FHA, and FHA approval of the advance, must be satisfied. Disbursements for advances continue for only so long as the Hospital is not in default under the Note and Mortgage and otherwise complies with the requirements for disbursement.

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

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

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

other obligations of the Hospital. FHA may consent to an increase in the Mortgage amount and its insurance thereof prior to Final Endorsement under certain circumstances.

### **Default and Payment of Mortgage Insurance Benefits**

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

FHA regulations define a default under an FHA-insured mortgage as (1) failure of the mortgagor to make any payment due under a note or a mortgage, or (2) failure to perform any other note or mortgage covenant (which includes covenants in the regulatory agreement entered into in connection with such FHA-insured mortgage) if the mortgagee, because of such failure, has accelerated the debt. In the event that there is a default under the regulatory agreement and FHA so requests, the Authority, as mortgagee, at its option, may declare the whole indebtedness due and payable. Furthermore, the regulations provide that upon notice of a violation of a note or mortgage covenant, FHA has the right to require the mortgagee to accelerate payment of the outstanding principal due in order to protect its interest. The Note will be structured such that a default on the Note or the Mortgage will constitute an event of default under both the Note and the Mortgage. A default by the Hospital on certain other FHA-insured indebtedness may result in a default under the Note and Mortgage. See “PART 1 — INTRODUCTORY STATEMENT — Description of the Program.”

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

Notwithstanding the above timetable established by FHA, the Bond Resolution requires that if the Hospital fails to make any payment required under the Note or the Mortgage and such failure continues for a period of thirty days, or, if, following a default by the Hospital in the performance of any covenant in the Regulatory Agreement or the Mortgage, FHA shall have requested, and the Authority shall have declared, an acceleration of the unpaid principal balance of the Note, the Authority shall immediately (not later than one Business Day after the end of such thirty-day grace period or acceleration, as the case may be) give, or cause the Mortgage Servicer to give, written notice to FHA, the Trustee and the Rating Service including, among other things, a statement of (1) the occurrence of such default, (2) the acts or omissions giving rise to the default, (3) the time period, if any, available to cure such default, (4) a schedule of remaining Interest Payment Dates and a schedule of debt service payments due on the Series 2007 Bonds, (5) a schedule of the funds available to make payments as they become due, (6) the fact that the

Mortgage was given to secure an issue of tax-exempt bonds, (7) the Authority's election to assign the Note and the Mortgage to FHA, and (8) the Authority's intention to file a claim for the FHA Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Cash Lock Agreement. In filing such notice (the "Notice of Assignment"), the Authority or the Mortgage Servicer shall request priority processing of the mortgage insurance claim and shall attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer shall request (a) forms and instructions relating to the assignment of the Note and Mortgage and (b) the endorsement of the title insurance policy for the Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority shall submit the legal documentation for review to the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of Series 2007 Bonds Outstanding, the Authority shall take all actions necessary to assign the Note and the Mortgage to FHA and to recover such claim on the mortgage insurance. Thereafter, the Authority shall continue with diligence to complete the assignment of the Note and Mortgage no later than the last Business Day preceding the thirtieth day following the giving of notice to FHA. In the event that such assignment of the Note and Mortgage will be completed later than the last Business Day preceding the thirtieth day following the giving of notice to FHA, notice thereof shall be given by the Authority to the Rating Service.

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

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

To the extent a refinancing is arranged and approved by FHA, the Bond Resolution provides that the Note shall be prepaid, in whole or in part, and the proceeds shall be applied to the Extraordinary Mandatory Redemption



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

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

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

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

(a) declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Hospital, and shall within one Business Day give, or cause the Mortgage Servicer to give, to FHA, the Trustee and the Rating Service written notice of such default and of the Authority's intention and election to file a claim for Mortgage Insurance Benefits. In filing such notice the Authority or Mortgage Servicer shall request priority processing of the mortgage insurance claim and shall attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer shall request (a) forms and instructions relating to the assignment of the Note and Mortgage and (b) an endorsement of the title insurance policy for the Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority shall submit the legal documentation for review by the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of the Series 2007 Bonds Outstanding or unless such default has been cured in accordance with the Bond Resolution, the Authority shall take all action necessary to assign the Note and the Mortgage to FHA and to recover such claim on the Mortgage Insurance; or

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

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

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

The proceeds of the Mortgage Insurance will not include interest accruing on the Note for the month preceding the date of default on the Note or Mortgage. Interest is payable on FHA Mortgage Insurance Benefits at the applicable debenture rate, which is the higher of the rate in effect on the date of the Commitment or on the date of Initial Endorsement. The applicable debenture rate for the Note will be not less than 5%. Because FHA has agreed to pay the FHA Mortgage Insurance Benefits in cash rather than debentures, the FHA Mortgage Insurance Benefits will include an amount equivalent to the debenture interest, i.e. not less than 5%, that would have been earned on the portion of insurance benefits so paid in cash from the date of default on the Note or Mortgage until the date payment of the FHA Mortgage Insurance Benefits is made. However, if the Authority, as mortgagee, fails to give FHA notice of default or fails to take any action required of a mortgagee in connection with a mortgage insurance claim by the time stipulated in the regulations, and in a manner satisfactory to FHA, FHA may pay the Authority interest at the debenture rate on the amount of the FHA Mortgage Insurance Benefits only from the date notice of default was given, in the case of failure to give timely notice, or to the date on which the particular required action should have been taken or to which it was extended.

Prior to actual assignment of the Note and Mortgage to FHA and receipt of FHA Mortgage Insurance Benefits, the Authority, as mortgagee, must also satisfy certain legal requirements including submission of a title insurance policy showing that no liens or encumbrances (except those approved by FHA) are superior to the liens of the Mortgage. As part of the assignment process, the Authority, as mortgagee, is also required to submit certain additional documentation to FHA within 45 days from the date the Note and the Mortgage are assigned to FHA. The documentation required to be supplied to FHA includes, but is not limited to, the Note, the Mortgage, the Security Agreement, financing statements, assurances of completion, title insurance policy and hazard insurance policy, together with assignments of such documents to FHA. Upon receipt of the notification of default and an assignment to FHA in exchange for FHA Mortgage Insurance Benefits, FHA reviews the documentation to determine compliance with its fiscal and legal requirements.

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

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

as FHA Mortgagee, FHA will not require a reduction by the amount held in certain other funds and accounts held by the Authority for the benefit of the Series 2007 Bonds.

The timing of payment of Mortgage Insurance Benefits by FHA is subject to change depending upon overall FHA policy considerations and work load. Mortgage insurance payments may be delayed if disputes arise as to the amount of the payment, or for other reasons described under “PART 13 — BONDHOLDERS’ RISKS” herein. Accordingly, no assurance can be given as to when Mortgage Insurance Benefits will be available for redemption of the Series 2007 Bonds. Although the Debt Service Reserve Fund would be available to pay debt service on the Series 2007 Bonds during the period prior to payment by FHA in full of any mortgage insurance claim, there is no assurance that the mortgage insurance claim would be paid in full prior to exhaustion of the funds in such Debt Service Reserve Fund.

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

In order to receive mortgage insurance benefits, FHA requires, in the assignment process, that the mortgagee warrant that (1) no act or omission of the mortgagee has impaired the validity and priority of the mortgage; (2) the mortgage is prior to all mechanics’ and materialmen’s liens filed of record subsequent to the recording of the mortgage, regardless of whether such liens attached prior to the recording date; (3) the mortgage is prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of the mortgage except such liens or other matters as may be approved by FHA; (4) the amount stated in the instrument of assignment is actually due under the mortgage and there are no offsets or counterclaims against such amount; and (5) the mortgagee has a good right to assign the mortgage. In assigning its security interest in chattels, including materials, located on the premises covered by the mortgage, or its security interest in building components stored either on-site or off-site at the time of assignment, the mortgagee is required to warrant that (a) no act or omission of the mortgagee has impaired the validity or priority of the lien created by the chattel security instruments; (b) the mortgagee has a good right to assign the security instruments; and (c) the chattel security instruments are a first lien on the items covered by the instrument except for such other liens or encumbrances as may be approved by FHA.

### **Casualty Insurance Requirements**

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

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

In the event that casualty insurance proceeds are received, a determination will be made by the Authority, in consultation with the Hospital, whether to apply the casualty insurance proceeds to rebuilding the Mortgaged Property or the prepayment of all or part of the Note. If a portion of such proceeds are applied to prepayment of the

Note, they shall be deposited in the Redemption Account for application to the Extraordinary Mandatory Redemption of all or a portion of the Series 2007 Bonds. See “PART 3 — THE SERIES 2007 BONDS — Redemption and Purchase in Lieu of Redemption of the Series 2007 Bonds” herein.

## **PART 7 – CERTAIN PROVISIONS OF THE FHA DOCUMENTS**

### **The Note**

Pursuant to the Commitment, FHA agreed to insure the Note in the aggregate amount of \$278,500,000. The Note will bear interest at a rate of 6.50% from Initial Endorsement up to and including May 31, 2010. Commencing on July 1, 2010, the Note will require equal monthly payments of principal and interest for a period of 300 months at an interest rate of 4.90%. However, if it is determined at Final Endorsement that the rate on the Note can be further reduced, the Authority may consent to such a reduction; provided, however, that such a reduction only will be made to the extent that the timely payment of principal and interest on the Series 2007 Bonds will not be adversely affected.

Payments on the Note are made by the Hospital to the Mortgage Servicer, on behalf of the Authority, as mortgagee, on the first day of each month. These payments less the Servicing Fees and Mortgagee Advances (if any) will be pledged to the Series 2007 Bonds. In the event the Hospital fails to make any payment on the Note when due, and such failure continues for a period of 30 days, the entire amount of the Note may be declared due and payable by the mortgagee.

A default with respect to any of the Hospital’s outstanding Section 242 FHA Mortgages or related note obligations may at the option of FHA constitute a default on the Note and result in an assignment of the Note to FHA for payment of Mortgage Insurance Benefits.

### **Prepayment Provisions**

The Note provides that it cannot be prepaid (other than with the proceeds of FHA Mortgage Insurance Benefits, insurance or condemnation awards, the proceeds of a refinancing required by FHA in order to avoid a claim for FHA Mortgage Insurance Benefits or in connection with Final Endorsement after completion of the Project) in whole or in part prior to August 15, 2014. On or after August 15, 2014, the Note may be prepaid in whole or in part at any time in immediately available funds upon at least 123 days’ prior written notice of such prepayment to the Authority or such shorter period as the Authority may approve.

All such prepayments shall be made at a price equal to the amount of such prepayment plus interest accrued to the date on which such prepayments are made. Additional costs may be required to be paid by the Hospital which are related to the costs of the Authority to redeem Series 2007 Bonds. Upon prepayment in part, payment of the remaining principal amount of the Note will be recast over the remaining term to its maturity so as to be payable in approximately equal monthly amounts which, when applied first to interest on the outstanding balance and the remainder to principal, will be sufficient to repay the amounts due on the Note by such maturity subject to FHA approval. See “PART 6 — FHA MORTGAGE INSURANCE.”

### **The Mortgage**

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

In the event the Hospital fails to pay any of the sums required to be paid under the Note or Mortgage, the Authority, at its option, may pay such amounts. The Mortgage provides that all sums paid by the Authority may be

added to the principal amount of the Note, bear interest at the rate set forth in such Note and will be due and payable on demand. A default with respect to any of the Hospital's outstanding Section 242 FHA Mortgages or related note obligations may at the option of FHA constitute a default on the Note and Mortgage and result in an assignment of the Note and Mortgage to FHA for payment of Mortgage Insurance Benefits.

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

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

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

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

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

The Authority may accelerate the indebtedness if any payment shall be overdue by 30 days, or, at its option or if directed by FHA, if the Hospital fails to perform any other covenant in the Note and the Mortgage and fails to cure any such default within 30 days subject to certain FHA approvals. See "PART 6 — FHA MORTGAGE INSURANCE."

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

For a description of the Hospital's other FHA-insured mortgages, see "PART 1 — INTRODUCTORY STATEMENT — Description of the Program."

### **The Building Loan Agreement**

The Building Loan Agreement (in the form prescribed by FHA) will be executed by the Hospital in connection with the Project, as borrower and mortgagor, and the Authority, as FHA mortgagee. The Building Loan Agreement provides that: (1) the Project be completed in accordance with the drawings and specifications of the

architect; (2) any changes in the specifications be approved by the architect and any changes in construction cost also be approved by FHA; (3) advances for construction be made only for work completed and material and equipment stored on the site (unless otherwise approved by FHA), subject to a 10% retainage until completion of the Project (unless a lesser retainage is permitted by FHA); (4) all advances be subject to prior approval of the Authority, as FHA mortgagee, and FHA; (5) the Hospital furnish, prior to the first advance, a title insurance policy or policies for the benefit of the Authority, as FHA mortgagee, and FHA which policy or policies will be endorsed to cover each advance; (6) there be deposited with the Authority, as FHA mortgagee, appropriate liability and casualty insurance policies or adequate proof of self-insurance; and (7) to assure completion of the Project, the contractor provide performance and payment bonds or other assurance required by FHA.

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

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

### **The Regulatory Agreement**

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

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

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

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

## **PART 8 – THE PROJECT**

Proceeds of the Series 2007 Bonds, together with funds of the Hospital, will be used to finance or refinance (i) the costs of the construction and equipping of improvements at the Hospital's Uptown and Midtown Campuses, (ii) capitalized interest on the Series 2007 Bonds, (iii) the required deposit to the Reserve Account of the Debt Service Reserve Fund, and (iv) costs of issuance in connection with the issuance of the Series 2007 Bonds.

The improvements at the Uptown Campus consist of the construction and equipping of a new 9-level, approximately 140,000 square-foot Cardiovascular Center to be located on vacant land at 161 and 177 Fort Washington Avenue, including an invasive cardiology suite; two 10-bed intensive care units; outpatient radiology, phlebotomy, and ultrasound suites; an ambulatory surgery suite; a new ambulette drop-off; and financial registration, faculty group practice and conference facilities.

The improvements at the Midtown Campus consist of (i) the construction and equipping of a new 6-story, approximately 65,000 square foot Advanced Therapeutic Services Center to be located at 525 East 68th Street, including expanded operating rooms, angiography suites, an expanded emergency department, a relocated blood bank, and expanded brachytherapy and interventional neuroradiology services; (ii) the construction and equipping of a new, approximately 60,000 square foot floor at the Greenberg Pavilion, located at 525 East 68th Street, to house approximately 48 medical surgical beds; and (iii) the construction and equipping of an approximately 7.2 megawatt combined heat and power (cogeneration) facility to be located within the Hospital’s existing boiler space at 523 East 70th Street.

## PART 9 – ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal amount of the Series 2007 Bonds .....	\$296,075,000
Net Original Issue Premium.....	1,591,000
Equity Contribution from Hospital <sup>(1)</sup> .....	210,622,148
Rate Lock Settlement.....	5,350,813
	\$513,638,961
Total Sources of Funds.....	
Uses of Funds:	
Costs of the Project.....	\$444,456,705
Capitalized Interest .....	22,075,457
FHA Related Fees and Expenses <sup>(2)</sup> .....	11,676,420
Financing Fees and Expenses <sup>(3)</sup> .....	12,615,379
Debt Service Reserve Fund.....	22,815,000
	\$513,638,961
Total Uses of Funds.....	

(1) Consists of prepaid expenses and a letter of credit.

(2) Includes FHA examination and inspection fees, the mortgage banker’s fee, mortgage insurance premium, title and recording fees and certain other fees and expenses during the construction period.

(3) Includes the bond insurance premium, the New York State bond issuance charge, underwriters’ discount, the Authority fee and certain other fees and expenses related to the financing.

## PART 10 – THE MORTGAGE SERVICER

Goldman Sachs Housing and Health Care Funding Company, a New York limited partnership (the “Mortgage Servicer”) will act as mortgage servicer under the terms of the Servicing Agreement. The Goldman Sachs Group, Inc. (“Goldman Sachs Group”) is the sole limited partner of the Mortgage Servicer, and Goldman Sachs Housing and Health Care Capital Corporation (which is wholly-owned by Goldman Sachs Group) is the sole general partner of the Mortgage Servicer. Goldman Sachs Group is also the corporate parent of Goldman, Sachs & Co., the senior managing Underwriter of the Bonds.

As of August 1, 2007, Goldman Sachs Housing and Health Care Funding Company was mortgage servicer for fourteen (14) hospital loans and three (3) nursing home loans insured by FHA with a total original principal amount of approximately \$1.633 billion. As of such date, the seventeen (17) loans were outstanding in the aggregate amount of \$1.077 billion.

## PART 11 – THE HOSPITAL

### Forward-Looking Statements

Certain statements in this Part 11 and elsewhere in this Official Statement that relate to the Hospital are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the Hospital. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Hospital to be materially different from any expected future results or performance. Such factors include but are not limited to, items discussed in PART – 12 “GENERAL FACTORS AFFECTING THE HOSPITAL’S REVENUES AND EXPENSES.”

### Introduction

The New York and Presbyterian Hospital (the “Hospital”) is a New York not-for-profit corporation created as a result of the 1997 merger of The Society of The New York Hospital and The Presbyterian Hospital in the City of New York. The Hospital is a 2,242 certified bed major academic medical center providing a full range of inpatient and outpatient services from primary to quaternary care. Patients include residents of the New York Metropolitan area as well as national and international patients including distinguished heads of state, and leaders in business, the arts and entertainment. The Hospital’s academic affiliations are with two of the country’s leading medical colleges: The Columbia University College of Physicians & Surgeons, and the Joan and Sanford I. Weill Medical College of Cornell University. The Hospital operates four major centers:

- NewYork-Presbyterian Hospital/Weill Cornell Medical Center
- NewYork-Presbyterian Hospital/Columbia University Medical Center, which includes Morgan Stanley Children’s Hospital of NewYork-Presbyterian
- Allen Pavilion
- Westchester Division

The Hospital serves as the academic and tertiary hub of the NewYork-Presbyterian Healthcare System (the “System”), a network of affiliated and sponsored health care providers predominantly in the New York – New Jersey – Connecticut (“Tri-State”) region. See “Governance and Affiliated Organizations” below. Presently, the System is comprised of 25 acute care hospitals, 7 of which have a corporate relationship with the System. In addition, the System includes 4 long-term care facilities, one of which has a corporate relationship with the System, 8 ambulatory sites, and 5 specialty institutions, two of which have a corporate relationship with the System. See “Governance and Affiliated Organizations – Affiliated Organizations”.

The Hospital has a long history of providing medical care in the New York area. The Society of The New York Hospital was created by a Royal Charter granted by King George III on June 13, 1771. New York Hospital has operated its facility at its current location at East 68<sup>th</sup> Street in Manhattan (the “Midtown Campus”) since 1932. Operations at the Westchester Division have been based at the same location since 1894.

The Presbyterian Hospital in the City of New York was organized in 1868 and has provided services at 168<sup>th</sup> Street between Broadway and Riverside Drive (the “Uptown Campus”) since 1928. The Morgan Stanley Children’s Hospital of NewYork-Presbyterian (“MS-CHONY”), a pediatric acute care and ancillary services facility which opened in November, 2003, is located on the Uptown Campus. The Allen Pavilion, located at Broadway and the Harlem River, Manhattan, New York, opened in 1988 and offers acute care to residents of its service area in a community-based setting.

The Hospital offers a broad range of diagnostic and therapeutic services for adults and children on an inpatient and outpatient basis. The Midtown Campus has a total certified bed capacity of 797 beds; the Westchester Division has a certified bed capacity of 276 beds. The Uptown Campus has a total certified bed capacity of 957 beds, including the 251-bed MS-CHONY; and the Allen Pavilion has a certified bed capacity of 212 beds.



As of May 31, 2007, the Hospital staffed 2,205 of its 2,242 certified beds. Its staffed bed complement (excluding bassinets) was allocated among the following services:

	Midtown <u>Campus</u>	Uptown <u>Campus</u>	Allen <u>Pavilion</u>	Westchester <u>Division</u>	<u>Total</u>
Medical - Surgical	603	840	146	--	1,589
Maternity	68	60	20	--	148
Psychiatry	64	24	30	239	357
Burn /Rehabilitation	62	30	--	--	92
Alcohol Rehabilitation	--	--	--	19	19
	<u>797</u>	<u>954</u>	<u>196</u>	<u>258</u>	<u>2,205</u>

## Services and Programs

The Hospital provides services in a broad range of specialties and sub-specialties including: anesthesiology, burn treatment, cardiology, cardiothoracic surgery, colon and rectal surgery, dentistry, dermatology, diabetes and endocrinology, emergency services, endocrinology, gastroenterology, geriatrics, hematology, allergy and immunology, infectious disease, internal medicine, laboratory medicine, neonatology, nephrology, neurology, neurosurgery, obstetrics and gynecology, oncology, ophthalmology and ophthalmologic surgery, orthopedic surgery, otorhinolaryngology, pathology, pediatrics and pediatric surgery, plastic surgery, podiatry, psychiatry and mental health, pulmonology, radiology, radiation oncology, rehabilitation medicine, rheumatology, general surgery, lung volume reduction surgery, thoracic surgery, transplantation, urology and vascular surgery. The Uptown Campus, Midtown Campus and Allen Pavilion also provide 24-hour per day emergency services. Other ambulatory services are provided on all campuses, as well as certain off-campus locations.

In 1999, the Hospital revised its strategic model of health care delivery, adopting a service line approach which concentrates the activities of multiple disciplines on specific disease areas. Through the service line approach, the Hospital's resources are more effectively coordinated and developed to optimize patient focused care. Currently, the Hospital has dedicated service lines in behavioral health, cardiac care, children's health, digestive diseases, geriatrics, neuroscience, oncology, orthopedics, peri-operative, transplant services, vascular medicine, general medicine, emergency services, surgical subspecialties and women's health.

The Hospital continues to be recognized as one of the top hospitals in the United States. In 2007, the Hospital was named for the seventh consecutive year to the Honor Roll in the annual "America's Best Hospitals" issue of U.S. News & World Report, ranking 6<sup>th</sup> in 2006 and 2007. For the seventh consecutive year, the Hospital was the only hospital located in New York City to be named to the Honor Roll.

Approximately 21% of the physicians named in New York Magazine's 2006 "Best Doctors in New York" issue are on the medical staff of the Hospital. In "America's Top Doctors – 2006," a survey conducted by Castle Connolly Medical Ltd., 250,000 leading doctors were surveyed to identify the nation's premier physicians in various specialties. The Hospital had more physicians on the list than any other facility in the nation. In February, 2006, the Hospital was one of seven hospitals nationwide recognized for clinical excellence by virtue of having the lowest rates of death or serious complications, based on a study by HealthGrades, a health care ratings company.

The Hospital remains at the forefront of innovative medical care. In 2004, the Hospital was the first hospital in the Tri-State area and the twelfth in the nation to perform a totally endoscopic mitral valve repair. The Hospital performed the first pediatric robotic urologic surgery in New York City. The Columbia Cornell Heart Institute, which provides expertise in all areas of cardiac care for adults and children, performed the first robot-assisted coronary artery bypass surgery in the United States without a chest incision. It also pioneered the use of the LVAD (left ventricular assist device) as a long term treatment for patients with end-stage heart disease and researched the regeneration of blood vessels to reverse cardiovascular disease.

With more than 790 organ transplants performed in 2006 for heart, lung, kidney, liver and pancreas, the Hospital is at the forefront of progress in surgical transplant techniques and the development and improvement of anti-rejection medications.

### *Midtown Campus*

The Midtown Campus provides a full range of inpatient services including the following: acute renal dialysis, bone marrow transplant, burn center, cardiac catheterization, comprehensive epilepsy center, dental, family planning, MRI, nuclear medicine, physical medicine and rehabilitation, primary medical care, speech pathology, ambulatory surgery, CT scanner, methadone maintenance (outpatient), occupational therapy (outpatient), open heart surgery (adult and pediatric), part-time clinics, physical therapy (outpatient), psychiatry (outpatient), therapeutic radiology, audiology (outpatient), cystoscopy, emergency room services, pediatrics (outpatient), prenatal (outpatient) and social work. The Midtown Campus offers numerous specialized programs including:

- The Minimal Access Surgery Center, established within the Digestive Diseases service line, is at the forefront of laparoscopic and robotic techniques for treating digestive disorders.
- The Neuroscience Center provides advanced treatments and clinical trials for adult and pediatric neurological disease. Areas of expertise and particular focus include stroke/cerebrovascular disease, epilepsy, multiple sclerosis, Alzheimer's, peripheral nerve and spinal disorders.
- The New York Weill Cornell Cancer Center offers diagnostic modalities and advanced therapies for all types of cancer. Areas of expertise and focus include prostate, thoracic, colorectal and hematologic cancers.
- Clinical Trials on Behavioral Change in Asthma Patients – New York Weill Cornell Medical Center has received a major award from the National Heart, Lung, and Blood Institute to establish a consortium to support three clinical trials focused on identifying new ways for patients to make beneficial changes in their behavior. The grant will evaluate more than 1,000 patients in order to develop a strategy for promoting positive mood to help change their behavior and improve outcomes. The trials will pay particular attention to the African-American and Latino populations, and the investigators will include scientists from these ethnic groups. One of the three trials focuses on asthma patients and improving exercise and physical activity behavior in these asthma patients as a result of positive mood intervention.
- Study of 9/11 Impact on Children – Hospital psychiatrists have received a federal grant for a study to determine the current and future emotional and physiological effects on children who lost parents on September 11, 2001. Children, aged 6 to 12, who lost a parent at the World Trade Center will be evaluated through in-depth interviews approximately every six months. This comprehensive evaluation will aid in determining which children will need further help to cope with their loss.
- The Komansky Center for Children's Health, which opened in 2005, is a "children's hospital within a hospital." It features a newly renovated Pediatric emergency department, a neonatal intensive care unit, pediatric intensive care unit, pediatric floor and a new operating room procedure suite.

Other outpatient clinic locations of the Midtown Campus include the LIC Community Practice, 36-11 21st Street, Long Island City, Queens, New York, and the following Manhattan locations: the Adolescent Development Program, 411 East 69th Street; Adult Methadone Maintenance Treatment Program, 503 East 70th Street; Cornell Internal Medicine Associates, 505 East 70th Street; Pediatric & Women's Health Practice, 505 East 70th Street; Sherwood Wright Center for Aging, 1484 First Avenue; Specialty Clinics, 525 East 68th Street; Adult Infusion Center, 525 East 68th Street; the Payne Whitney Clinic, 425 East 61st Street; and The New York Hospital Cardiac Health Center, 1153 York Avenue.

### *Uptown Campus*

Health care services provided at the Uptown Campus include medicine and surgery, covering substantially all medical and surgical subspecialties, adult intensive care and coronary care, neonatal intensive care, obstetrics, pediatrics, rehabilitation medicine, services to persons with Acquired Immune Deficiency Syndrome ("AIDS"), and psychiatry. The Uptown Campus hosts many post-graduate medical education programs and has been designated as a psychiatric emergency receiving facility by the New York City Department of Mental Health. The Uptown Campus includes the Morgan Stanley Children's Hospital of NewYork-Presbyterian ("MS-CHONY"), a 257-

certified bed pediatric center for basic and clinical research, clinical care, and education. MS-CHONY provides comprehensive care for the full range of medical and surgical subspecialties as well as the Center for Prenatal Pediatrics, which was established in 2004 to diagnose and treat women with high-risk pregnancies such as multiple births, congenital heart disease, fetal chest anomalies and genetic syndromes. In 2005, MS-CHONY opened the Child Crisis Psychiatric Evaluation Program, the first child and adolescent psychiatric emergency program in the United States.

The Uptown Campus provides tertiary care and specialized services and programs to treat complex conditions including, without limitation, heart, kidney and lung transplant programs, a comprehensive cardiovascular surgery program, a neurological and neurosurgical program, an orthopedic service, a comprehensive cancer center, a children's hospital and a high risk maternity program. The Uptown Campus also offers several specialized services and programs for treatment of complex clinical conditions including:

- A regional center for tertiary perinatal care. The Hospital is one of the eight medical centers in the nation awarded grants from the Robert Wood Johnson Foundation to serve as a regional center for the perinatal care of critically ill infants. Ten hospitals located in the Tri-State area are part of the regional perinatal network and refer high risk cases to the Uptown Campus.
- An open heart surgery program providing comprehensive clinical services for adults and children. The Uptown Campus is one of approximately twenty centers in the nation where heart transplants are performed.
- A Specialized Center of Research in Arteriosclerosis, which is a multi disciplinary program of clinical activities and research in the field of arteriosclerosis, and one of the seven centers nationwide supported by the National Heart, Lung and Blood Institute.
- A comprehensive cancer center where the expertise and skills of specialists from many disciplines are brought together to treat cancer patients. The Herbert Irving Comprehensive Cancer Center is one of three National Cancer Institute designated comprehensive cancer centers in Manhattan. Additional oncology services are also provided at the breast cancer center and infusion center, as well as the Pediatric Oncology Center.
- The Eleanor and Lou Gehrig ALS Center, designated by the Muscular Dystrophy Association as one of five comprehensive amyotrophic lateral sclerosis research centers in the nation.
- A limited tissue procurement and transplantation facility for cardiovascular, musculoskeletal and eye tissue and stem cell comprehensive tissue processing services.
- The Surgical Day Stay Center at MS-CHONY services approximately 6,000 children annually who come to the Hospital for same day surgery. The Center has eight operating rooms, private consultation rooms, a new pre-operative anesthesia area, and a second-stage recovery area with eight private treatment areas. Special features include a large wait-and-play area, family lockers, and a parent waiting room with internet access.

The Uptown Campus conducts several community outreach and educational programs, including:

<u>Program</u>	<u>Description</u>
School Programs	Comprehensive school-based ambulatory care units at Intermediate Schools 52, 136, 143 and 164 and the George Washington High School in Washington Heights.
Psychiatric Shelter Program	Psychiatric evaluation and treatment program located in the Fort Washington Armory.
Center for Geriatrics and Gerontology	Multi-disciplinary health care team program to visit senior centers in the Washington Heights - Inwood community in association with the medical service.
Center for Population and Family Planning	The “Young Adult Clinic” for family planning; “Adolescent Theater” for problems and solutions; prenatal screening program and parenting and sex education in local schools all in association with the Obstetrics and Gynecology Service.
Sickle Cell Center	Comprehensive specialized care and education including genetic counseling and screening.
Family Center	Identifies and treats, with the Department of Social Work, children who are victims of maltreatment.
Therapeutic Nursery	Staffing the nursery and supporting the foster grandparent program related to the Child Abuse Program.
Health Education Programs	Community health promotion at local senior centers including individual and group programs for seniors with chronic illness.
Safe Shopping/Smart Shopping	Programs for seniors in conjunction with the New York City Police Department, 34th Precinct, including information related to safety, economy and nutrition.
Lifestyles	Speakers bureau offered to community, cultural, civic, educational, business and religious organizations on health-related issues.
Dentistry Program	School-based screening programs related to oral pathology and education programs related to oral health care and screenings.
Community Health Fair	Annual Community Health Fair which has screening programs as well as health and social support educational programs and activities.
Prenatal Care/ Nutrition Program	Multi-faceted program that increases the level of physician service to prenatal patients and includes psychological, social, educational and nutritional support services.
Hispanic Psychiatric Clinic	Programs to provide psychiatric services to Spanish-speaking populations.
Pediatric Psychiatric Clinic	Psychiatric and crisis intervention programs for children and adolescents.
Adult Psychiatric Clinic and Emergency Program	Programs to provide adults with outpatient and emergency psychiatric services, including the availability of six extended observation beds.
Asthma Program	This is a four-year program funded by the Merck Childhood Asthma Network. The program seeks to strengthen community-wide asthma management for children by building a care coordination “network” and thus reduce asthma-related hospitalizations, emergency room visits and school absences.

Other outpatient clinic locations of the Uptown Campus include the following Manhattan locations: Fort Washington Geriatric Practice, 99 Fort Washington Avenue; Broadway Practice, 4781-4783 Broadway; Washington

Heights Family Health Center, 575 West 181st Street; The Access Unit, 21 Audubon Avenue; Audubon Practice, 21 Audubon Avenue; Center for Community Health & Education, 60 Haven Avenue; Columbia Presbyterian Specialty Clinic, Vanderbilt Building, 622 West 168th Street; Family Medicine @ The Herman Denny Farrell, Jr. Community Health Center, 610 West 158th Street; Herbert Irving Hematology/Oncology Center, 161 Ft. Washington Avenue; Urgi Care Center, 21 Audubon Avenue; Adult Psychiatry Clinic NI-12, 710 West 168th Street; Child Advocacy Center, 722 West 168th Street; Speech & Hearing Clinic, Vanderbilt Building, 622 West 168th Street; Washington Heights ACNC-Audubon, 21 Audubon Avenue; Washington Heights ACNC-Morgan Place, 553-561 West 135th Street; Charles B. Rangel Community Health Center, 534 A West 135th Street; and Perinatal Center, 622 168th Street.

### *Westchester Division*

The Westchester Division provides primarily inpatient and outpatient psychiatric and behavioral health services. Inpatient services include psychiatry and alcohol detoxification. Outpatient services include the following: personality disorder continuing day treatment; schizophrenia services continuing day treatment; children's day hospital; adult psychiatric clinic; eating disorders clinic; geriatric clinic; anxiety and depression clinic; alcohol disorders program; occupational health therapy; family planning; physical therapy and children's outpatient clinic. In addition, the Westchester Division manages clinical and research programs in geriatric psychiatry. The Westchester Division also offers three new programs designed to meet the needs of the following specialized populations:

- The Retreat at Westchester, an adult inpatient program for patients with chemical dependency and dual diagnosis. The Retreat emphasizes a discreet approach to recovery. The Retreat's intensive treatment program focuses on recovery from alcoholism and/or other drug dependencies, and is staffed by a multi-disciplinary team that has expertise in dealing with dually diagnosed patients.
- The Haven at Westchester, an inpatient setting for adults in need of treatment for all major psychiatric disorders, including affective, psychotic, dual diagnosis and personality disorders. The program provides specialized inpatient psychiatric treatment targeted to the unique needs of professionals, including clergy, business executives, medical professionals, attorneys, teachers and others. This program is unique in that it allows professionals to obtain treatment in conjunction with other patients suffering from similar psychiatric, emotional and social problems.
- The Women's Program is a program tailored to meet the needs of women who may respond better to treatment in a single-gender environment.

### *Allen Pavilion*

The Allen Pavilion is a 212-bed community hospital located at the northern tip of Manhattan. It provides medical and surgical services, intensive care, coronary care, maternity, psychiatric, neonatal, pulmonary, neurology, gastroenterology, hematology/oncology, obstetrics/gynecology, orthopedics, vascular surgery, geriatrics, ophthalmology, radiology and emergency services as well as outpatient clinics and ambulatory surgery. Specialized services at the Allen Pavilion include:

- Acute Care for the Elderly – a specialized unit which focuses on restoring elderly patients to their optimal level of functioning as quickly as possible. In addition, the Geriatric Service Line developed a strategic plan in 2002 that included an environmental study of the Allen Pavilion and focused on ways to make the environment “geriatric friendly.” The study assessed the size and distance of doorways, availability and location of ramps, heights of counters, speed of elevators, and colors. Many of these recommendations have been implemented.
- Health Outreach – a senior membership program established in the late 1980's and located at both the Allen Pavilion and the Midtown Campus.
- ACNC outpatient clinic at Allen Pavilion, 5141 Broadway

## **Academic Affiliations: Joan and Sanford I. Weill Medical College of Cornell University and Columbia University Medical Center**

The Hospital's Midtown Campus serves as the primary clinical teaching center of the Joan and Sanford I. Weill Medical College of Cornell University ("Cornell") based on an affiliation created in 1927. The Hospital's Uptown Campus serves as the primary clinical teaching center of Columbia University Medical Center based on an affiliation created in 1921. Columbia University Medical Center, formerly known as Columbia University Health Sciences, includes the College of Physicians & Surgeons ("P&S"), the School of Dental and Oral Surgery, the School of Nursing and the Mailman School of Public Health of Columbia University (collectively, "Columbia").

The agreement between the Hospital and Cornell creates a relationship which is intended to be close and perpetual and which cannot be terminated except by mutual consent. At the Midtown Campus, several of the Cornell buildings and Hospital buildings are physically connected. To receive an appointment to the Medical Staff serving the Midtown Campus, a physician must also have a Cornell faculty appointment. The Midtown Campus operates residency training programs in anesthesiology, dermatology, internal medicine, neurological surgery, neurology, obstetrics and gynecology, ophthalmology, pathology, pediatrics, physical medicine, plastic surgery, psychiatry, radiology (diagnostic), rehabilitation, radiation oncology, general surgery, thoracic surgery, urology, oral surgery and primary care medicine. These programs provide training to approximately 600 residents and fellows and are fully accredited by the Accreditation Council for Graduate Medical Education.

The Alliance Agreement with Columbia University provides that the Attending Medical Staff serving the Uptown Campus must be members of the faculty of P&S or persons of comparable professional standing. Clinical teaching is conducted at the Uptown Campus, and members of the medical staff conduct research in conjunction with P&S. The Hospital has an agreement with Columbia University under which the Uptown Campus occupies certain buildings or facilities on land owned by Columbia at the Uptown Campus and Columbia occupies certain buildings or facilities on land owned by the Hospital at that site.

In addition to providing training facilities for students of medicine and allied health professions, providing specialized treatment of complex diseases and disorders and conducting advanced medical research, the Uptown Campus sponsors many post-graduate medical education programs. The Uptown Campus administers programs for approximately 700 residents in the following specialties and subspecialties: allergy/immunology, anesthesiology (including critical care anesthesiology), dermatology, family practice, internal medicine (including cardiology, cardiac electrophysiology, critical care medicine, endocrine/metabolism, gastroenterology, hematology/oncology, infectious diseases, nephrology, pulmonary, rheumatology), neurological surgery, neurology (including child neurology, clinical neurophysiology), nuclear medicine, obstetrics/gynecology, ophthalmology, orthopedic surgery (adult reconstructive orthopedics, hand surgery-orthopedics), otolaryngology, anatomic/clinical pathology (including neuropathology), pediatrics, pediatric cardiology, pediatric gastroenterology, pediatric hematology/oncology, neonatal/perinatal medicine, pediatric pulmonology, pediatric rheumatology, physical medicine/rehabilitation, psychiatry, child and adolescent psychiatry, geriatric psychiatry, diagnostic radiology, neuroradiology, nuclear radiology, pediatric radiology, vascular/interventional radiology, radiation oncology, surgery-general (including pediatric surgery, thoracic surgery, urology, dentistry/general practice and oral surgery, dentistry/pediatric and advanced education dental program).

In 2004, an affiliation agreement between the Hospital and The Methodist Hospital, Houston, Texas became effective. It is a 30-year affiliation agreement which provides for affiliation fees to the Hospital for provision of clinical advisory and administrative services.

### **Existing Facilities**

All of the Hospital's inpatient, emergency care and psychiatric facilities are situated on the Hospital's main locations in Manhattan and Westchester. Outpatient care facilities are located on the main locations as well as off-site locations in Manhattan and Queens.

Additional information regarding the Hospital's properties, plant and equipment is contained in the notes to the audited financial statements included as part of Appendix B-1.

## Governance and Affiliated Organizations

The Hospital, a New York not-for-profit corporation, received a determination letter from the Internal Revenue Service that it is qualified as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). It is governed by a Board of Trustees elected by the Hospital’s Members from among those persons who are Members of New York-Presbyterian Foundation, Inc. (“NYPF”), an entity related to the Hospital due to common board members. The Hospital Board presently numbers eighty-seven persons. Seventy of the Trustees are “outside” directors in that they are not on the Hospital's medical or administrative staff. The Trustees are elected for four-year terms. Those trustees with a considerable record of service to the Hospital have the option of requesting election to “Life Trustee” status. Life Trustees do not have a vote at the Board meetings, but may serve on committees with vote. Two Columbia University trustees and two Cornell University trustees serve on the Hospital Board. The Board meets six times a year at one of the Hospital campuses. Given the size and complexity of the Hospital, much of the work of the Board is first done in one of the fifteen active standing committees which cover every aspect of the Hospital’s operation.

In the surveys conducted by The Joint Commission since the merger which created the Hospital, the Board has received the top grade for governance. Each trustee is required to participate in the orientation and continuing education programs.

The Board of Trustees consists of individuals with experience in a variety of business disciplines. Many of the Trustees are well known leaders in their respective fields and as a group, the Trustees are particularly knowledgeable about audit and financial matters. The Trustees as of July 1, 2007, their year of initial appointment to the Board (or predecessor board) and their occupation is as follows:

<u>Name/Office</u>	<u>Year First Appointed</u>	<u>Occupation</u>
Roger C. Altman	2006	Chairman and Co-CEO: Evercore Partners
Frank A. Bennack Jr.	1979	Retired President and CEO: The Hearst Corporation; Chairman of the Board: Lincoln Center for the Performing Arts
Louis U. Bigliani, M.D. <i>Ex officio</i>	2006	Professor and Chairman: Department of Orthopedics – NewYork-Presbyterian Hospital/Columbia University Medical Center and President of the Medical Board
Donald L. Boudreau	1995	Retired Vice Chairman: The Chase Manhattan Bank**
Daniel B. Burke	1991	Retired President and CEO: ABC, Inc.
Luis A. Canela	2006	President and CEO: BPD Bank
Joseph A. Califano, Jr., Esq.	1990	Chairman and President: The National Center on Addiction and Substance Abuse at Columbia University
Iris Cantor	1989	Philanthropist
Pamela G. Carlton	1996	President & Co-Founder: Springboard – Partners in Cross Cultural Leadership
Stephen H. Case, Esq.	2003	Managing Director: Cohen & Company, LLC
John K. Castle	1996	Chairman and CEO: Castle Harlan, Inc.
Jean Clark	1993	Philanthropist
H. Rodgin Cohen, Esq.	2001	Partner and former Chairman: Sullivan & Cromwell
Joan Ganz Cooney	1997	Co-Founder and Chairman of the Executive Committee: Sesame Workshop
Michel David-Weill	1986	Retired Chairman: Lazard Frères LLC
Mrs. John W. Espy	1991	Philanthropist
Charlotte M. Ford	1979	Author and Philanthropist
Richard S. Fuld, Jr.	2007	President: Lehman Brothers**
Louis R. Gary	1995	Chairman: Manhattan Institute of Cancer Research
David A. George	1994	Retired Senior Director: Goldman, Sachs & Co.*
Peter A. Georgescu	1996	Chairman Emeritus: Young & Rubicam
Harvey Golub	1995	Retired Chairman and CEO: American Express Company
Jeffrey W. Greenberg	1998	Chairman and CEO: Aquiline Capital Partners LLC
Maurice R. Greenberg	1979	Chairman and CEO: C.V. Starr and Company
Arthur J. Hedge, Jr.	1982	Chairman: ABR Group LLC
Marifé Hernandez	1976	President: The Cultural Communications Group

<u>Name/Office</u>	<u>Year First Appointed</u>	<u>Occupation</u>
James B. Hurlock, Esq.	1986	Retired Partner: White & Case
Glenn H. Hutchins	2004	Co-Founder: Silver Lake Partners
O. Wayne Isom, M.D. <i>Ex officio</i>	2001	Chairman, Department of Cardiothoracic Surgery: New York Weill Cornell Medical Center
Mitchell L. Jacobson	2005	Chairman and CEO: MSC Industrial Direct Co., Inc.
Robert L. James	1994	Chairman Emeritus: McCann Erickson Worldwide
Howard S. Jonas	2002	Chairman and Founder: IDT Corporation
Winfield P. Jones, Esq.	1994	Chairman: Jones Hirsch Connors & Bull P.C.
Andrea Jung	2001	Chairman and CEO: Avon Products, Inc.
Peter S. Kalikow	1987	President: H.J. Kalikow & Co., LLC
Alfred F. Kelly, Jr.	2005	Group President: American Express Company
David H. Koch	1988	Executive Vice President: Koch Industries, Inc.
David H. Komansky	2001	Chairman Emeritus: Merrill Lynch & Co., Inc.**
Terry Allen Kramer	1994	President: Remarkable Partners LP, Allen & Company, Inc.
Marilyn Laurie	2003	President: Laurie Consulting, Inc.
Rochelle B. Lazarus	1995	Chair and CEO: Ogilvy & Mather Worldwide
John J. Mack <i>Chairman</i>	1992	Chairman and CEO: Morgan Stanley**
Arthur J. Mahon, Esq.	1994	Counsel: McDermott, Will & Emery
Ellen R. Marram	1995	President: Brock Group LLC
Roman Martinez IV	1996	Investor and Financial Advisor
William F. May	1975	Retired Chairman: The Statue of Liberty-Ellis Island Foundation
Raymond J. McGuire	2002	Co-Head, Global Investment Banking: Citigroup**
Robert B. Menschel	2003	Senior Director: Goldman Sachs Group*; Chairman Emeritus: Museum of Modern Art
John E. Merow, Esq.	1988	Senior Counsel and former Chairman: Sullivan & Cromwell
Constance Jane Milstein, Esq.	2000	Principal: Ogden CAP Properties, LLC
Steven T. Mnuchin	2004	CEO: Dune Capital Management LP
Sharmin Mossaver-Rahmani	2006	Managing Director: Goldman, Sachs & Co.*
Sarah E. Nash	2001	Retired Vice Chairman of Investment Banking in North America: JPMorgan Chase**
Steven O. Newhouse	2003	Chairman: Advance.net
Daniel S. Och	2005	Senior Managing Member: Och-Ziff Capital Management Group
Adebayo Ogunlesi	2006	Chairman and Managing Partner: Global Infra Structure Partners
Herbert Pardes, M.D. <i>President and CEO</i> <i>Ex officio</i>	2000	President & CEO: The New York and Presbyterian Hospital
Gordon B. Pattee	1988	President: Map Capital Corp.
Timothy A. Pedley, M.D. <i>Ex officio</i>	2002	Chairman of Department of Neurology and Neurologist in Chief: New York-Presbyterian Hospital/Columbia University Medical Center
Lisa Perry	2002	Philanthropist
Ogden Mills Phipps	1976	Director: Bessemer Trust Company, N.A.
Lionel I. Pincus	2000	Chairman: Warburg Pincus LLC
Michael S. Pritula	1994	Director: McKinsey & Company, Inc.
William R. Rhodes	1992	Senior Vice Chairman: Citigroup Inc.**
Stephen M. Ross	2006	Chairman and CEO: RELATED
Arthur F. Ryan	1987	Chairman & CEO: The Prudential Insurance Company of America
Arthur J. Samberg	2004	Chairman & CEO: Pequot Capital Management, Inc.
Oscar S. Schafer	2007	Senior Managing Partner: O.S.S. Capital Management, LP
Mark Schwartz	2002	Investment Management
Robert G. Scott	2002	Advisory Director: Morgan Stanley**
Ivan G. Seidenberg	1996	President & CEO: Verizon
Walter V. Shipley	2007	Chairman: The Wallace Foundation; Former Chairman: The Chase Manhattan Corporation



<u>Name/Office</u>	<u>Year First Appointed</u>	<u>Occupation</u>
Richard D. Siegal	2005	Founder, Owner and President: Bi-State Oil Management Corp.
Richard E. Snyder	1997	Retired CEO: Golden Books Family Entertainment Incorporated
Howard Solomon	2003	Chairman & CEO: Forest Laboratories, Inc.
Jerry I. Speyer	2000	President & CEO: Tishman Speyer Properties
Philip E. Stieg, M.D., Ph.D.	2007	Neurosurgeon in Chief at New York Weill Cornell Medical Center and Vice President of the Medical Board
Seymour Sternberg	2004	Chairman & CEO: New York Life Insurance Company
Brenda Neubauer Straus	1975	Broker Associate: Sotheby's International Realty
Howard Stringer	1994	Chairman and CEO: SONY Corporation of America
Vincent Tese, Esq.	1996	Member, Board of Directors: Bear, Stearns & Co., Inc. **
John A. Thain	2000	CEO: New York Stock Exchange, Inc.
Michael D. Tusiani	2002	Chairman and CEO: Poten & Partners, Inc.
David W. Wallace	1978	Retired Chairman: Lone Star Industries, Inc.
Sanford I. Weill	1994	Chairman Emeritus: Citigroup, Inc. **
Margaret L. Wolff, Esq.	2005	Of Counsel: Skadden, Arps, Slate, Meager & Flom LLP
Robert C. Wright	1989	Chairman: NBC Universal. Vice Chairman of the Board and Executive Officer: General Electric Company

\* Goldman Sachs & Co. is the senior managing underwriter of the Bonds.

\*\* Bear Stearns, & Co., Inc., Citigroup, JPMorgan Securities Inc., Lehman Brothers, Merrill Lynch & Co. and Morgan Stanley & Co. Incorporated are included in the group of co-managers for the sale of the Bonds.

### ***Conflict of Interest***

The Hospital's bylaws provide for compliance with conflict of interest policies as set forth in the New York Not-for-Profit Corporation Law, the rules of The Joint Commission and as established by the Board of Trustees and/or the Audit and Corporate Compliance Committee of the Board. The conflict of interest policy requires any duality of interest or possible conflict of interest on the part of any Board member, officer and key persons to be disclosed to the Board and made a matter of record. If a Board member has a duality of interest or possible conflict of interest on any matter, the member may not vote or use personal influence on the matter.

### ***Affiliated Organizations***

New York-Presbyterian Healthcare System, Inc. ("System, Inc.") was incorporated under the New York Not-for-Profit Corporation Law to coordinate the activities of the members of the New York-Presbyterian Healthcare System (the "System"). The goal of the System is to provide access to a continuum of care and improve community health services to residents of the Downstate New York region through an integrated delivery system. System, Inc. is a membership corporation whose members are selected by NYPF from among persons who are Governors or Life Governors of NYPF.

The System is comprised of health care organizations associated with the Hospital. It includes organizations whose members are individuals appointed by System, Inc. or NYPF that, as members, elect the governing boards of such organizations and have other rights and duties as provided by law or contract and the by-laws of the organizations. These organizations are considered to have a corporate relationship with System, Inc. or NYPF. The System also includes organizations with a contractual affiliate relationship, but not a corporate relationship, with System, Inc. System members are responsible for their own operations, assets and obligations.

MEMBERSHIP IN THE SYSTEM DOES NOT ESTABLISH A FINANCIAL RESPONSIBILITY OF THE HOSPITAL FOR OTHER CORPORATE MEMBERS IN THE SYSTEM. MEMBERS OF THE SYSTEM (OTHER THAN THE HOSPITAL) ARE NOT OBLIGATED ON THE NOTE OR THE BONDS AND THE HOSPITAL IS NOT OBLIGATED FOR ANY OBLIGATIONS OF THE SYSTEM OR OTHER SYSTEM MEMBERS.

As of January 1, 2007, the corporate members of the System included the following health care institutions:

The New York Hospital Medical Center of Queens, Queens, New York  
The Brooklyn Hospital Center, Brooklyn, New York  
The New York Methodist Hospital, Brooklyn, New York  
New York Society for the Relief of the Ruptured and Crippled, maintaining the Hospital for Special Surgery, New York, New York (“HSS”)  
The New York Community Hospital of Brooklyn, Brooklyn, New York  
The New York Gracie Square Hospital, New York, New York  
New York Westchester Square Medical Center, Bronx, New York  
Nyack Hospital, Nyack, New York  
The Rogosin Institute, New York, New York  
The Silvercrest Center for Nursing and Rehabilitation, Queens, New York

In addition to the 10 corporate members listed above, the health care institutions with a contractual affiliate relationship with the System as of July 1, 2007 included approximately 18 hospitals, 2 long-term care facilities and 2 other health related institutions.

Sharing of services across the System is encouraged whenever possible. Biomedical engineering, materials management and information technology are made available on a shared basis within the System. In addition, the System performs patient billing and collection functions for certain facilities within the System. The decision to participate in most shared service arrangements is made by each institution based on the economic and operational benefits that can be realized.

The Hospital has a number of affiliated entities. New York-Presbyterian Fund, Inc. is a not-for-profit corporation whose revenue is derived from soliciting, receiving and administering philanthropic funds. Royal Charter Properties, Inc. (“RCP”), Royal Charter Properties – East, Inc. (“RCP-East”) and Royal Charter Properties – Westchester, Inc. (“RCP-West”) are not-for-profit support corporations that derive revenue from acquiring and holding direct and indirect interests in real estate and related personal property which are primarily used to provide residential housing, office space and parking to the Hospital and its employees based on the market value of such services. RCP, RCP-East and RCP-West provide services primarily to or for the benefit of the Hospital.

### **Senior Management**

The senior management is responsible for day-to-day operational management of the Hospital. A number of Vice Presidents, Chiefs of Service, Department Directors and Managers all provide support to the senior management. Several members of senior management also provide services for System, Inc and other affiliated entities. The Senior Management of the Hospital includes:

***Herbert Pardes, M.D., President and Chief Executive Officer (72).*** Dr. Pardes was appointed President and Chief Executive Officer in January 2000. Dr. Pardes also serves as a Professor of Psychiatry at Columbia and Cornell Universities. Prior to joining the Hospital, Dr. Pardes served as Vice President for Health Sciences and Dean of the Faculty of Medicine at the Columbia University College of Physicians and Surgeons (1989 - 1999) and Director of the New York State Psychiatric Institute (1984 - 1989). While in these positions, Dr. Pardes also served as the Lawrence C. Kolb Professor and Chairman of the Department of Psychiatry at Columbia University (1984 - 1999) and the Director of Psychiatry Service at Columbia-Presbyterian Medical Center (1984-1999). Dr. Pardes received his Doctor of Medicine degree from State University of New York College of Medicine in 1960 and Bachelor of Science degree from Rutgers University in 1956. Dr. Pardes is the recipient of numerous awards, including honorary degrees from the State University of New York College of Medicine and the New York College of Podiatric Medicine. Dr. Pardes has been appointed by Presidents Bill Clinton and George W. Bush to serve on commissions related to health policy including the Presidential Advisory Commission on Consumer Protection and Quality in the Healthcare Industry and the Commission on Systemic Interoperability.

***Steven J. Corwin, M.D., Executive Vice President & Chief Operating Officer (51).*** Dr. Corwin was appointed Executive Vice President and Chief Operating Officer of the Hospital in 2005. He is responsible for managing day-to-day activities, as well as advancing the Hospital's key strategic initiatives. Previously, he held the positions of

Senior Vice President and Chief Medical Officer (1999 - 2005), Medical Director (1997 - 1999), Director of Critical Care Services (1991 - 1997), and Director of Coronary Intensive Care Unit (1986 - 1991) at Columbia Presbyterian Medical Center. A practicing cardiologist at the Hospital since 1987, Dr. Corwin is an Associate Professor of Clinical Medicine at Columbia College of Physicians and Surgeons and is board certified by the American Board of Internal Medicine and the American College of Cardiology. Dr. Corwin received his Bachelor of Science degree in 1977 and his Medical Doctor degree *summa cum laude* in 1979 from Northwestern University as part of a six-year honors Medical Program.

***Phyllis R.F. Lantos, Executive Vice President, Chief Financial Officer & Treasurer (56).*** Ms. Lantos joined the Hospital in July 2000 as the Senior Vice President, Chief Financial Officer and Treasurer and was appointed Executive Vice President, Chief Financial Officer & Treasurer in 2007. She is responsible for all financial services at the Hospital and the System. Prior to joining the Hospital, Ms. Lantos was the Deputy Chief Operating Officer, Yale University School of Medicine, Yale University, New Haven, Connecticut (1999 - 2000). Prior to her tenure at Yale, Ms. Lantos was the Vice President, Financial Management Services (1989 – 1999), Associate Vice President Financial Planning & Analysis (1987 – 1989), Director of Financial Projects and Planning (1983 – 1987) and Manager of Financial Analysis, Projects and Budgets (1978 – 1983) at Montefiore Medical Center, Bronx, New York. From 1974 to 1978, Ms. Lantos served in the New York City Office of Management & Budget as a financial analyst assigned to health agencies. She received her Master of Science Management degree (1974) and her Bachelor of Science degree (1972), both from the Massachusetts Institute of Technology.

***Laura L. Forese, M.D., Senior Vice President, Chief Operating Officer and Chief Medical Officer, NewYork-Presbyterian Hospital/Weill Cornell Medical Center (45).*** Dr. Forese was appointed Senior Vice President of the NewYork-Presbyterian Hospital/Weill Cornell Medical Center in 2005. She is responsible for all operations at the Weill Cornell Center of the Hospital including development of physician programs and service lines, joint budgeting with Weill Cornell School of Medicine, graduate medical education and physician training programs, physician assistant services, epidemiology/infection control and occupational health services. She is also responsible for privileging and credentialing of medical staff members. Dr. Forese joined the full-time faculty at Columbia University in 1993, specializing in pediatric orthopedic surgery. She retains an appointment as Associate Clinical Professor. She served as Chief of Surgical and Anesthesia Services at Helen Hayes Hospital in West Haverstraw, New York (1993 - 1997); was Vice Chair in the Department of Orthopedic Surgery at Columbia University (1998 - 2002); and was Vice President for Medical Affairs at the Hospital (2002 - 2005). Dr. Forese received her Bachelor of Arts degree *summa cum laude*, Phi Beta Kappa from Princeton University in 1983 and her Doctor of Medicine degree Alpha Omega Alpha from P&S in 1987. She also obtained a degree in health services management from the Columbia School of Public Health in 1995.

***Robert E. Kelly, M.D., Senior Vice President, Chief Operating Officer and Chief Medical Officer, New York-Presbyterian Hospital/Columbia University Medical Center (51).*** Dr. Kelly joined New York Hospital as Vice President of Professional Services and Clinical Affairs, Chief Medical Officer and Director of Internal Medicine in 1995. In connection with the merger, Dr. Kelly was named Chief Medical Officer for Quality & Operations. In 1999, Dr. Kelly was appointed Senior Vice President and Chief Operating Officer for New York-Presbyterian Hospital/Columbia University Medical Center and was appointed to his current position in 2005. Dr. Kelly is responsible for all operations at the Uptown Campus. Dr. Kelly received his Doctor of Medicine degree from University of Cincinnati College of Medicine in 1981 and Bachelor of Science degree from Michigan State University in 1977.

***Wilhemina M. Manzano, Senior Vice President & Chief Nursing Officer for New York-Presbyterian Hospital and HealthCare System (48).*** Ms. Manzano was the Chief Nursing Officer and Vice President for Patient Care Services at New York-Presbyterian/Columbia University Medical Center prior to becoming Senior Vice President and Chief Nursing Officer for the Hospital in 2004. Prior to joining the Hospital in 1998, Ms. Manzano held leadership positions at several New York area teaching hospitals including The Mount Sinai Medical Center, Lawrence Hospital and Beth Israel Medical Center. Ms. Manzano earned her Bachelor of Science degree in Nursing and her Master of Arts degree from New York University. She attended the Johnson & Johnson – Wharton Fellows Program for Nurse Executives at The Leonard Davis Institute of Health Economics, The Wharton School, University of Pennsylvania. Ms. Manzano is a Fellow of the New York Academy of Medicine.

***Cynthia N. Sparer, Senior Vice President & Chief Operating Officer, Women's, Children's and Community Health (57).*** Ms. Sparer was appointed Senior Vice President for Women's, Children's and Community Health and Executive Director of the Children's Hospital of New York-Presbyterian Hospital in 1998. Prior to joining the Hospital, Ms. Sparer served as Vice President, Operations (1989 - 1993), Chief Operating Officer (1993 - 1996) and Executive Director (1996 - 1997) of Monmouth Medical Center, Long Branch, New Jersey and Vice President of Long Island Jewish Medical Center (1987 - 1989). Ms. Sparer received her Master of Public Administration degree from New York University in 1976 and Bachelor of Arts degree from American University in 1971.

***Maxine Fass, Esq., Senior Vice President, Chief Legal Officer & General Counsel (54).*** Ms. Fass joined the Hospital as Senior Vice President, Chief Legal Officer & General Counsel in 1999. Ms. Fass was a Partner at Stroock & Stroock & Lavan LLP (1998 - 1999) and Senior Vice President, General Counsel at Health Insurance Plan of Greater New York (1988 - 1998) prior to joining the Hospital. Ms. Fass received her Juris Doctor degree from Brooklyn Law School in 1980 and her Bachelor of Arts degree from Brooklyn College (CUNY) in 1974.

***Mark E. Larmore, Senior Vice President & Assistant Treasurer (45).*** Mr. Larmore joined the Hospital in 1989 as Director of Finance. He served as Vice President Financial Operations from 1994 through 1999, at which time he was appointed Vice President & Assistant Treasurer. He was appointed Senior Vice President & Assistant Treasurer in 2007. Prior to joining the Hospital, Mr. Larmore was a Manager at Ernst & Young LLP (1988 - 1989), Controller at Hudson Valley Hospital Center, Peekskill, New York (1987 - 1988) and Senior, Staff and Junior Accountant at The New York Hospital (1983 - 1986). Mr. Larmore received his Bachelor of Science degree in Accounting from State University of New York at Oswego in 1983.

***Gloria D. Reeg, Senior Vice President and Chief Investment Officer (58).*** Ms. Reeg joined the Hospital in 2007 as Senior Vice President and Chief Investment Officer with responsibility for oversight of the investment portfolio of the Hospital and its affiliated companies. Prior to joining the Hospital, Ms. Reeg was a Trustee and Treasurer for Casey Family Programs, Seattle, Washington; Global Head of Fixed Income and Executive Director at Principal Global Investors, an asset-management subsidiary of Principal Financial Group and Managing Director of Global Consulting at Russell Investment Group. Ms. Reeg received her Bachelor of Science degree from the University of Wisconsin in 1971 and her Masters of Business Administration degree from Northwestern University in 1983.

***Louis F. Reuter, IV, Senior Vice President, Real Estate & Facilities (62).*** Mr. Reuter joined the Hospital in his current position in June, 2006 with responsibility for the oversight and direction of capital projects and the Hospital's real estate. Mr. Reuter served as an Assistant Secretary-General, Executive Director-Capital Master Plan for the United Nations (2005 - 2006). Prior to his engagement at the United Nations, Mr. Reuter held several positions at the Hospital (1988 - 2000); and was President of a consulting firm specializing in project management services for large health facility clients (2001 - 2005). Mr. Reuter received his Bachelor of Arts degree in Architecture/Art History (1966) and Masters of Architecture (1969) from Washington University, St. Louis, Missouri. He is a registered architect in New York, New Jersey and Pennsylvania, a member of the American Institute of Architects, the New York State Association of Architects and the New York City Chapter of the American Institute of Architects.

## **Medical Staff**

As of December 31, 2006, there were 3,911 physician and dentist members of the Medical Staff of the Hospital holding appointments in three categories: Attending (3,716), Emeritus (165), and Honorary (30). The medical staff is presently organized into 25 Clinical Services: Anesthesiology; Cardiothoracic Surgery; Dental, Oral and Maxillofacial Surgery; Dermatology; Emergency Medicine; Family Medicine; Male Reproductive Medicine and Surgery; Medicine; Neurological Surgery; Neurology; Obstetrics and Gynecology; Ophthalmology; Orthopedic Surgery; Otorhinolaryngology (ENT); Pathology; Pediatrics; Plastic Surgery; Psychiatry; Radiation Oncology; Radiology; Rehabilitation Medicine; Reproductive Medicine and Infertility; Surgery; Transplantation and Extracorporeal Therapy; and Urology. The Clinical Services include approximately 65 medical specialties and sub specialties. As of December 31, 2006, approximately 86% of the Attending Medical Staff members were board certified in one or more of their specialties. The average age of the Attending Medical Staff was approximately 50 years. From January 1, 2005 to December 31, 2006, there was no material change in the number of Attending Medical Staff members.

The Department Chairpersons at the Hospital are as follows:

Midtown Campus

John Savarese	Anesthesiology
O. Wayne Isom	Cardiothoracic Surgery
David A. Behrman	Dentistry
Richard D. Granstein	Dermatology
Neal E. Flomenbaum	Emergency Medicine
Andrew I. Schafer	Medicine
M. Flint Beal	Neurology
Philip E. Stieg	Neurological Surgery
Frank A. Chervenak	Obstetrics & Gynecology
Donald J. D'Amico	Ophthalmology
Thomas Sculco	Orthopedic Surgery (HSS)
Michael G. Stewart	Otorhinolaryngology
Daniel M. Knowles	Pathology
Gerald M. Loughlin	Pediatrics
Robert Grant	Plastic Surgery
Jack D. Barchas	Psychiatry
Alvin I. Mushlin	Public Health
Robert Min (Acting Chair)	Radiology
Dattatreyaudu Nori (Interim Chair)	Radiation Oncology
Michael O'Dell	Rehabilitation Medicine
Fabrizio Michelassi	Surgery
Manikkam Suthanthiran	Transplantation Medicine
Peter N. Schlegel	Urology
Zev Rosenwaks	Reproductive Medicine (Female)
Marc Goldstein	Reproductive Medicine (Male)

Uptown Campus

Margaret Wood	Anesthesiology
Sidney Eisig	Dentistry
David Bickers	Dermatology
James Giglio	Emergency Medicine
Kathleen Klink	Family Medicine
Donald Landry (Interim Chair)	Medicine
Timothy A. Pedley	Neurology
Robert Solomon	Neurological
Mary D'Alton	Obstetrics & Gynecology
Stanley Chang	Ophthalmology
Louis Bigliani	Orthopedic Surgery
Lanny G. Close	Otolaryngology
Michael Shelanski	Pathology
Richard Polin (Interim Chair)	Pediatrics
Jeffrey Lieberman	Psychiatry
Peter Schiff (Interim Chair)	Radiation Oncology
Philip O. Alderson	Radiology
Nancy Strauss	Rehabilitation Medicine
Craig Smith (Interim Chair)	Surgery
Mitchell Benson	Urology

The following table shows the number of Hospital Attending Medical Staff physicians and dentists and average age by clinical service:

Attending Medical Staff Composition as of December 31, 2006

<u>Clinical Service</u>	<u>Number of Physicians</u> <sup>1</sup>	<u>Average Age</u>
Anesthesiology	125	48
Cardiothoracic Surgery	22	47
Dentistry	118	52
Dermatology	134	49
Emergency Medicine	56	40
Family Medicine	32	45
Medicine	994	51
Neurological Surgery	34	49
Neurology	170	50
Obstetrics and Gynecology <sup>2</sup>	175	49
Ophthalmology	140	54
Orthopedic Surgery	108	50
Otorhinolaryngology (ENT)	68	48
Pathology	90	51
Pediatrics	509	49
Plastic Surgery	28	52
Psychiatry	631	52
Public Health	8	40
Radiation Oncology	5	48
Radiology	163	50
Rehabilitation Medicine	43	46
Surgery <sup>2</sup>	153	50
Urology	105	51
<b>TOTAL</b>	<b><u>3,911</u></b>	<b><u>50</u></b>

1 Dual appointees are included in each clinical department in which they hold appointment.

2 Transplant Medicine is included under Surgery and Reproductive Medicine is included under Obstetrics and Gynecology

Source: Hospital Records

The following is a summary of inpatient discharges by major specialty groupings for the Hospital for the calendar years 2004, 2005 and 2006, and for the five (5) month periods ended May 31, 2006 and 2007.

Percent of Discharges by Major Specialty Groupings  
For Calendar Years 2004, 2005, 2006 and the  
Five (5) Month Periods ended May 31, 2006 and 2007

<u>Specialty Grouping</u>	<u>Year Ended December 31,</u>			<u>Five (5) Month Period</u> <u>Ended May 31,</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
Medical-Surgical (1)	59.7%	61.7%	62.1%	61.1%	62.2%
Obstetrics/Gynecology	14.0%	13.0%	13.0%	12.9%	13.0%
Psychiatric	7.5%	7.3%	7.0%	7.2%	6.9%
Pediatrics	5.4%	5.4%	5.6%	5.9%	5.4%
Rehabilitative Medicine	1.4%	1.3%	1.2%	1.2%	1.0%
Burn	0.8%	0.8%	0.6%	0.8%	0.5%
Alcohol Rehabilitation	0.4%	0.4%	0.4%	0.4%	0.4%
Subtotal	89.2%	89.9%	89.9%	89.5%	89.4%
Newborn	10.8%	10.1%	10.1%	10.5%	10.6%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Includes Coronary Care Unit, Epilepsy Unit, HIV Care, Intensive Care Unit ("ICU"), Medical ICU, Neonatal ICU, Neurological ICU, Pediatric ICU, Surgical – Cardiac ICU and Surgical ICU.

Source: Hospital records

## **Educational Programs**

In addition to its academic affiliation with Cornell, the Midtown Campus also provides clinical training to nursing students through affiliations with more than nineteen educational institutions located in New York, Connecticut, New Jersey and Pennsylvania and clinical training in radiation technology to approximately fifteen students through an affiliation with New York City Technical College.

In addition to its academic affiliation with Columbia, the Uptown Campus provides clinical training to nursing and other students in medical related fields through affiliations with approximately fifteen educational institutions located in New York, Connecticut and Pennsylvania.

## **Service Area and Other Area Hospitals**

### ***Service Area***

The Hospital serves a geographic area with diverse communities across the five boroughs of New York City (Manhattan, Bronx, Brooklyn, Queens and Staten Island) and a broader 11-county service area in the Tri-State area (the New York State counties of Westchester, Nassau, Rockland and Orange; the New Jersey counties of Bergen, Hudson, Essex, Passaic and Morris; and the Connecticut counties of Fairfield and Litchfield). As the primary quaternary and tertiary referral center for the System, the Hospital draws patients from its affiliate members located in New York, Connecticut and New Jersey.

The Midtown Campus' core service area is defined as the Upper East Side of Manhattan and Western Queens, with portions of Brooklyn and Manhattan included in its broader service area. The service area population is highly diverse with significant variation by neighborhood in terms of primary care access and health status. The core service area of the Uptown Campus (inclusive of MS-CHONY) and the Allen Pavilion, includes the Upper Manhattan neighborhoods of Washington Heights-Inwood and Central Harlem-Morningside Heights, West Harlem, the Kingsbridge-Riverdale and Highbridge-Morris Heights neighborhoods in the Bronx, and portions of Northern New Jersey. For the most part, the population in this region is ethnically diverse, economically distressed, and has traditionally experienced difficulty accessing primary care services.

The Westchester Division, located in White Plains, New York, attracts patients from a wide geographic area, with a majority of patients coming from Westchester County. Westchester County comprises urban, suburban and rural areas, which are socio-economically and ethnically diverse.

Both the Midtown Campus and the Uptown Campus derived nearly 92% of their 2005 discharges from their respective defined service areas. Approximately 75% of the Hospital's 2005 discharges originated from the five boroughs of New York City. Over 56% of 2005 discharges originated from Manhattan (41.6%) and the Bronx (15.0%) on a combined basis. The remaining counties in New York that are part of the Hospital's service area comprised an additional 10.8% of total discharges in 2005. In addition, New Jersey and Connecticut counties accounted for approximately 9.3% of the Hospital's discharges.

### ***Other Area Hospitals***

The Tri-State area is characterized by a number of academic medical centers offering tertiary care services similar to those offered at the Hospital. Although this environment offers intellectual and professional advantages to the Hospital and its physicians, there is intense competition between the Hospital and similar institutions to recruit admitting physicians and to provide optimum facilities for patient care and academic research. Further, suburban medical care facilities have been upgrading their facilities in an effort to become more attractive to physicians and patients and to capture patients formerly referred to facilities such as the Hospital. Insurers and other third-party payors, such as Medicare, have undertaken efforts to reduce hospital utilization, further intensifying competitive pressures.

The Hospital competes with the several academic medical centers in the region. It also competes with suburban hospitals for patients referred from the secondary service area. Some of these facilities, which have benefited from less challenging environments than the Hospital, have undertaken extensive construction programs in recent years and have engaged in physician recruitment and other programs that have maintained or enhanced their competitive position.

The following table identifies the Hospital and hospitals which, based on the range of services provided, proximity to the Hospital, market share and patient origin, are key competitors:

<b>Facility Name</b>	<b>Map Key</b>	<b>Location (County)</b>	<b>Reported Beds</b>	<b>Total Discharges</b>	<b>Miles from Uptown Campus</b>	<b>Miles from Midtown Campus</b>
Hospital - Uptown Campus <sup>1</sup>	1	New York	1,151	61,100	-	7.0
Hospital - Midtown Campus <sup>1</sup>	2	New York	1,062	46,136	7.0	-
Beth Israel Medical Center <sup>2</sup>	3	New York	1,080	38,025	10.1	4.0
The St. Luke's-Roosevelt Hospital Center <sup>2</sup>	4	New York	837	37,307	2.8	4.4
The Long Island College Hospital <sup>2</sup>	5	Brooklyn	354	17,065	12.9	7.7
Long Island Jewish Medical Center <sup>3</sup>	6	Nassau	578	36,313	18.9	17.6
North Shore University Hospital/Manhasset <sup>3</sup>	7	Nassau	806	45,758	18.1	17.1
Staten Island University Hospital <sup>3</sup>	8	Richmond	557	35,747	23.1	19.7
NYU Medical Center Tisch Hospital	9	New York	879	28,461	9.3	1.9
Saint Barnabas Medical Center <sup>4</sup>	10	Essex	595	39,552	27.4	23.5
Newark Beth Israel Medical Center <sup>4</sup>	11	Essex	398	23,328	24.5	20.2
Montefiore Medical Center <sup>5</sup>	12	Bronx	995	54,805	5.7	10.5
Hackensack University Medical Center	13	Bergen	659	43,845	9.4	15.7
Mount Sinai Medical Center	14	New York	909	51,063	4.9	2.3
Maimonides Medical Center	15	Brooklyn	569	30,889	16.5	13.1
Lenox Hill Hospital	16	New York	570	28,152	6.7	1.1

Source: American Hospital Directory, 2004; Hospital Blue Book

<sup>1</sup> The Hospital is part of the New York-Presbyterian Healthcare System, Inc. which includes hospitals in Manhattan, Queens, Brooklyn, Bronx and Rockland County.

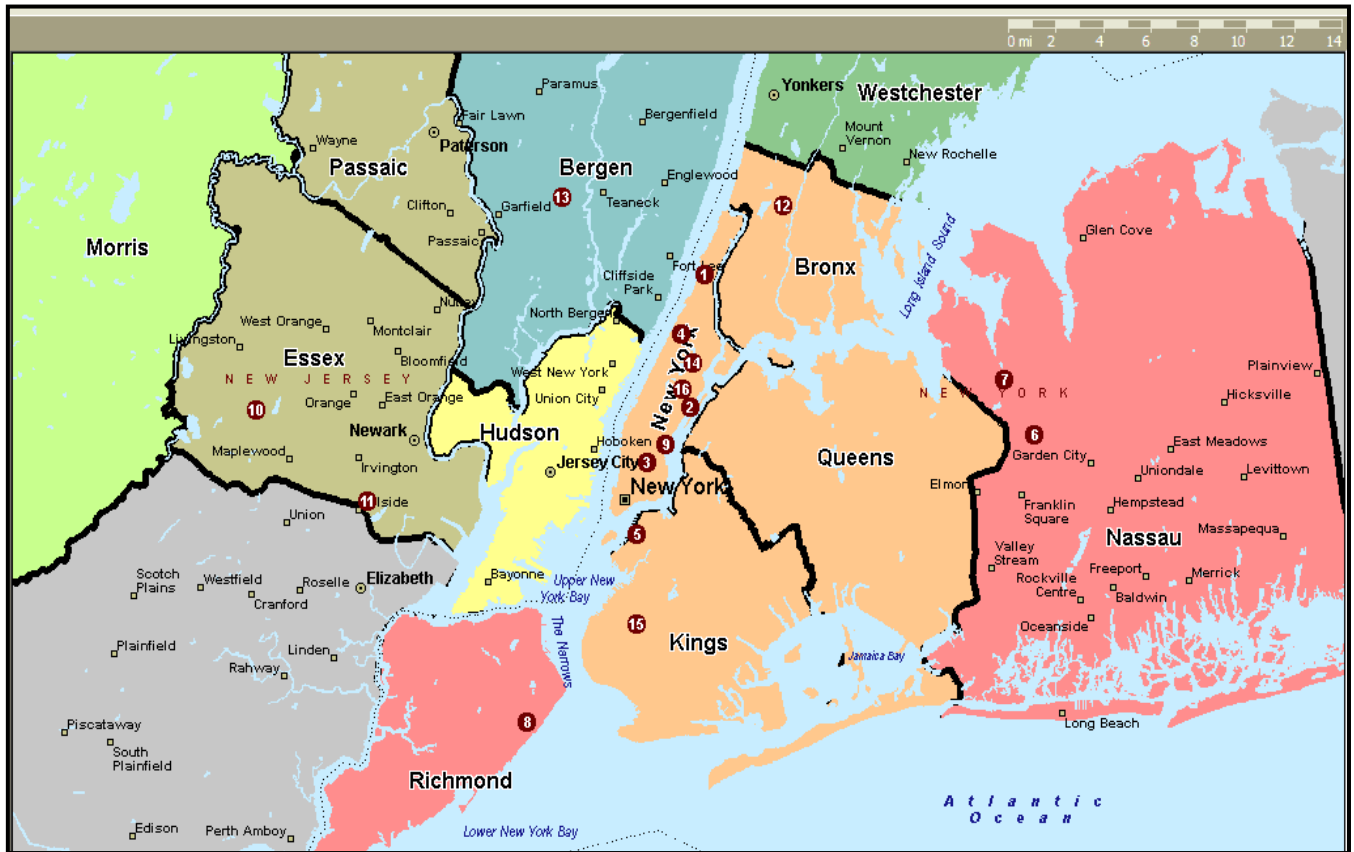
<sup>2</sup> Beth Israel Medical Center, The St. Luke's-Roosevelt Hospital Center and The Long Island College Hospital are part of Continuum Health Partners.

<sup>3</sup> Long Island Jewish Medical Center and North Shore University Hospital/Manhasset and Staten Island University Hospital are part of the North Shore-LIJ Health System.

<sup>4</sup> Saint Barnabas Medical Center and Newark Beth Israel Medical Center are part of the Saint Barnabas Health Care System.

<sup>5</sup> Montefiore Medical Center affiliated with Our Lady of Mercy Medical Center, Bronx, New York in 2006.





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## Utilization

A summary of historical utilization data for the calendar years ended December 31, 2004, 2005 and 2006 and the five (5) month periods ended May 31, 2006 and 2007 for the Hospital is presented in the following table:

### HISTORICAL UTILIZATION OF THE HOSPITAL FOR CALENDAR YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 AND THE FIVE (5) MONTH PERIODS ENDED MAY 31, 2006 AND 2007

	Year Ended December 31,			Five (5) Month Period Ended May 31,	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
Certified Beds	2,233	2,224	2,224	2,224	2,242
Staffed Beds	2,150	2,141	2,184	2,184	2,205
Discharges <sup>1</sup>	93,241	96,032	98,442	41,122	41,866
Patient Days <sup>1</sup>	695,054	698,061	708,164	296,097	290,795
Staffed Bed Days Available	786,900	781,465	797,160	329,784	332,955
Average Length of Stay (in days) <sup>1</sup>	7.45	7.27	7.19	7.20	6.95
Average Case Mix Index (Medicare and Non-Medicare)	1.82	1.92	1.99	1.99	1.97
Average % Occupancy <sup>2</sup>	88.3%	89.3%	88.8%	89.8%	87.3%
Medical-Surgical	88.3%	88.0%	86.8%	87.9%	86.9%
Maternity	76.3%	86.1%	92.8%	90.4%	88.3%
Psychiatry	92.3%	95.9%	97.9%	97.7%	95.4%
Burn/Rehabilitation	92.9%	94.3%	82.6%	88.8%	63.3%
Alcohol Detoxification	78.3%	75.4%	91.9%	98.0%	83.9%
Emergency Room Visits <sup>3</sup>	210,941	214,130	224,289	89,487	92,554
Outpatient Clinic Visits	695,569	700,425	711,853	299,370	303,663
Ambulatory Surgery Procedures	64,767	70,299	74,418	31,423	30,933
Mental Health Clinic Visits	139,761	118,654	123,422	53,364	51,587

1 Excludes newborns.

2 Occupancy percentages based on staffed bed days available.

3 Includes admissions.

Source: Hospital records.

### ***Management's Discussion of Utilization***

From the year ended December 31, 2004 to the year ended December 31, 2006, the Hospital experienced continued volume growth and improved cash flow due to significant investments in new programs as well as several revenue focused projects. As a result of these new programs and expanded patient care areas, the Hospital experienced favorable trends in discharges and patient days.

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

Discharges increased 3.0% to 96,032 in the year ended December 31, 2005 reflecting the availability of expanded critical care units and the expansion of services to provide care to a more acutely ill population of patients, evidenced by a .10 increase in the average case mix or 5.5% over the year ended December 31, 2004. The increase in discharges and case mix index is consistent with management's strategic plan to grow key service lines. Over the same period, the average length of patient stay decreased .18 days due to diligent management practices. Patient days increased 0.4% in 2005. The Hospital also experienced increases in outpatient services: 1.5% in emergency room visits, 0.7% in outpatient clinic visits and 8.5% in ambulatory surgery procedures.

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

Discharges increased 2.5% to 98,442 in the year ended December 31, 2006 due to continued investment in program development such as heart, vascular and transplant programs. Over the same period, the case mix increased .07 or 3.6%, reflecting an increase in the severity of cases. As a result of increased discharges and increased severity of cases, patient days increased by 1.4% to 708,164 from 698,061 in the prior year. The Hospital also experienced greater outpatient volumes with increases in services such as emergency room visits (4.7%), outpatient clinic visits (1.6%) and ambulatory surgery procedures (5.9%).

Five-month period ended May 31, 2007 compared to five-month period ended May 31, 2006

Discharges increased 1.8% to 41,866 in the five-month period ended May 31, 2007 due to increases in case volume in programs such as obstetrics and gynecology, general medicine and medical-surgical programs. Over the same period, the average length of stay decreased .25 days, in line with a slight decrease in the severity of cases and continued improvements in patient flow. Patient days decreased by 1.8% to 290,795 from 296,097 in the same period of the prior year reflecting a 1.0% decline in the average case mix index. The Hospital experienced greater outpatient volumes with increases in services such as emergency room visits (3.4%) and outpatient clinic visits (1.4%). These increases were offset by a slight decrease in ambulatory surgery procedures (1.6%) and mental health clinic visits (3.3%).

**Summary of Historical Revenue and Expenses**

The following data in the Summary Statements of Operations for each of the three years ended December 31, 2004, 2005 and 2006 are derived from the Hospital's financial statements which have been audited by Ernst & Young LLP, independent auditors. The data should be read in conjunction with the financial statements and related notes included in Appendix B-1 of this Official Statement. The data in the summary statements of operations for the five-month periods ended May 31, 2007 and May 31, 2006, are derived from unaudited financial statements which include all adjustments, consisting of normal recurring accruals, which the Hospital considers necessary for a fair presentation of the financial position and the results of operations for these periods. The operating results for the five-month period ended May 31, 2007 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2007. The data should be read in conjunction with the financial statements and related notes included in Appendix B-2 of this Official Statement.

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SUMMARY STATEMENTS OF OPERATIONS  
(in thousands)

	(Audited)			(Unaudited)	
	Year ended December 31,			Five (5) month period	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>ended May 31,</u>	<u>2007</u>
<b>Revenue, gains and other support</b>					
Net patient service revenue	\$2,254,877	\$2,414,250	\$2,599,464	\$1,071,583	\$1,131,358
Other revenue	172,296	187,426	234,083	84,679	82,714
Total revenue, gains and other support	<u>2,427,173</u>	<u>2,601,676</u>	<u>2,833,547</u>	<u>1,156,262</u>	<u>1,214,072</u>
<b>Operating expenses</b>					
Salaries and wages	1,070,809	1,134,390	1,240,718	497,009	531,084
Employee benefits	245,838	278,226	304,187	129,767	130,622
Supplies and other expenses	893,111	923,154	986,262	391,447	414,826
Interest and amortization of deferred financing fees	50,520	46,124	43,926	17,851	16,881
Depreciation and amortization	147,797	159,657	167,636	67,002	74,013
Total operating expenses	<u>2,408,075</u>	<u>2,541,551</u>	<u>2,742,729</u>	<u>1,103,076</u>	<u>1,167,426</u>
Excess of revenue, gains and other support over expenses	19,098	60,125	90,818	53,186	46,646
Other changes in unrestricted net assets:					
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	38,389	34,558	78,567	39,534	48,394
Transfer to Royal Charter Properties, Inc.	(413)	(1,000)	(1,000)	0	0
Change in additional minimum pension liability	(547)	(24,050)	31,410	0	0
Change in unrestricted net assets before change in accounting principle	56,527	69,633	199,795	92,720	95,040
Change in accounting principle	0	0	(28,077)	0	0
Change in unrestricted net assets	<u>\$56,527</u>	<u>\$69,633</u>	<u>\$171,718</u>	<u>\$92,720</u>	<u>\$95,040</u>

Source: Audited Financial Statements of the Hospital for years ended December 31, 2004, 2005 and 2006 and Hospital unaudited financial statements for the five month period ended May 31, 2006 and 2007

***Management's Discussion and Analysis of Recent Financial Performance***

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

For the year ended December 31, 2005, the Hospital had an excess of revenue, gains and other support over expenses of \$60.1 million which represented a \$41.0 million increase from the \$19.1 million reported for the year ended December 31, 2004.

During 2005, net patient service revenue increased approximately \$159.4 million (7.1%) over the previous year to \$2.4 billion. This increase was primarily attributable to increases in inpatient volume, consistent with management's strategic plan to grow service lines, managed care rates, case mix index, emergency room visits and increased realization from improved revenue cycle processes. These increases were offset by reductions in Medicare reimbursement for certain services. Other operating revenue increased by \$15.1 million (8.8%) from \$172.3 million in 2004 to \$187.4 million in 2005, primarily due to increases in investment return, real estate operations, grants and revenues relating to the Hospital's affiliation with The Methodist Hospital in Houston, Texas. Investment income accounted for \$36.3 million of other revenue in 2005 and \$34.9 million in 2004.

Total operating expenses increased approximately \$133.5 million (5.5%) in 2005 to \$2.5 billion. Salaries and wages increased approximately \$63.6 million (5.9%) due to an average salary increase of 4%, an increase in

full-time equivalent employees primarily to respond to increased volumes, overtime expenses, temporary help and agency utilization. Employee benefits during the same period increased \$32.4 million (13.2%) reflecting the growth in the number of employees and increases in healthcare costs and pension expense.

Supplies and other expenses increased approximately \$30.0 million (3.4%) over the previous year, primarily due to increases in the cost of drugs (\$11.9 million), medical and surgical supplies (\$37.3 million), utilities (\$2.6 million), food cost (\$1.5 million) and repairs and maintenance (\$4.7 million), offset in part by decreases in insurance (\$16.2 million), general expenses (\$9.9 million) and bad debt expenses (\$2.0 million). Interest expense decreased by approximately \$4.4 million (8.7%) due to the reduced mortgage rate resulting from the refinancing of the Hospital's Series 2004 Bonds. Depreciation expense continued to increase reflecting the completion of a number of Hospital capital projects.

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

For the year ended December 31, 2006, the Hospital had an excess of revenue, gains and other support over expenses of \$90.8 million which represented a \$30.7 million increase from the \$60.1 million reported for the year ended December 31, 2005.

During 2006, net patient service revenue increased approximately \$185.2 million (7.7%) over the previous year to approximately \$2.6 billion. This increase was primarily attributable to increases in inpatient volume, managed care rates, case mix index, emergency room visits and increased realization from improved revenue cycle processes. Other revenue increased by \$46.7 million (24.9%) primarily due to increases in investment return (\$25.3 million) to \$61.6 million in 2006 from \$36.3 million in 2005, comprised of interest and dividend income and realized and unrealized gains and losses associated with the investments. The Hospital's ability to generate investment returns is dependent on market conditions.

Total operating expenses increased approximately \$201.2 million (7.9%) in 2006 over the previous year. Salaries and wages increased approximately \$106.3 million (9.4%) due to an average salary increase of 4%, an increase in FTEs and increased use of temporary help. Employee benefits during the same period increased \$26.0 million (9.3%) due to an increase in the number of employees as well as increases in healthcare costs and pension expenses.

Supplies and other expenses increased approximately \$63.1 million (6.8%) over the previous year, primarily due to increases in professional and other fees (\$14.9 million), the cost of drugs (\$10.5 million), insurance (\$4.9 million), medical and surgical supplies (\$27.6 million), utilities (\$6.7 million) and repairs and maintenance (\$6.9 million) offset in part by decreases in blood costs (\$2.1 million), general expenses (\$4.1 million) and bad debt expenses (\$5.0 million). Interest expense decreased by approximately \$2.2 million (4.8%) while depreciation expense continued to increase reflecting the completion of a number of Hospital capital projects.

#### Five-month period ended May 31, 2007 compared to five-month period ended May 31, 2006

For the five-month period ended May 31, 2007, the Hospital had an excess of revenue, gains and other support over expenses of \$46.6 million which represented a \$6.5 million decrease from the \$53.2 million reported for the five-month period ended May 31, 2006.

During the five month period ended May 31, 2007, net patient service revenue increased approximately \$59.8 million (5.6%) over the same period in 2006 to approximately \$1.13 billion. This increase was primarily attributable to increases in inpatient volume, psychiatric clinic visits, emergency room visits, private ambulatory radiology, radiation therapy, dialysis, ambulatory surgery and outpatient surgeries, chemotherapy and infusion and methadone maintenance, offset slightly by decreases in volume in cardiac catheterization, preadmission testing and institutional laboratory and radiology. Other revenue decreased by \$2.0 million (2.3%) primarily due to decreases in investment income to \$27.8 million for the five-month period ended May 31, 2007 from \$30.6 million for the same period in 2006.

Total operating expenses increased approximately \$64.4 million (5.8%) in the five-month period ended May 31, 2007 over the same period in 2006. Salaries and wages increased approximately \$34.1 million (6.9%) due to an average salary increase of 4%, an increase in FTEs and increased use of temporary help (9.0%).

Supplies and other expenses increased approximately \$23.4 million (6.0%) in the five-month period ended May 31, 2007 over the same period in 2006, primarily due to increases in professional and other fees (\$4.1 million), the cost of blood (\$2.6 million), drugs (\$0.7 million), insurance (\$2.2 million), food (\$0.5 million), bad debt expenses (\$6.2 million) and repairs and maintenance (\$0.9 million) offset in part by decreases in utilities (\$0.3 million) and leases and rentals (\$0.2 million). Interest expense decreased by approximately \$1.0 million (5.4%) while depreciation expense increased approximately \$7.0 million (10.5%) reflecting the completion of a number of Hospital capital projects. The increase in bad debt expense is attributable to increases in revenue as well as provisions based on management's monthly assessment of historical trends, trends in healthcare and other collection indicators. The Hospital closely monitors its patient receivable activity and completes quarterly validation assessments of the allowance for doubtful accounts and the related bad debt expense.

### Sources of Patient Service Revenue and Reimbursement Methodologies

The major portion of revenue received by the Hospital is derived from third-party payors. The Hospital is a provider under the Medicare and Medicaid programs and receives payments from Empire Blue Cross and Blue Shield ("Blue Cross") and other commercial insurance and managed care companies. The following table shows the percentage distribution of inpatient discharges by payor source for each of the three fiscal years ended December 31, 2004, 2005 and 2006 and for the five (5) month periods ended May 31, 2006 and 2007.

#### Percent of Inpatient Discharges by Payor Source<sup>1</sup>

<b>Payor</b>	<b>Year Ended December 31</b>			<b>Five (5) Month Period Ended May 31,</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
Medicare	27.7%	30.2%	30.0%	30.1%	29.7%
Medicaid	31.0%	29.4%	29.6%	29.1%	28.9%
Blue Cross	11.9%	12.3%	12.9%	12.8%	13.2%
Commercial/HMO	27.6%	26.4%	25.8%	25.3%	25.8%
Self Pay, No Fault, Workers Compensation	1.8%	1.7%	1.7%	2.7%	2.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup> Excludes newborns.  
Source: Hospital records

All revenue, statistics and reimbursement information in this Part 11 represent historical data and may not be indicative of future activity. The Hospital cannot assess or predict the ultimate effect on its operations which may result from existing or future reimbursement legislation or regulations.

### Reimbursement Methodologies

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

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

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

The Hospital is paid for services to the majority of Medicare inpatients under a federal prospective payment system (“PPS”). Under inpatient PPS, payments are based on a standard national amount (adjusted for New York City Metropolitan MSA wage levels), depending on the patient's diagnosis (“Diagnosis Related Group” or “DRG”) without regard to each hospital's actual inpatient operating and capital costs. Hospitals receive payment for cases that exceed DRG-specific cost thresholds as well as the costs of organ procurement and a predetermined amount per discharge for Medicare inpatient-related capital costs. Under inpatient PPS, hospitals also receive payments for training physicians and other medical professionals (graduate medical education or “GME” payments) and payments for providing care to a high level of Medicaid and disabled patients (disproportionate share 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 teaching hospitals incur relating to teaching, greater patient acuity and their extensive “stand-by” capabilities. The standardized rates are updated annually (the “update factor”) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the “market basket”). Currently, the update factor equals the percentage increase in the market basket (for hospitals that timely submit data to CMS on quality indicators), but from time to time, Congress has enacted legislation reducing these updates below the market basket.

PPS methodologies also apply to hospital outpatient services (“Outpatient PPS”) and most inpatient services provided by rehabilitation and long-term care hospitals. Under Outpatient PPS, most outpatient services are grouped into one of approximately 800 Ambulatory Payment Classifications and paid a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service (e.g., visit, chest x-ray, surgical procedure). The payment for each service is comprised of a payment from the Medicare program and a coinsurance payment of the balance from the beneficiary. A limited number of services are based on fee schedules or other reimbursement methodologies. Rehabilitation and long-term care hospitals are paid on a per case basis with payments adjusted to reflect the level of care required by each patient, area wage differences and exceptionally high cost cases.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “MMA”) introduced a prescription drug benefit under Medicare (Medicare Part D), created incentives for health care insurance companies to offer Medicare managed care plans known as Medicare Advantage and provided for a number of hospital-related reimbursement changes. With respect to teaching hospitals, the MMA included a provision for the redistribution of residents in certain circumstances to other hospitals based on a set of criteria that favored rural areas and certain urban areas not categorized as large urban and certain other programs. The Hospital has not lost residency slots as a result of this provision. The MMA also created a Hospital Quality Initiative, under which hospitals are required to submit data to CMS related to 10 quality indicators to avoid a 0.4% reduction in their annual market basket rate increases starting in 2005. The Hospital is enrolled in this program, is reporting the necessary data and has received a full market basket update in 2005 and 2006. Other hospital reimbursement related provisions in the MMA include revisions to IME payments through 2007, reclassification of MSAs (thereby revising the wage indices across the country) and the introduction of a new technology payment add-on under certain circumstances where the DRG payment does not adequately cover the cost of a new device, drug or other development.

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

*Medicare Managed Care.* Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. During recent years, the major health maintenance organizations (“HMOs”) in

the Hospital's service area have reduced the premiums on these Medicare HMO products and there has been an increase in enrollment of these products as a result. Enrollment in a Medicare managed care product is voluntary and enrollees may dis-enroll and re-enroll in the traditional Medicare fee-for-service system at any time. Managed care products for the Medicare population are typically offered by commercial insurers and HMOs.

Medicare enrollees in managed care products have their health care managed and paid for by the applicable insurer, HMO or similar entity (the "managed care plan"). The managed care plan is reimbursed by the Medicare program on a monthly per-beneficiary amount for each Medicare enrollee. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan seeks to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. Enrollment in Medicare managed care plans is expected to continue to increase. In 2005, Medicare managed care provided approximately 3.8% of the Hospital's net inpatient patient service revenue.

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

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

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

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

Under NYHCRA, payment for services rendered to Medicaid, workers' compensation and no-fault patients is determined through a per discharge reimbursement methodology similar to PPS. The case payment rate consists of 55% of the total payment per case based on a group average and 45% of the total payment per case based on a hospital specific rate. In addition, State issued DRG weights, which are a measure of case mix, are applied to the per case payment amount. Specialty hospitals and psychiatric, AIDS, alcohol and drug dependency, epilepsy, medical rehabilitation and other exempt units (e.g. burn unit) are reimbursed on a per diem methodology. Payment rates are adjusted annually by applying an inflation factor to each hospital's historical operating cost base, less applicable penalties. For hospitals that experience a substantial change in volume or length of stay as compared to the base year (generally 1987), a volume adjustment, either positive or negative, may be applied to the payment rates. Capital costs, including interest and principal or depreciation and amortization of financing expenses, but excluding certain Medicaid capital costs, are considered separately and in effect are passed through in reimbursement rates.

Every year the Medicaid reimbursement rates paid to hospitals for the forthcoming year must be certified by the State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. The State has enrolled a substantial portion of its Medicaid population into private



managed care plans as part of a waiver it received from the federal government under Section 1115 of the Social Security Act. Several areas of the State, including New York County, are under mandatory managed care enrollment: the Medicaid population is required to enroll in managed care, unless they fall into one of several exempt categories. In 2006, Medicaid managed care represented approximately 7.9% of the Hospital's net inpatient patient service revenue.

Under NYHCRA, mechanisms are established for the financing of public goods consisting of indigent care, health care initiatives and graduate medical education. Third party payers are encouraged through fiscal incentives to make payments directly to public good pools although they have the choice of paying providers directly on an encounter basis. NYHCRA specifies the distribution from the public good pools. The Indigent Care Pool is funded through an assessment charged to general hospitals and payments from Medicaid, Blue Cross and other payers to reflect the need for financing losses resulting from bad debts and the cost of charity care. Amounts received from the Indigent Care Pool are determined by the hospital's bad debt and charity care needs as they relate to the total statewide bad debt and charity care needs. The Graduate Medical Education pools are funded and distributed on a regional basis. Graduate Medical Education Pool distributions are based on a proxy using hospital historical data. The funding of these distributions is dependent on the receipts paid into the pool on a calendar year basis. Health care initiatives pay for special projects, particularly expansion of coverage of special need categories, including children. The New York State Commissioner of Health has begun discussions with the industry to implement healthcare reform in the coming years. Such change may affect these pools as well as other payments to hospitals.

In connection with NYHCRA's extension through March 31, 2008, the workforce recruitment and retention payments adjustment which expired on December 31, 2006 was not renewed. The tax on a hospital's gross receipts from all patient care services (with limited exclusions) and other operating income on a cash basis, which expired on March 31, 2007, was not renewed. The impact of these changes was considered by the Hospital in the development of its 2007 budget.

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

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

## Liquidity

The following table sets forth: (i) the Hospital's unrestricted cash and investments and average daily operating expenses as of December 31, 2004, 2005 and 2006 from its audited financial statements as of and for the years then ended and as of May 31, 2006 and 2007 from the unaudited internal financial statements as of and for the five-month periods then ended and (ii) the Days Cash on Hand ratio derived therefrom.

(\$ in thousands)	As of December 31			As of May 31	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
Unrestricted cash and investments <sup>(1)</sup>	\$442,754	\$470,209	\$503,260	\$469,575	\$542,850
Average daily operating expenses <sup>(2)</sup>	\$6,176	\$6,526	\$7,055	\$6,861	\$7,241
Days cash on hand <sup>(3)</sup>	71.69	72.05	71.33	68.44	74.97

<sup>(1)</sup> Includes all cash and cash equivalents (exclusive of any donor or other third party restricted funds), short-term investments and funded depreciation investments that are not restricted by donors or other third parties.

<sup>(2)</sup> Total operating expenses for the period exclusive of depreciation and amortization divided by number of days in the period.

<sup>(3)</sup> Unrestricted cash and investments divided by average daily operating expenses.

## Debt Service Coverage

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

outstanding in those years, the pro-forma maximum annual debt service requirement assuming the issuance of the Note and historical coverage of pro-forma maximum debt service requirement.

(\$ in thousands)	Year Ended December 31		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Excess of revenues, gains and other support over expenses	\$19,098	\$60,125	\$90,818
Depreciation and amortization	147,797	159,657	167,636
Interest and amortization of financing fees	<u>50,520</u>	<u>46,124</u>	<u>43,926</u>
Income available for debt service	<u>\$217,415</u>	<u>\$265,906</u>	<u>\$302,380</u>
Actual debt service	\$92,265	\$89,107	\$95,411
Actual debt service coverage ratio	2.36	2.98	3.17
Pro-forma maximum annual debt service requirement*	\$116,065	\$116,065	\$116,065
Pro-forma maximum annual debt service coverage ratio	<u>1.87</u>	<u>2.29</u>	<u>2.61</u>

\* Maximum annual principal and interest requirements for the current or any future year on long-term indebtedness as of December 31, 2006, subject to final endorsement of the 1998 mortgage. Assumes that the Note will be issued in the amount of \$278,500,000 and will require a level annual debt service payment of \$19,091,787 for the first full year commencing in 2011.

## Investments

The Hospital's short-term investments and assets limited as to use consist of the following as of December 31, 2006 (dollars in thousands):

Marketable Securities	
Cash equivalents	\$51,255
U.S. government bonds and notes	150,125
Equity securities	110,525
Mutual funds	16,761
Alternative investments*	<u>297,778</u>
Total Investments	<u>\$626,444</u>

\*Includes event driven funds, funds of funds, emerging market debt funds, multi-strategy funds and energy funds.

The Hospital Board of Trustees has adopted an Investment Committee Charter which sets forth guidance for the Investment Committee as to how to implement their investment responsibilities. The Investment Committee of the Board provides ongoing oversight and the management of all funds belonging to the Hospital. The overall investment objective of the funds is to preserve the Hospital's ability to meet future capital and investment needs. The asset allocation of the funds is determined by the Investment Committee, subject to minimum and maximum percentage allocations. These allocations are to be reviewed periodically by the Investment Committee. In addition, the Investment Committee limits concentration of investments. The retention of investment managers and review of their performance is under the purview of the Investment Committee. The Hospital utilizes an external investment consultant to provide professional investment analysis and to assist in evaluating the performance of the fund managers. In 2007, the Hospital hired a Chief Investment Officer dedicated to the oversight of the portfolio.

## Capitalization

The following table sets forth the long-term debt, net of current portion, net assets – unrestricted, total capitalization and percentage of debt to capitalization of the Hospital at December 31, 2004, 2005 and 2006 and again as of 2006 as adjusted, assuming that the Note was issued on December 31, 2006 and there are no changes in net assets – unrestricted:

**As of December 31**

(\$ in thousands)	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006 (As Adjusted)</u>
Long-term Debt, net of current portion	\$744,146	\$710,721	\$657,441	\$935,941
Net Assets - Unrestricted	<u>777,650</u>	<u>847,283</u>	<u>1,019,001</u>	<u>1,019,001</u>
Total Capitalization	<u>\$1,521,796</u>	<u>\$1,558,004</u>	<u>\$1,676,442</u>	<u>\$1,954,942</u>
Percentage of Debt to Capitalization	<u>48.90%</u>	<u>45.62%</u>	<u>39.22%</u>	<u>47.88%</u>

**Employees**

As of December 31, 2006, the Hospital employed approximately 17,345 FTEs of which approximately 5,070 were nursing staff, including advanced practice nurses, registered nurses, technicians, nursing aides, licensed practical nurses and clerks. Of these, approximately 4,291 FTEs were registered nurses.

The following table shows the breakdown of FTEs of the Hospital as of December 31, 2006:

	<u>Uptown Campus and Allen Pavilion</u>	<u>Midtown Campus</u>	<u>Westchester Division</u>	<u>Total</u>
Registered Nurses FTEs	2,562	1,609	120	4,291
Other Nursing FTEs	475	290	14	779
Non-Nursing FTEs	<u>6,123</u>	<u>5,485</u>	<u>667</u>	<u>12,275</u>
Total	<u>9,160</u>	<u>7,384</u>	<u>801</u>	<u>17,345</u>

The Hospital's turnover rate for the registered nursing staff during 2006 was approximately 10.6%. In recent years the Hospital has not experienced difficulty in recruiting an adequate number of nursing staff. Benefits offered to eligible employees include: health insurance covering hospitalization, major medical expenses and dental treatment; life insurance; short and long term disability insurance; a defined benefit pension plan and a 403(b) tax deferred contributions plan. Based on its employee satisfaction survey conducted in 2006, Management believes that its relationship with its employees is satisfactory.

The Hospital has collective bargaining agreements with respect to certain employees at the Uptown Campus. The New York State Nurses Association represents approximately 2,470 employees and Local 1199, National Health and Human Service Employees Union ("Local 1199"), represents approximately 4,100 employees. The agreement with Local 1199 is a multi-employer agreement and has been extended with modification until September 30, 2011. The agreement with the New York State Nurses Association expires December 31, 2007. The remaining collective bargaining agreements are with: Occupational Therapy Association (OTs) (expired November 30, 2006 and is under negotiation), American Physical Therapy Association (PTs) (expired November 30, 2006 and is under negotiation), Professional Dieticians of New York (expired January 31, 2007 and is under negotiation). Benefits to Hospital employees who are covered by collective bargaining agreements are governed by the terms of the respective contracts and jointly administered trust funds. Benefits offered to eligible nursing employees include: health insurance covering hospitalization and major medical expenses, and life insurance.

The Hospital provides pension and similar benefits to its employees through several plans, including various multi-employer plans for union employees, a qualified noncontributory defined benefit plan primarily for eligible nonunion employees of the Hospital and certain of its related organizations, and a nonqualified defined benefit plan for certain executives. The Hospital also provides pension and similar benefits to certain employees through a defined contribution plan. The Hospital funds the noncontributory defined benefit plans in accordance with the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA"), plus additional amounts that the Hospital may deem appropriate from time to time. The Pension Protection Act of 2006

will require certain changes to the minimum funding requirements, among other provisions, commencing in 2008. Amounts contributed to the defined benefit plans are based on actuarial valuations. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements. Contributions to the Hospital's defined contribution plan are generally based on percentages of annual salaries. For a statement as to funding of pension obligations, see Note 9 of the 2006 audited financial statements of the Hospital set forth in Appendix B-1.

### **Licensure and Accreditation**

The Hospital has operating certificates from the New York State Department of Health and the New York State Office of Mental Health ("OMH"). The State of New York Division of Alcoholism and Alcohol Services (now Office of Alcoholism and Substance Abuse Services) issued operating certificates for inpatient alcohol rehabilitation and outpatient alcoholism treatment for the Westchester Division. The Hospital is accredited by The Joint Commission.

### **Insurance**

The Hospital maintains comprehensive all-risk form property insurance as well as general liability and hospital professional liability coverage. Property insurance is purchased from commercial carriers and is subject to deductibles. General liability and professional liability insurance is purchased from captive insurance companies in which an affiliate of the Hospital is a shareholder. The Hospital insures for workers' compensation claims through the State Insurance Fund.

In 1978, the Hospital, in conjunction with other unrelated healthcare entities, participated in the formation of captive insurance companies (the "Captive") to provide professional liability and general liability insurance to its participants. The premiums are based on a modified claims-made coverage and are actuarially determined based on actual experience of the Captive, Hospital specific experience and estimated current exposure. Currently, the Midtown/Westchester and Uptown/Allen Pavilion Campuses have primary professional liability insurance coverage in the amount of \$12.0 million and \$8.0 million per claim, respectively, which includes general liability insurance coverage. All non hospital-employed medical staff members with admitting privileges are required to maintain professional liability insurance coverage in amounts not less than \$1.0 million per occurrence and \$3.0 million in the aggregate.

### **Litigation**

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

### **Capital Expenditures/Future Plans**

In 2004, 2005 and 2006, the Hospital incurred capital expenditures of \$181.5 million, \$165.8 million and \$166.1 million, respectively, for acquisition of plant, property and equipment (net of disposals). These expenditures were funded from internally generated cash flow, donations and additional debt. Beginning in 2003, the Hospital approved a long term Capital Investment Plan (the "Plan") of \$1.9 billion, inclusive of its routine capital expenditures, supported by internal cash, fundraising for major projects and new debt financing. The Project and the aforementioned capital expenditures are significant components of the Plan.

In 2006 and 2005, Fund, Inc. on behalf of the Hospital received approximately \$172.6 million and \$188.1 million, respectively, in new gifts and pledges from individual, foundation and corporate donors for capital acquisitions and other purposes. Fund, Inc., on behalf of the Hospital, is completing a \$1.0 billion fundraising campaign and as of June 30, 2007, has received approximately \$749 million of the pledged contributions in cash. Approximately \$600.0 million of the \$1.0 billion fundraising campaign has been targeted for the Capital Investment Plan (described below). The Hospital has a successful history of fundraising, evidenced by the completion of MS-CHONY, which was fully funded from philanthropy.

The Plan is service line driven based on Hospital Management's assessment of the market and the Hospital's goals. It is focused on investments in major clinical programs through the recruitment of key physicians, advanced technology and facilities. Some key elements of the Plan include:

- Addition of single bedded rooms at the Uptown and Midtown Campuses
- Adding intensive care unit capacity at the Uptown and Midtown Campuses
- Additional space for procedure rooms to provide complex procedures to patients
- Expanded emergency facilities to help alleviate overcrowded conditions and create a more efficient use of space
- Create cogeneration capacity to provide more cost effective utilities such as electricity and steam to the Midtown Campus
- Ongoing investment in infrastructure/regulatory requirements to maintain the facility
- Investments in information technology to ensure the Hospital's ability to maintain and improve its information systems
- Investment in high technology equipment for both replacement and expansion of services to patients

In order to assure the affordability of the capital investments, the Hospital has embarked upon various management initiatives including, but not limited to:

1. Documentation improvement with a focus on specificity and accuracy in order to improve care coordination, severity and mortality, and communication.
2. Staff training in the management tools needed to accomplish various efficiencies and to implement process improvements.
3. Implementation of computerized clinical systems to improve quality of care and through-put of patients.
4. Revenue cycle improvements including patient friendly processes.
5. Quality initiatives to assure the best care for patients.
6. Surveys to facilitate improvement of patient and employee satisfaction.
7. Focused patient safety initiatives throughout patient care units.

## **PART 12 – GENERAL FACTORS AFFECTING THE HOSPITAL’S REVENUES AND EXPENSES**

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

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

### **General**

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

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

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for health care services, including an anticipated continued pressure on utilization, the capabilities of the management of the Hospital, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Hospital, increased use of contracted discounted payment schedules with HMOs, PPOs and other payors, economic and demographic developments in the United States and in the service area in which facilities of the Hospital are located, competition from other health care institutions, changes in interest rates which affect investment results and investment returns, and changes in rates, costs, third-party payments and governmental regulations concerning payment, are among other factors which may adversely affect revenues and expenses and, consequently, the Hospital's ability to make payments pursuant to the Note. See "PART 11 — THE HOSPITAL" and "Appendix B-1 — Financial Statements of the Hospital."

### **Legislative Regulatory and Contractual Matters Affecting Revenue**

The health care industry is heavily regulated by the federal and state governments. A substantial portion of revenue for health care providers is derived from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. No assurances can be given that further substantial changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Hospital cannot be predicted.

Legislation is periodically introduced in Congress and in the New York State legislature (the “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 health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide national health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. The effects of future reform efforts on the Hospital cannot be predicted.

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

### **State Budget**

The State’s 2007-08 enacted budget adopted several cost containment measures that may affect hospitals such as the Hospital, including a reduction in the trend factor, non renewal of the worker recruitment and retention adjustment, changes in Pool funding, and reductions in Medicaid managed care payments. In addition, the State plans to update the DRG weighting system which could impact Hospital revenue. The Hospital provided for the impact of the 2007-08 State budget in the Hospital’s budget process. The effect of future reform on the Hospital cannot be predicted.

### **Department of Health Regulations**

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

### **State Commission on Healthcare**

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the Legislature authorized the creation of a “Commission on Health Care Facilities in the Twenty-First Century” (the “Commission”) charged with studying the State's hospital and nursing home systems and making recommendations (the “Recommendations”) for closure, resizing, conversion, consolidation and restructuring. The Commission was comprised of 18 statewide commissioners and 6 regional commissioners from each of the six regions in the State (Long Island, New York City, Hudson Valley, Northern, Central and Western). In making the Recommendations, the Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors, as determined by the Commissioner of Health or the Commission. In its final report released on November 28, 2006 (the “Final Report”), the Commission’s Recommendations targeted nearly 50 hospitals for restructuring and nine hospitals for closure. These closures and restructurings will impact the flow of patients in the New York healthcare market. However, the magnitude of the impact is not known at this time. If and when the Recommendations are fully implemented, the Commission anticipates a reduction of approximately 4,200 hospital beds and 3,000 nursing home beds statewide, while creating home and community-based alternatives to nursing home placement. Federal and State funds are expected to be available to assist, in part, with the costs of implementing the Recommendations, assuming that any conditions requisite to such financing are met. In accordance with procedures established in the legislation creating the Commission, the Governor approved the Final Report and the Legislature did not exercise its right provided by those procedures to reject the Final Report in its entirety on or before December 31, 2006. Therefore, the Recommendations

are to be implemented by the Commissioner of Health, with full implementation scheduled for June 2008. Several lawsuits have been filed, and a temporary restraining order issued, challenging the authority of the Commission, which, if successful, could affect implementation of some or all of the Recommendations. The Hospital is not identified in the Final Report as an entity targeted for closure or restructuring of any kind.

### **Managed Care and Other Private Initiatives**

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

### **Medicare and Medicaid Managed Care**

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

The Medicare program pays the HMO a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in an HMO product. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the HMO pays for all the covered and medically necessary services delivered to the enrollee in the month. The HMO is at full financial risk for costs incurred for caring for its enrollees in the given month. Although Medicare HMOs have a strong interest to control utilization and thereby control costs for its population, implementation has proven more difficult.

In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. For the majority of Medicaid recipients in New York County enrollment in a managed care program is mandatory in order to receive Medicaid benefits. 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. The change to Medicaid managed care may also result in a decrease in Medicaid patient revenue over time, although currently the contracts in place are at, or just slightly below, traditional Medicaid reimbursement. The teaching component of Medicaid reimbursement will continue to be paid by the State directly to the hospitals. See "PART 11 — THE HOSPITAL — Sources of Patient Service Revenue and Reimbursement Methodologies."

### **Regulatory Reviews and Audits**

The Hospital, like other health care institutions, is subject to regulatory reviews and audits of its governmental reimbursement and, based on the results of such reviews and audits, may be required to repay previously received reimbursement. One such audit is the Medicare Recovery Audit Contract Initiative. This review calls for a three-year recovery audit demonstration project in states with the highest per capita Medicare expenditure in order to test and ensure the accuracy of Medicare payments. New York is included in this review project, and the review process has begun. The Hospital has fulfilled its identified repayment obligations.

In 2006, the Office of the New York State Attorney General commenced an informal, industry-wide inquiry regarding amounts recognized as reserves, however denominated, on the institutional cost report and/or financial statement of New York's skilled nursing facilities and hospitals. The Hospital has responded to this request. It is too



early to determine whether the inquiry will take the form of a formal investigation or otherwise have a material adverse impact on New York hospitals including the Hospital.

## **Competition**

The Hospital faces and will continue to face competition from other hospitals and integrated delivery systems that offer similar health care services. See “PART 11 – THE HOSPITAL – Service Area, Other Area Hospitals and Utilization” herein. Competition could also result from certain health care providers that may be able to offer lower priced services to the population served by the Hospital. These services could be substituted for some of the revenue generating services currently offered by the Hospital. The services that could serve as substitutes for hospital treatment include skilled, specialized and residential nursing facilities, home care, drug and alcohol abuse programs, ambulatory surgical centers, expanded preventive medicine and outpatient treatment, freestanding independent diagnostic testing facilities, and increasingly sophisticated physician group practices. Certain of such forms of health care delivery are designed to offer comparable services at lower prices, and the federal government and private third-party payors may increase their efforts to encourage the development and use of such programs. Similarly, efforts to increase consumer choice of available sources of health care could affect the Hospital’s ability to maintain its market share at current levels.

Management of the Hospital believes that sustained growth in patient volume, together with firm cost controls, will be increasingly important as the health care environment becomes more competitive. There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Hospital will occur.

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

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

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

Management of the Hospital believes that insurers will encourage competition among hospitals and providers on the basis of price and payment terms and quality. To some degree, payors have used these factors to direct patients to particular hospitals, physicians or other providers for specified services or to exclude hospitals, physicians or other providers from their network of providers. Because patients typically receive lower rates of reimbursement for using out-of-network providers, utilization of a provider, such as the Hospital, could be adversely affected as a result.

## **Workforce Shortages**

Health care providers depend on qualified nurses and allied health professionals to provide quality service to patients. There is currently a nationwide shortage of qualified nurses and allied health professionals. This shortage and the more stressful working conditions it creates for those remaining in the profession are increasingly

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

### **Increased Costs**

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

### **Outlier Payments**

In 2002, CMS initiated an audit of aggressive pricing strategies at one of the nation's largest hospital chains. The audit, which was designed to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations, focused on the charge data used by the hospitals to calculate their outlier reimbursements, and whether the charge data was inflated to increase reimbursements. The Office of Inspector General ("OIG") of DHHS and the Department of Justice have also initiated probes into the potentially abusive billing practices of such organizations.

Following the initiation of the above noted audit, CMS issued Program Memoranda to its fiscal intermediaries (*i.e.*, non-governmental organizations or agencies that contract with the federal government to process Medicare claims) directing them to analyze outlier payments and to identify other hospitals across the country with high outlier payments. CMS indicated that hospitals found to have engaged in strategies to obtain excessive outlier payments could be referred to the CMS Program Integrity Unit for further investigation, and, where appropriate, to the OIG. CMS also issued a rule that would change the way outlier payments are calculated commencing August 2003. The rule is intended to limit the opportunity of a hospital to manipulate the outlier formula to maximize reimbursement and allow recovery of overpayments in certain cases. There can be no assurance that the Hospital will not become the subject of an audit in the future with respect to its outlier payments. Any such audit could have a material adverse impact on the Hospital.

### **Federal and State "Fraud and Abuse" Laws and Regulations**

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

The OIG has published safe harbor regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements

or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to review the Special Fraud Alerts issued by the OIG for further guidance, seek an Advisory Opinion from OIG regarding the proposed arrangement, or alter them in order to ensure compliance with the Anti-Kickback Law. Failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful but may increase the likelihood of challenge.

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

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) created a new program operated jointly by DHHS and the United States Attorney General to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Law. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to federal health care programs, provides for intermediate sanctions and expands the scope of civil monetary penalties. Subsequent federal legislation expanded the authority of the OIG to exclude persons from federal health care programs, increased certain civil and monetary penalties for violations of the Anti-Kickback Law and added a new monetary penalty for persons who contract with a provider that the person knows or should know is excluded from the federal health care programs. Finally, actions which violate the Anti-Kickback Law or similar laws may also involve liability under the federal civil False Claims Act (the “FCA”), which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the FCA may be brought by the United States Attorney General or as a *qui tam* action.

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

### **False Claims**

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

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

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

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

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

### **Restrictions on Referrals**

The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits, subject to limited exceptions, a physician (or an immediate family member of such physician) who has a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services. The Stark Law also prohibits a person or entity from presenting or causing to be presented a claim for payment under the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology and certain other imaging services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services and supplies, durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), orthotics and prosthetic devices and supplies, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services (not including lithotripsy). Beginning January 2007, nuclear medicine services and supplies is included in the definition of designated health services.

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

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

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as “Stark”), is defined as either an ownership or investment interest in the entity or a compensation arrangement between the practitioner (or immediate family member) and the entity and includes certain indirect relationships. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services.

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

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

### **Joint Ventures**

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

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

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

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

## **HIPAA**

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

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

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

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

## **Regulation of Patient Transfer**

Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”) in response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided. This law mandates certain medical screening and stabilizing treatment requirements be met before a patient who is medically unstable or in labor may be transferred to another facility, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. This law applies even when the hospital is temporarily on diversion status. The law further prohibits hospitals delaying such screening or treatment in order to inquire about an individual's method of payment.

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

## **Enforcement and Accreditation Activity**

Enforcement activity against health care providers is increasing, and enforcement authorities are adopting more aggressive approaches. The Hospital is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among

others, the National Labor Relations Board and professional and industrial associations of staff and employees, applicable professional review organizations, The Joint Commission, the Environmental Protection Agency, the IRS and other federal, state and local governmental agencies, including those that administer the National Health Planning and Resources Development Act and the Occupational Safety Health Act.

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

Renewal and continuation of certain licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Hospital. 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 payments received by it or could require repayment of amounts which it had previously received.

### **OIG Compliance Guidelines**

In 1998, the OIG published Compliance Program Guidance for the hospital industry, which it supplemented in 2005 with the publication of the Supplemental Compliance Program Guidance 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. However, the presence of a compliance program is not an assurance that health care providers, such as the Hospital, will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that they will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs).

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

### **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 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. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

## Internal Revenue Code Limitations

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

Third-party reimbursement methodologies create financial incentives for hospitals to recruit and retain physicians who will admit patients and utilize hospital services. The Hospital's use of these incentives is limited, however, by legal restrictions, including limitations with respect to permitted activities of tax-exempt organizations and the federal Medicare and Medicaid statutes. As a tax-exempt organization, the Hospital is limited in its use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS has scrutinized a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents examine numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of certain health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status. The Hospital, like many hospitals, may have entered into arrangements, directly or through affiliates, with physicians that are of the kind that the IRS has indicated it will examine in connection with audits of tax-exempt hospitals. Any suspension, limitation, or revocation of the Hospital's tax-exempt status or assessment of significant tax liability could have a materially adverse effect on it and might lead to loss of tax exemption of interest on the Bonds. Management is not aware of any current inquiry, challenge or investigation, and believes that all such arrangements entered into by the Hospital are consistent in all material respects with the limits imposed on tax-exempt organizations.

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

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



data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

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

### **Tax Audits**

Taxing authorities have recently been conducting general tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Although the Hospital is not the subject of any such audit at this time, other hospitals located in the State have been the subject of such audits.

### **Antitrust**

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

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive advantage in expanding into ancillary health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

### **Environmental Matters**

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

## **Malpractice Lawsuits**

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

## **Technological Changes**

Medical research and resulting discoveries have grown exponentially in the last decade. Federal legislation was passed in 1992 that levied fees on industry to support a substantial upgrade and reorganization of the federal Food and Drug Administration, the agency that regulates the introduction of new drugs and devices to the market, for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices, which has cut in half the median time required for new drug approval. Other legislation decreased the types of devices regulated and reformed the biologics approval process. Once new drugs secure market approval, they are often included on hospitals' formularies — the list of drugs maintained by the hospitals for patient care. New drugs and devices could also reduce utilization or render obsolete the way that services are currently rendered, thereby either increasing expense or reducing revenues.

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

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

## **Future Legislation**

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

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

to generate net revenues sufficient to meet its obligations and to pay the debt service on the Bonds and its other obligations.

### **Other Risk Factors**

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

- Employee strikes and other adverse labor actions and conditions, which could result in a substantial reduction in revenues without a corresponding decrease in costs;
- Increased unemployment or other adverse economic conditions in the Hospital's service area which might increase the proportion of patients without health insurance benefits or who otherwise are unable to pay fully for the costs of their care;
- Efforts by employers to reduce the costs of health insurance by having employees bear a greater portion of their health care costs, causing employees to be more selective and cost-conscious in choosing health care services;
- Reduced need for hospitalization or other health care services arising from medical and scientific advances;
- Increases in cost and limitations in the availability of any insurance, such as fire, and/or business interruption, automobile and comprehensive general liability, that the Hospital generally carries;
- Developments affecting the federal or state tax-exempt status of not-for-profit hospitals or of securities such as the Bonds;
- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates;
- Bankruptcy of an indemnity/commercial insurer, managed care plan, provider or other payor;
- Acts of war or acts of so-called terrorists, including the use of weapons capable of mass destruction; and
- The need to find qualified replacements for the Hospital's workforce as existing employees reach retirement age.

## **PART 13 – BONDHOLDERS' RISKS**

The discussion herein of risks to Holders of the Series 2007 Bonds is not intended as dispositive, comprehensive or definitive, but rather is intended only to summarize certain matters which could affect payment on the Series 2007 Bonds. However, Holders of the Series 2007 Bonds should be aware that these matters and other potential risks and factors could adversely affect the Hospital's ability to make payments on the Note which support the Series 2007 Bonds, including the factors listed in "PART 11 – THE HOSPITAL" and "PART 12 – GENERAL FACTORS AFFECTING THE HOSPITAL'S REVENUES AND EXPENSES." Other sections of this Official Statement should be referred to for a more detailed description of risks described in this Section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal office of the Trustee.

### **General**

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

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

### **Adequacy of Revenues**

The Note, the Mortgage and the FHA Mortgage Insurance Benefits are the primary security for the Series 2007 Bonds. Reliance has been placed by the Authority upon the underwriting criteria utilized by FHA in insuring the Mortgage and as evidence of the adequacy of the Hospital’s revenues to maintain the Mortgaged Property and make the payments required under the Note and the Mortgage.

The ability of the Hospital to make payments under the Note and the Loan Agreement depends, among other things, on the capabilities of management, economic conditions including the demand for health care services, the ability of the Hospital to provide services required by patients and physicians, confidence in the Hospital, competition from other health care facilities in the Hospital’s service area, various third-party reimbursement programs (including Medicare and Medicaid), and other factors. See “PART 11 — THE HOSPITAL.”

### **Forward Looking Statements**

Certain statements in this Official Statement that relate to the Hospital, including, but not limited to, statements in “PART 11 – THE HOSPITAL” and “PART 12 – GENERAL FACTORS AFFECTING THE HOSPITAL’S REVENUES AND EXPENSES” are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the Hospital. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Hospital to be materially different from any expected future results or performance. Such factors include, but are not limited to, items described in “PART 11 – THE HOSPITAL” and “PART 12 – GENERAL FACTORS AFFECTING THE HOSPITAL’S REVENUES AND EXPENSES.”

### **Enforceability of Remedies Generally and Bankruptcy**

The Series 2007 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement, the Mortgage and the FHA Documents. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Loan Agreement and the Mortgage may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2007 Bonds will be qualified as to enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors’ rights generally.

The rights and remedies of the Holders of the Series 2007 Bonds are subject to various provisions of title 11 of the United States Code (the “Bankruptcy Code”). If the Hospital 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 a foreclosure proceeding under the Mortgage. The Hospital would not be permitted or required to make payments of principal or interest under the Loan Agreement and the Note, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on the Series 2007 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Hospital, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Authority’s continuing security interest in the Hospital’s

gross revenues arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Authority or the Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Hospital under the Note and the Loan Agreement, and may adversely affect the Authority's and Trustee's ability to take all steps necessary to file a claim under the FHA Documents on a timely basis.

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

### **Reduction or Loss of Mortgage Insurance**

As more fully discussed above under "PART 6 — FHA MORTGAGE INSURANCE," the failure of the Hospital to maintain adequate casualty insurance on the Project and Mortgaged Property, and the Authority's failure to obtain such insurance in lieu thereof, may result in the loss of Mortgage Insurance Benefits. Mortgage Insurance Benefits may also be lost for failure to pay required Mortgage Insurance premiums to FHA and failure to provide FHA with required notices or otherwise to comply with FHA rules and regulations governing insurance claims. The Servicing Agreement requires that the Mortgage Servicer supervise the Hospital with regard to the payment of casualty and Mortgage Insurance premiums, and that the Mortgage Servicer provide FHA with required notices, in some cases at the direction of the Authority. To the extent offsets are made in the payment of the Mortgage Insurance Benefits, depending upon the amount of such offsets, the total amount of the Mortgage Insurance Benefits may not be adequate to provide for the timely payment of the principal amount of and interest on the Series 2007 Bonds.

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

### **Event of Taxability**

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

### **Adequacy of the Debt Service Reserve Fund**

As described in "PART 3 — THE SERIES 2007 BONDS — Security for the Series 2007 Bonds" and "PART 2 — PLAN OF FINANCING — Payment of FHA Mortgage Insurance Benefits," the Debt Service Reserve Fund has been established to provide additional funds for payment of the maturing principal of and interest on the Series 2007 Bonds in the event of a default under the Note and Mortgage and the assignment of the Note and Mortgage to FHA because the Mortgage Insurance Benefits will not be paid immediately. FHA regulations, however, do not permit the Trustee to give notice of assignment to FHA following a payment default on the Note and Mortgage until after the expiration of a 30-day grace period. It is expected that the Mortgage Insurance Benefits

and certain other moneys held by the Trustee should be sufficient to provide for the payment of all of the Series 2007 Bonds Outstanding prior to their maturity, together with interest thereon when due, in the event of a default under the Note and Mortgage and the assignment thereof to FHA. In addition, certain funds deposited in the Debt Service Reserve Fund should be sufficient, together with certain other moneys held by the Trustee for such purpose, to pay interest on and maturing Principal Amount of the Series 2007 Bonds, pending receipt of full payment of the Mortgage Insurance Benefits, for a period of twelve months. However, no assurance can be given that the Mortgage Insurance Benefits and the amounts available in the Debt Service Reserve Fund will be sufficient to pay in full or when due the maturing Principal Amount of and interest on the Series 2007 Bonds in the event of a default under the Note and Mortgage and the assignment thereof to FHA if the final payment of the Mortgage Insurance Benefits is not made prior to the third Interest Payment Date from the date of default under the Note and Mortgage.

Payment of Mortgage Insurance Benefits may be delayed, for example, due to a delay in the assignment of the Note and Mortgage to FHA, or if disputes arise with FHA as to the amount of the claim or the payment thereof. Further, delays could occur if a bankruptcy proceeding is commenced by or against the Hospital following a default under the Note and the Mortgage, and if a temporary restraining order is issued by a bankruptcy court against assignment of the Note and the Mortgage to FHA. In the event of a default under the Note and the Mortgage, the Authority is required by the terms of the Resolution to take all actions necessary to assign the Note and the Mortgage to FHA and recover the Mortgage Insurance Benefits pursuant to the schedule described in “PART 6 — FHA MORTGAGE INSURANCE — Default and Payment of Mortgage Insurance Benefits.”

### **Secondary Market**

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

## **PART 14 – THE AUTHORITY**

### **Background, Purposes and Powers**

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

On September 1, 1995, the Authority through State legislation (the “Consolidation Act”) succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the “Agency”) and the Facilities Development Corporation (the “Corporation”), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance

organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

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

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

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

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

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

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

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
State University of New York Dormitory Facilities .....	\$ 1,975,416,000	\$ 752,200,000	\$ 0	\$ 752,200,000
State University of New York Educational and Athletic Facilities .....	11,351,092,999	4,656,433,960	0	4,656,433,960
Upstate Community Colleges of the State University of New York.....	1,366,010,000	575,980,000	0	575,980,000
Senior Colleges of the City University of New York	8,609,563,549	3,146,002,270	0	3,146,002,270
Community Colleges of the City University of New York .....	2,194,081,563	549,157,730	0	549,157,730
BOCES and School Districts.....	1,569,416,208	1,180,200,000	0	1,180,200,000
Judicial Facilities.....	2,161,277,717	745,382,717	0	745,382,717
New York State Departments of Health and Education and Other .....	3,182,915,000	1,988,005,000	0	1,988,005,000
Mental Health Services Facilities .....	5,682,130,000	3,719,825,000	0	3,719,825,000
New York State Taxable Pension Bonds .....	773,475,000	0	0	0
Municipal Health Facilities Improvement Program .....	<u>913,895,000</u>	<u>827,890,000</u>	<u>0</u>	<u>827,890,000</u>
Total Public Programs.....	\$ <u>39,779,273,036</u>	\$ <u>18,141,076,677</u>	\$ <u>0</u>	\$ <u>18,141,076,677</u>
		<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
Independent Colleges, Universities and Other Institutions .....	\$ 14,453,076,020	\$ 6,877,178,039	\$ 151,373,000	\$ 7,028,551,039
Voluntary Non-Profit Hospitals .....	12,032,779,309	7,404,650,000	0	7,404,650,000
Facilities for the Aged.....	1,960,585,000	1,065,765,000	0	1,065,765,000
Supplemental Higher Education Loan Financing Program .....	<u>95,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Non-Public Programs.....	\$ <u>28,541,440,329</u>	\$ <u>15,347,593,039</u>	\$ <u>151,373,000</u>	\$ <u>15,498,966,039</u>
GRAND TOTAL BONDS AND NOTES	\$ <u>68,320,713,365</u>	\$ <u>33,488,669,716</u>	\$ <u>151,373,000</u>	\$ <u>33,640,042,716</u>

### Outstanding Indebtedness of the Agency Assumed by the Authority

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

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

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



## Governance

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

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

The current members of the Authority are as follows:

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

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

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

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

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

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of

Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expires on March 31, 2008.

BRIAN RUDER, Scarsdale.

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

ANTHONY B. MARTINO, CPA, Buffalo.

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

SANDRA M. SHAPARD, Delmar.

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

ROMAN B. HEDGES, Delmar.

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

research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

KEVIN R. CARLISLE, Averill Park.

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

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

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

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

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

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

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

The principal staff of the Authority is as follows:

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

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

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

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

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

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

## **Claims and Litigation**

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

## **Other Matters**

### ***New York State Public Authorities Control Board***

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

### ***Legislation***

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

### ***Environmental Quality Review***

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

### ***Independent Auditors***

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

## **PART 15 – LEGALITY OF THE SERIES 2007 BONDS FOR INVESTMENT AND DEPOSIT**

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

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

## **PART 16 – STATE'S RIGHT TO REQUIRE REDEMPTION OF BONDS**

Under the Act, notwithstanding and in addition to any provisions for the redemption of bonds which may be contained in the Resolution or the Series 2007 Bonds, the State may, upon furnishing sufficient funds therefor,

require the Authority to redeem, prior to maturity, as a whole, any issue of bonds, including the Series 2007 Bonds, on any interest payment date not less than twenty years after the date of the bonds of such issue at one hundred five per centum (105%) of their face value and accrued interest or at such lower redemption price as may be provided in such bonds in case of the redemption thereof as a whole on the redemption date.

#### **PART 17 – NEGOTIABLE INSTRUMENTS**

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

#### **PART 18 – TAX MATTERS**

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2007 Bonds in order that interest on the Series 2007 Bonds will be and remain not includable in gross income under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, required ownership of a facility by a Section 501(c)(3) organization or a governmental unit, limits on the amount of tax-exempt financing of capital expenditures incurred on or before August 5, 1997, from which certain users of the facilities resulting from such expenditures (and related parties) may benefit, and the rebate to the United States of certain earnings with respect to investments. Failure to comply with the continuing requirements may cause interest on the Series 2007 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Bond Resolution, Series 2007 Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Hospital have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code.

In the opinion of Winston & Strawn LLP, New York, New York (“Bond Counsel”), based upon an analysis of existing statutes, regulations, rulings and court decisions, interest on the Series 2007 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance by the Authority and the Hospital (and their successors) with the covenants, and the accuracy of the representations (as to which Bond Counsel has made no independent investigation) referenced above. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

In addition, Bond Counsel has relied on the opinions of Dennett Law Offices, P.C., special counsel to the Hospital, regarding the current qualification of the Hospital as an organization described in Section 501(c)(3) of the Code, and other matters. Neither Bond Counsel nor Dennett Law Offices, P.C. can give or has given any opinion or assurance about the future activities of the Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of the Hospital 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 may result in interest payable with respect to the Series 2007 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2007 Bonds.

Certain requirements and procedures contained or referred to in the Bond Resolution, the Series 2007 Resolution, the Loan Agreement, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2007 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Bond Counsel is further of the opinion that interest on the Series 2007 Bonds is not an “item of tax preference” for purposes of the federal alternative minimum tax on individuals and corporations. However, interest on the Series 2007 Bonds owned by corporations (other than S corporations, Regulated Investment Companies, Real Estate Investment Trusts, Real Estate Mortgage Investment Conduits and Financial Asset Securitization Investment Trusts) will be included in the calculation of adjusted current earnings, a portion of which is an adjustment to corporate alternative minimum taxable income for purposes of calculating the alternative minimum tax imposed on

corporations (but not individuals). Corporate purchasers of the Series 2007 Bonds should consult their tax advisors concerning the computation of any alternative minimum tax.

Certain maturities of the Series 2007 Bonds may be initially offered to the public at prices less than the principal amount thereof payable at maturity. If the first price at which a substantial amount of the Series 2007 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or brokers) is less than the principal amount thereof payable at maturity, the difference between such price and the principal amount constitutes original issue discount with respect to each Series 2007 Bond of the same maturity (the "Discount Series 2007 Bonds"). Bond Counsel is of the opinion that original issue discount, as it accrues, is not includable in gross income for federal income tax purposes, and is subject to the alternative minimum tax, to the same extent as interest on the Series 2007 Bonds. Original issue discount accrues in each taxable year over the term of the Discount Series 2007 Bonds under the "constant yield method" described in the regulations interpreting Code Section 1272, with certain adjustments. Original issue discount may be treated as continuing to accrue even if payment of the Discount Series 2007 Bonds becomes doubtful. Accruals of original issue discount are treated as tax-exempt interest earned by owners of Discount Series 2007 Bonds who are on the accrual basis of tax accounting and as tax-exempt interest received by owners of Discount Series 2007 Bonds who are on the cash basis of tax accounting (with possible tax consequences under the alternative minimum tax, as described above), even though no cash corresponding to the accrual is received in the year of accrual. The tax basis of a Discount Series 2007 Bond, if held by an original purchaser, can be determined by adding to such owner's purchase price of such Discount Series 2007 Bond, the original issue discount that has accrued. Owners of Discount Series 2007 Bonds should consult their own tax advisors with respect to the calculation of the amount of original issue discount that will be treated for federal income tax purposes as having accrued for any taxable year (or portion thereof) of such owner and with respect to other federal, state, and local tax consequences of owning and disposing of the Discount Series 2007 Bonds.

Certain maturities of the Series 2007 Bonds may be initially offered to the public at prices in excess of their principal amounts (the "Premium Series 2007 Bonds"). Bond Counsel is of the opinion that the initial purchaser (other than a purchaser who holds such Series 2007 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) with an initial adjusted basis in a Premium Series 2007 Bond in excess of its principal amount will have amortizable bond premium that is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of such Premium Series 2007 Bond based on the purchaser's yield to maturity (or, in the case of Premium Series 2007 Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Series 2007 Bond, an initial purchaser is required to decrease such purchaser's adjusted basis in such Premium Series 2007 Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning Premium Series 2007 Bonds. Owners of Premium Series 2007 Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning Premium Series 2007 Bonds.

Prospective purchasers of the Series 2007 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of tax-exempt obligations may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2007 Bonds. Bond Counsel expresses no opinion regarding any such collateral consequences.

In the further opinion of Bond Counsel, the interest on the Series 2007 Bonds is exempt under existing statutes from personal income taxes of the State of New York and its political subdivisions (including The City of New York).

On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities, agencies and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities, agencies and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including the Series 2007 Bonds. The impact of this decision may also affect the market price for, the marketability of, the Series 2007 Bonds.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2007 Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to registered owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2007 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2007 Bonds. No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, will not cause interest on the Series 2007 Bonds to be subject, directly or indirectly, to federal or State or local income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2007 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation. Further no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to regulation, ruling, or selection of the Series 2007 Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2007 Bonds, or obligations which present similar tax issues, will not affect the market price of the Series 2007 Bonds.

#### **PART 19 – STATE AND FHA NOT LIABLE ON THE SERIES 2007 BONDS**

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

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

#### **PART 20 – 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 hereby vested in the Authority to fulfill the terms of any agreements made with the holders thereof, or in any way impair the rights and remedies of such holders until such notes or bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an



important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes and bonds.

#### **PART 21 – LEGAL MATTERS**

Certain legal matters incidental to the authorization and issuance of the Series 2007 Bonds by the Authority are subject to the approval of Winston & Strawn LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2007 Bonds. The proposed form of the opinion of Bond Counsel to the Authority is set forth in Appendix E hereto. Certain legal matters will be passed upon for the Mortgage Servicer by its counsel, Krooth & Altman LLP, Washington, D.C.

Certain legal matters will be passed upon for the Hospital by its counsel, Dennett Law Offices, P.C., Great Neck, New York and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York.

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

#### **PART 22 – UNDERWRITING**

The underwriters listed on the cover page of this Official Statement (the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the Series 2007 Bonds from the Authority at a purchase price of \$295,697,099.04 (representing the par amount of the Series 2007 Bonds plus a net original issue premium of \$1,591,000.10 and less an Underwriters' discount of \$1,968,901.06) and to make a public offering of the Series 2007 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement plus accrued interest. The Underwriters will be obligated to purchase all such Series 2007 Bonds if any are purchased.

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

#### **PART 23 – CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended ("Rule 15c2-12"), the Hospital has undertaken in a written agreement (the "Continuing Disclosure Agreement") for the benefit of the Bondholders to provide to Digital Assurance Certification LLC ("DAC"), on behalf of the Authority as the Authority's disclosure dissemination agent, on or before 165 days after the end of each fiscal year, commencing with the fiscal year of the Hospital ending December 31, 2007, for filing by DAC with each Nationally Recognized Municipal Securities Information Repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a "Repository"), and, if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, operating data and financial information of the type hereinafter described which is included in "PART 11 — THE HOSPITAL" of this Official Statement (the "Annual Information"), together with the Hospital's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to each Repository and to the State Information Depository when they become available.

If, and only if and to the extent that, it receives the Annual Information and annual financial statements described above from the Hospital, DAC has undertaken in the Continuing Disclosure Agreement, on behalf of and as agent for the Hospital and the Authority, to file such information and financial statements, as promptly as

practicable, but no later than three Business Days after receipt of the information by DAC from the Hospital, with each such Repository and the State Information Depository.

The Hospital also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”). In addition, the Authority and the Trustee have undertaken, for the benefit of the Bondholders, to provide such Notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Hospital, the Trustee or the Authority, DAC will file the Notices with each such Repository or the Municipal Securities Rulemaking Board (the “MSRB”), and the State Information Depository, in a timely manner. With respect to the Series 2007 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Hospital, the Authority or the Trustee has provided such information to DAC as required by the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, audited financial statements, Notices or any other information, disclosures or notices provided to it by the Hospital, Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Trustee, the Hospital, the Holders of the Series 2007 Bonds or any other party. DAC has no responsibility for the Authority’s failure to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Hospital, Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Hospital, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement. In the event the obligations of DAC as the Authority’s disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information means annual information concerning the Hospital which consists of operating data and financial information of the type included in “PART 11 — THE HOSPITAL” including: (i) utilization statistics of the type set forth under the headings “Utilization” (including under the subheading “*Management’s Discussion of Utilization*”); (ii) revenue and expense data of the type set forth under the headings “Summary of Historical Revenue and Expenses” (including under the subheading “*Management’s Discussion and Analysis of Recent Financial Performance*”); (iii) information on the sources of patient service revenue of the type set forth under the subheading “Sources of Service Revenue and Reimbursement Methodologies;” (iv) revenue, expense and/or fund data of the type set forth under the headings “Liquidity,” “Debt Service Coverage” (excluding pro forma statistics), “Investments” and “Capitalization” and (v) outstanding indebtedness, unless such information is included in the financial statements of the Hospital, together with a narrative explanation as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Hospital.

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

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement to provide continuing disclosure described above is an action to compel specific performance of the undertaking of DAC, the Hospital, the Trustee and/or the Authority, and no person, including any Holder of the Series 2007 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the Hospital may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2007 Bonds or

by the Trustee on behalf of the Holders of Outstanding Series 2007 Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of the Series 2007 Bonds; provided, however, that the Trustee is not required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2007 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

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

#### **PART 24 – RATINGS**

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

#### **PART 25 – MISCELLANEOUS**

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

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

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

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

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

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

The Bond Insurer provided the information relating to the Bond Insurer and the Policy in “PART 5 – BOND INSURANCE” and in “Appendix F – Specimen Bond Insurance Policy.” The Authority believes that this information is reliable, but the Authority and the Underwriters make no representations or warranties whatsoever as to the accuracy or completeness of this information.

“Appendix A — Certain Definitions,” “Appendix C — Summary of Certain Provisions of the Bond Resolution,” “Appendix D — Summary of Certain Provisions of the Loan Agreement,” and “Appendix E — Form of Approving Opinion of Bond Counsel to the Authority” have been prepared by Winston & Strawn LLP, New York, New York, Bond Counsel to the Authority.

The Hospital has reviewed the parts of the Official Statement under the captions “PART 1 – INTRODUCTION – Purpose of the Financing,” “PART 1 – INTRODUCTION – Description of the Program,” “PART 1 – INTRODUCTION – The Institution,” “PART 2 – PLAN OF FINANCING” (except for the information under the undesignated paragraph immediately preceding the subcaption “Construction Fund Disbursements” and under the subcaptions “Payment of FHA Mortgage Insurance Benefits” and “Prepayment of Note from Hazard Insurance Proceeds or Condemnation Awards”), “PART 8 – THE PROJECT,” “PART 9 – ESTIMATED SOURCES AND USES OF FUNDS,” “PART 11 – THE HOSPITAL,” “PART 12 – GENERAL FACTORS AFFECTING THE HOSPITAL’S REVENUES AND EXPENSES,” “PART 13 – BONDHOLDERS’ RISKS,” “PART 25 – MISCELLANEOUS” (to the extent that it describes information provided by the Hospital) and “Appendix B-1 – Audited Financial Statements of The New York and Presbyterian Hospital” and “Appendix B-2 — Unaudited Interim Financial Statements of The New York and Presbyterian Hospital”. The Hospital shall certify as of the dates of sale and delivery of the Series 2007 Bonds that such parts do not contain any untrue statement of material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

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

The Hospital has agreed with the Authority to furnish, or cause to be furnished, no later than 60 days subsequent to the last day of each of the first three quarters in each fiscal year and no later than 90 days subsequent to the fourth quarter of each fiscal year, beginning with the fiscal quarter that commenced July 1, 2007, to (i) the Authority, (ii) each Repository, and (iii) each Bondholder who has so requested, the following information: (a) the unaudited consolidated financial statements of the Hospital including the statement of financial position as of the end of such quarter, the statement of operations for the fiscal year to date and for the comparable prior year period, and changes in net assets and cash flow; (b) utilization statistics for the fiscal year to date and for the comparable prior year period, including certified beds, total discharges, patient days, average length of stay, emergency room visits, ambulatory surgery visits and ambulatory care visits; and (c) percentage of patient discharges by net patient service revenue source. In the event that the Hospital satisfies its requirement to provide annual information in accordance with the Continuing Disclosure Agreement prior to 90 days subsequent to the fourth quarter of any fiscal year, the submission under the Continuing Disclosure Agreement will satisfy the requirement of the fourth quarter.

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

**DORMITORY AUTHORITY OF  
THE STATE OF NEW YORK**

By: /s/ David D. Brown, IV  
Authorized Officer

**CERTAIN DEFINITIONS**

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## CERTAIN DEFINITIONS

In addition to the other terms defined in this Official Statement, when used in the summaries of certain provisions of The New York and Presbyterian Hospital Resolution and the Loan Agreement, the following terms have the meanings ascribed to them below:

**Act** means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law, as amended).

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

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

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

**Arbitrage Rebate Fund** means the fund so designated and established by an Applicable Series Resolution pursuant to The New York and Presbyterian Hospital Resolution.

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

**Authorized Newspaper** means *The Bond Buyer* or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five (5) days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

**Authorized Officer** means (i) in the case of the Authority, the Chair, the Vice-Chair, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the Managing Director of Portfolio Management and the General Counsel, and when used with reference to any act or

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

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

**Bond or Bonds** means the Series 2007 Bonds and any other Series of bonds of the Authority authorized pursuant to The New York and Presbyterian Hospital Resolution and issued pursuant to an Applicable Series Resolution.

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

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

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

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

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

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



**Bondholder, Holder of Bonds or Holder** means when used with reference to a Bond or Bonds of a Series, the registered owner of any Bonds of such Series.

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

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

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

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

**Collateral Account** means each such account authorized to be created pursuant to The New York and Presbyterian Hospital Resolution in each Debt Service Reserve Fund and so designated and established by the Applicable Series Resolution.

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

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

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

**Cost or Costs of the Project** means, with respect to an Applicable Project, costs and expenses or the refinancing or refunding of bonds of a public benefit corporation issued to pay all costs and expenses determined by the Authority to be necessary in connection therewith, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, renovation, repair and improvement of such Project, (iii) the cost of surety bonds and insurance of all

kinds including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution shall be required to pay for the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement and equipping of such Project, (vii) any sums required to reimburse the Institution or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with such Project, (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement or equipping of such Project, (ix) the costs and expenses incurred in connection with the refinancing of any outstanding indebtedness constituting a lien on the Mortgaged Property or the Project, including the cost of acquiring, refinancing and/or accepting assignment of, an existing FHA Insured Note, and (x) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant hereto, to the Loan Agreement, the FHA Documents, or to the Servicing Agreement; provided that payment of any such costs with moneys in the Mortgage Account or the Equity Account shall have been either endorsed for Mortgage Insurance or approved for release by FHA.

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

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

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

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

**Exempt Obligation** means an obligation of any state or territory of the United States of America or any political subdivision, agency, authority, public benefit corporation or instrumentality of any such state or territory, the interest on which is excludable from gross income under Section 103 of the Code and which is not a "specific private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation, no lower than the second

highest rating category for such obligation by at least two nationally recognized rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

**Federal Agency Obligation** means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized rating services; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency or instrumentality approved by the Authority and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized rating services; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

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

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

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

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

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

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

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

**Government Obligation** means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal

and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

**Governmental Requirements** means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to a Project or any Mortgaged Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over such Project or the Mortgaged Property or any part of either.

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

**Institution** means The New York and Presbyterian Hospital, a New York not-for-profit corporation, for whose benefit the Authority shall have issued Bonds under the Resolution and with which the Authority shall have executed one or more Loan Agreements

**Insurance and Condemnation Account** means each such account authorized to be created pursuant to The New York and Presbyterian Hospital Resolution in each Construction Fund and so designated and established by the Applicable Series Resolution.

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

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

**Investment Income Account** means each such account authorized to be created pursuant to The New York and Presbyterian Hospital Resolution in each Construction Fund and so designated and established by the Applicable Series Resolution.

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

**Letter of Credit** means, with respect to an Applicable Series of Bonds, an irrevocable letter of credit, or as appropriate, a confirmation or confirming letter of credit, issued in favor of the Authority or the Applicable Trustee,

as the case may be, in form and substance satisfactory to the Authority and the Applicable Bond Insurer or the Applicable Trustee, as the case may be.

**Mortgage** means a mortgage granted by the Institution to the Authority in connection with the issuance of an Applicable Series of Bonds to secure the Mortgage Loan evidenced by a Note, in form and substance satisfactory to the Authority and in conformance with the Act, on the Mortgaged Property mortgaged in connection therewith, as such Mortgage may be amended, supplemented or modified.

**Mortgage Account** means each such account authorized to be created pursuant to The New York and Presbyterian Hospital Resolution in each Construction Fund and so designated and established by the Applicable Series Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Outstanding** when used in reference to Bonds of an Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered 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 defeased; and (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to The New York and Presbyterian Hospital Resolution.

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

**Permitted Investments** means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) collateralized certificates of deposit that are: (A) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized rating service in at least the second highest rating category; and (B) are fully collateralized by Permitted Collateral; and (vi) Investment Agreements that are fully collateralized by Permitted Collateral.

**Project** shall mean such project with respect to which the Authority has authorized the making of a federally insured Mortgage Loan to the Institution pursuant to the provisions of the Act, which loan or portion thereof shall be evidenced by the Loan Agreement, Mortgage and a Note insured for Mortgage Insurance by FHA.

**Qualified Financial Institution** means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000: (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation; and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers; and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds; (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank,

a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds; (iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds; (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, the Student Loan Marketing Association, or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or (v) a corporation whose obligations, including any investments of any moneys held under the Resolution purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above, and provided further, that in the case of any entity described in (i) (ii), (iii) or (v) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement, insurance policy or surety bond issued by any such organization: (A) if no Bond Insurance Policy has been issued with respect to a Series of Bonds, have been assigned a credit rating by the Rating Service(s) rating the Bonds which is not lower than the rating then assigned by such Rating Service (i.e., at the time an Investment Agreement is entered into or Letter of Credit is delivered) to the Outstanding Bonds of the Series of Bonds with respect to which such Investment Agreement has been entered into or Letter of Credit is delivered: or (B) if a Bond Insurance Policy has been issued by an Applicable Bond Insurer then the Applicable Bond Insurer and the Authority shall approve such entity.

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

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

**Refunding Bonds** means all Bonds, issued pursuant to The New York and Presbyterian Hospital Resolution to refund outstanding Bonds.

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

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

**Reserve Account** means the account so designated and established by the Applicable Series Resolution pursuant to The New York and Presbyterian Hospital Resolution.

**Reserve Account Requirement** means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate and subject to the limitations of the Code, as of any particular date of computation, with respect to Bonds of an Applicable Series, an amount equal to not less than the sum of (i) the maximum Principal Amount of the Bonds of such Series constituting Serial Bonds and interest thereon anticipated to come due in any twelve (12) month period; (ii) an amount equal to the maximum amount of interest on the Bonds

of such Series constituting Term Bonds coming due in any twelve (12) month period; and (iii) the greater of (A) one month's principal and interest on the Applicable Note or (B) one month's interest only calculated at the interim mortgage rate on the face amount of the Applicable Note.

**Resolution** means The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bond Resolution adopted by the members of the Authority on February 28, 2007 as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

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

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

**Series** means all of the Bonds authenticated and delivered on original issuance and pursuant to The New York and Presbyterian Hospital 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 New York and Presbyterian Hospital Resolution.

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

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

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

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

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

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

**Supplemental Resolution** means any resolution amending or supplementing The New York and Presbyterian Hospital Resolution, any Applicable Series Resolution or any Supplemental Resolution.

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

**Surplus Account** means each such account authorized to be created pursuant to The New York and Presbyterian Hospital Resolution in each Debt Service Fund and so designated and established by the Applicable Series Resolution.

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



**Trust Revenues** means all moneys, securities and instruments received or held by the Applicable Trustee pursuant to The New York and Presbyterian Hospital Resolution, the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Note deposited in the Debt Service Fund (other than the Purchase Account), the Construction Fund (other than the Equity Account and the Insurance and Condemnation Account and subject to the restrictions of The New York and Presbyterian Hospital Resolution), the Debt Service Reserve Fund and the Redemption Account, all payments of principal and interest on the Applicable Note (less the Servicing Fee and any Mortgagee Advances), all Mortgage Insurance Benefits paid by FHA with respect to such Note and Mortgage, less any Mortgagee Advances, all insurance proceeds and condemnation awards which are to be applied pursuant to the provisions of The New York and Presbyterian Hospital Resolution and the Applicable Loan Agreement to the reduction of the outstanding principal balance of such Note and investment income on the foregoing (subject to the restrictions of The New York and Presbyterian Hospital Resolution).

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**AUDITED FINANCIAL STATEMENTS OF THE  
NEW YORK AND PRESBYTERIAN HOSPITAL**

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FINANCIAL STATEMENTS

The New York and Presbyterian Hospital

Years ended December 31, 2006 and 2005  
with Report of Independent Auditors

# The New York and Presbyterian Hospital

## Financial Statements

Years ended December 31, 2006 and 2005

### Contents

Report of Independent Auditors .....	1
Statements of Financial Position.....	2
Statements of Operations .....	4
Statements of Changes in Net Assets .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements.....	7

## Report of Independent Auditors

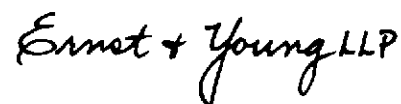
The Board of Trustees  
The New York and Presbyterian Hospital

We have audited the accompanying statements of financial position of The New York and Presbyterian Hospital (the "Hospital") as of December 31, 2006 and 2005, and the related 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 financial position of The New York and Presbyterian Hospital at December 31, 2006 and 2005, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 9 to the accompanying financial statements, in 2006 the Hospital changed its method of accounting for defined benefit pension and other postretirement plans.



April 6, 2007

The New York and Presbyterian Hospital

Statements of Financial Position

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 59,460	\$ 22,569
Short-term investments <i>(Note 3)</i>	29,029	11,730
Patient accounts receivable, less allowance for uncollectibles (2006—\$187,498; 2005—\$182,183)	395,995	336,296
Other current assets	38,205	34,337
Assets limited as to use—current portion <i>(Notes 3 and 5)</i>	16,761	14,773
Beneficial interest in net assets held by related organizations—current portion <i>(Note 7)</i>	62,000	61,906
Total current assets	<b>601,450</b>	481,611
Assets limited as to use—noncurrent <i>(Notes 3 and 5)</i> :		
Funded depreciation	414,771	435,910
Capital acquisition under lease agreements	9,161	15,496
Mortgage reserve funds under bond agreements	144,228	134,631
Debt escrow fund	12,494	11,853
Total assets limited as to use—noncurrent	<b>580,654</b>	597,890
Property, buildings and equipment—net <i>(Note 4)</i>	<b>1,401,644</b>	1,401,161
Other noncurrent assets, net <i>(Notes 9 and 10)</i>	13,591	12,715
Beneficial interest in net assets held by related organizations—noncurrent <i>(Note 7)</i>	<b>1,165,912</b>	1,014,831
Total assets	<b>\$ 3,763,251</b>	<b>\$ 3,508,208</b>

See accompanying notes.



	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt <i>(Note 5)</i>	\$ 55,057	\$ 51,485
Accounts payable and accrued expenses	195,477	174,599
Accrued salaries and related liabilities	144,522	126,828
Due to related organizations—net <i>(Note 10)</i>	7,212	18,517
Current portion of pension and postretirement benefit liabilities <i>(Note 9)</i>	8,814	—
Other current liabilities <i>(Note 2)</i>	52,320	50,725
Total current liabilities	<u>463,402</u>	<u>422,154</u>
Long-term debt <i>(Note 5)</i>	657,441	710,721
Estimated self-insurance and other professional liabilities <i>(Note 8)</i>	131,442	123,641
Pension liability <i>(Note 9)</i>	74,576	88,941
Postretirement benefit liability <i>(Note 9)</i>	35,294	34,882
Deferred revenue <i>(Note 5)</i>	15,422	17,766
Other noncurrent liabilities <i>(Note 2)</i>	117,738	160,060
Total liabilities	<u>1,495,315</u>	<u>1,558,165</u>
Commitments and contingencies <i>(Notes 5, 6, 8, 9 and 12)</i>		
Net assets:		
Unrestricted	1,019,001	847,283
Temporarily restricted—held by Hospital	21,023	26,023
Temporarily restricted—held by related organization	1,011,602	926,306
Total temporarily restricted	<u>1,032,625</u>	<u>952,329</u>
Permanently restricted—held by related organizations	216,310	150,431
Total net assets	<u>2,267,936</u>	<u>1,950,043</u>
Total liabilities and net assets	<u>\$ 3,763,251</u>	<u>\$ 3,508,208</u>

The New York and Presbyterian Hospital

Statements of Operations

	<b>Year ended December 31</b>	
	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>	
<b>Revenue, gains and other support</b>		
Net patient service revenue	<b>\$ 2,599,464</b>	\$ 2,414,250
Other revenue <i>(Note 11)</i>	<b>234,083</b>	187,426
Total revenue, gains and other support	<b>2,833,547</b>	2,601,676
<b>Operating expenses</b>		
Salaries and wages	<b>1,240,718</b>	1,134,390
Employee benefits	<b>304,187</b>	278,226
Supplies and other expenses	<b>986,262</b>	923,154
Interest and amortization of deferred financing fees	<b>43,926</b>	46,124
Depreciation and amortization	<b>167,636</b>	159,657
Total operating expenses	<b>2,742,729</b>	2,541,551
Excess of revenue, gains and other support over expenses	<b>90,818</b>	60,125
Other changes in unrestricted net assets:		
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	<b>78,567</b>	34,558
Transfer to Royal Charter Properties, Inc.	<b>(1,000)</b>	(1,000)
Change in additional minimum pension liability <i>(Note 9)</i>	<b>31,410</b>	(24,050)
Change in unrestricted net assets before change in accounting principle	<b>199,795</b>	69,633
Change in accounting principle <i>(Note 9)</i>	<b>(28,077)</b>	—
Change in unrestricted net assets	<b>\$ 171,718</b>	\$ 69,633

*See accompanying notes.*

# The New York and Presbyterian Hospital

## Statements of Changes in Net Assets

	Unrestricted	Temporarily Restricted— Building and Equipment Replacement	Beneficial Interest in Temporarily and Permanently Restricted Net Assets Held by Related Organizations					Total Net Assets
			Plant Replacement	Specific Purpose	Endowment Earnings	Total Temporarily Restricted	Permanently Restricted	
<i>(In Thousands)</i>								
Net assets at January 1, 2005	\$ 777,650	\$ 31,023	\$ 259,161	\$ 297,719	\$ 229,229	\$ 786,109	\$ 141,296	\$1,736,078
Change in unrestricted net assets	69,633	—	—	—	—	—	—	69,633
Changes in beneficial interest in net assets held by related organizations ( <i>Note 7</i> )	—	—	97,536	35,290	7,371	140,197	9,135	149,332
Net assets released from restrictions for operations	—	(5,000)	—	—	—	—	—	(5,000)
Change in net assets	69,633	(5,000)	97,536	35,290	7,371	140,197	9,135	213,965
Net assets at December 31, 2005	847,283	26,023	356,697	333,009	236,600	926,306	150,431	1,950,043
Change in unrestricted net assets before change in accounting principle	<b>199,795</b>	—	—	—	—	—	—	<b>199,795</b>
Changes in beneficial interest in net assets held by related organizations ( <i>Note 7</i> )	—	—	<b>35,044</b>	<b>38,088</b>	<b>12,164</b>	<b>85,296</b>	<b>65,879</b>	<b>151,175</b>
Net assets released from restrictions for operations	—	<b>(5,000)</b>	—	—	—	—	—	<b>(5,000)</b>
Change in net assets before change in accounting principle	<b>199,795</b>	<b>(5,000)</b>	<b>35,044</b>	<b>38,088</b>	<b>12,164</b>	<b>85,296</b>	<b>65,879</b>	<b>345,970</b>
Change in accounting principle	<b>(28,077)</b>	—	—	—	—	—	—	<b>(28,077)</b>
Change in net assets	<b>171,718</b>	<b>(5,000)</b>	<b>35,044</b>	<b>38,088</b>	<b>12,164</b>	<b>85,296</b>	<b>65,879</b>	<b>317,893</b>
Net assets at December 31, 2006	<b>\$ 1,019,001</b>	<b>\$ 21,023</b>	<b>\$ 391,741</b>	<b>\$ 371,097</b>	<b>\$ 248,764</b>	<b>\$ 1,011,602</b>	<b>\$ 216,310</b>	<b>\$2,267,936</b>

*See accompanying notes.*

# The New York and Presbyterian Hospital

## Statements of Cash Flows

	<b>Year ended December 31</b>	
	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>	
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 317,893	\$ 213,965
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	167,636	159,657
Amortization of deferred financing costs	342	558
Distribution from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	(78,567)	(34,558)
Equity in earnings of alternative investment companies	(29,192)	(25,416)
Net realized gains on sales of investments	(20,180)	(8,585)
Change in unrealized gains and losses	(909)	2,219
Changes in operating assets and liabilities:		
Patient accounts receivable	(59,699)	(28,391)
Other assets	(5,086)	24,213
Beneficial interest in net assets held by related organizations	(151,175)	(149,332)
Accounts payable and accrued expenses	20,878	6,020
Accrued salaries and related liabilities	17,694	25,559
Other liabilities	(40,727)	(28,456)
Due to related organizations—net	(11,305)	3,554
Estimated self-insurance and other professional liabilities	7,801	5,418
Pension liability	(9,871)	19,304
Postretirement benefit liability	4,732	(4,485)
Deferred revenue	(2,344)	5,951
Net cash provided by operating activities	<u>127,921</u>	<u>187,195</u>
<b>Cash flows from investing activities</b>		
Acquisitions of property, buildings and equipment, net	(166,099)	(165,824)
Net sales (purchases) of short-term investments and assets limited as to use	48,230	(22,629)
Net cash used in investing activities	<u>(117,869)</u>	<u>(188,453)</u>
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(51,728)	(45,603)
Proceeds from issuance of long-term debt	—	15,496
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	78,567	34,558
Net cash provided by financing activities	<u>26,839</u>	<u>4,451</u>
Net increase in cash and cash equivalents	36,891	3,193
Cash and cash equivalents at beginning of year	22,569	19,376
Cash and cash equivalents at end of year	<u>\$ 59,460</u>	<u>\$ 22,569</u>
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Assets acquired under capitalized lease obligations	<u>\$ 2,020</u>	<u>\$ 5,184</u>

*See accompanying notes.*

# The New York and Presbyterian Hospital

## Notes to Financial Statements

December 31, 2006

### **1. Organization and Significant Accounting Policies**

*Organization:* The New York and Presbyterian Hospital (the “Hospital”) is a tax-exempt organization which was incorporated under New York State not-for-profit corporation law. The Hospital is a major academic medical center providing a full range of inpatient and outpatient services, mainly to residents of the New York metropolitan area. The Board of Trustees of the Hospital consists of persons who have first been elected as members of New York-Presbyterian Foundation, Inc. (“Foundation, Inc.”), a New York State not-for-profit corporation. Foundation, Inc. is related to a number of organizations.

The following is a summary of significant accounting policies:

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients and the valuation of alternative investments, and liabilities, including estimated settlements with third party payors and malpractice insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

*Cash and Cash Equivalents:* The Hospital classifies as cash equivalents all highly liquid investments with a maturity of three months or less when purchased which are not deemed to be assets limited as to use or part of the investment portfolio.

*Receivables for Patient Care:* Patient accounts receivable for which the Hospital receives payment under cost reimbursement or prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Hospital.

The amount of the allowance for uncollectibles is based on management’s assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for uncollectibles result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectibles.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **1. Organization and Significant Accounting Policies (continued)**

*Supplies:* Supplies, which are determined on the first-in, first-out method, are stated at the lower of cost or market value.

*Investments and Investment Gains, Losses and Income:* Investments consist of money market investments, U.S. government bonds and notes, equity securities, mutual funds and alternative investments. Debt and equity securities with readily determinable fair values are carried at fair value based on quoted market prices. Marketable securities are classified as trading securities.

Alternative investments (nontraditional, not readily marketable securities) consist of event-driven funds, funds of funds, multi-strategy hedge funds, emerging market funds, global hedge funds, energy funds, and private equity funds. Alternative investment interests are structured such that the Hospital holds limited partnership interests or an interest in an incorporated investment management company. Alternative investment interests are stated at fair value as estimated in an unquoted market through the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. The amounts utilized to report these alternative investment interests may be determined through a combination of information provided by the investment manager or general partner, fair value valuations of underlying securities held by the alternative investment investee company, fair value valuations of other financial instruments held by the alternative investment investee company such as derivative instruments, or other estimates that require varying degrees of judgment. Generally, the fair value of the Hospital's interest reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The Hospital's holdings of alternative investment interests may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forward contracts, options and other derivative products. The Hospital's risk is limited to the carrying amount in each investee company. The financial statements of the alternative investment investee companies are audited annually by independent auditors. The Hospital's ownership structure does not provide the Hospital with control over the alternative investment investee companies.

Investments received as a gift are recorded at fair value on the date of contribution.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

Realized gains and losses on sales of marketable securities are based on the average cost method. Investment income, realized and unrealized gains and losses on marketable securities held by the Hospital, and equity in earnings of alternative investment companies are recorded as investment income within the caption other revenue in the statements of operations. Investment return on investments held by New York Presbyterian Fund, Inc. (“Fund, Inc.”) in various investment pools is included within the changes in beneficial interest in net assets held by related organizations in the statements of changes in net assets.

*Assets Limited as to Use:* Assets so classified represent investments whose use is restricted for specific purposes under internal designation or terms of agreements. Amounts required to meet current liabilities are reported as current assets.

*Beneficial Interest in Net Assets Held by Related Organizations:* Accounting principles generally accepted in the United States under Statement of Financial Accounting Standards (“SFAS”) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, establish standards for transactions in which an entity—the donor—makes a contribution by transferring assets to a not-for-profit organization or charitable trust organization—the recipient—that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to another entity—the beneficiary—that is specified by the donor. In accordance with SFAS No. 136, the Hospital recognizes its accumulated interest in the net assets held by Fund, Inc. and The New York Weill Cornell Medical Center Fund, Inc. (“WCMC Fund”) as beneficial interest in net assets held by related organizations in its statements of financial position and also recognizes the periodic changes in such interests in its statements of changes in net assets.

*Financial Instruments:* The carrying values of cash and cash equivalents, patient accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying values of investments and assets limited as to use approximate fair value. The carrying value of the Hospital’s long-term debt, excluding capital leases, approximates fair value.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **1. Organization and Significant Accounting Policies (continued)**

At December 31, 2006 and 2005, the Hospital has approximately 92% and 62%, respectively, of its cash deposited in one financial institution and amounts deposited exceed Federal depository insurance limits. All of the Hospital's assets limited as to use under debt agreements are invested in U.S. government instruments. Investments in money market funds are not guaranteed by the U.S. government.

*Property, Buildings and Equipment:* Property, buildings and equipment purchased are recorded at cost and those acquired through 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 are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of buildings, building improvements, and fixed equipment is recorded utilizing the straight-line method over the estimated useful lives of the assets. Depreciation of moveable equipment is recorded utilizing the sum-of-the-years-digits method. Equipment under capital lease obligations and leasehold improvements is amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying financial statements.

*Deferred Financing Costs:* Deferred financing costs are included in other noncurrent assets and are amortized using the effective interest method over the term that the related debt is expected to be outstanding.

*Deferred Revenue:* In conjunction with the refinancing of certain mortgage loans in 1998, the Hospital elected not to reduce the interest rate and, in lieu thereof, received in cash the present value of the foregone reductions of the mortgage interest rate. Such amounts are being amortized using the interest method over the life of the debt.

*Classification of Net Assets:* The Hospital separately accounts for and reports upon donor restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Hospital and an outside party other than the donor or grantor.



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Fund, Inc. was incorporated in order to solicit, receive and administer funds to be applied exclusively for charitable, educational and scientific purposes, primarily for the benefit of health care related charitable organizations. The assets held by Fund, Inc. for the benefit of the Hospital are separately classified in the accompanying statements of financial position.

*Net Patient Service Revenue:* 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 rendered and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

*Operating Leases:* Scheduled base rent increases under operating leases are recognized as rental expense on a straight-line basis over the lease term.

*Program Services:* The Hospital's program services consist of providing health care and related services, including graduate medical education. It is not practicable to separately identify the expenses related to those programs. For the years ended December 31, 2006 and 2005, expenses related to providing these services are summarized as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Health care and related services	\$ 2,111,901	\$ 1,956,994
Program support and general services	630,828	584,557
	<u>\$ 2,742,729</u>	<u>\$ 2,541,551</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **1. Organization and Significant Accounting Policies (continued)**

*Performance Indicator:* The accompanying statements of operations include excess of revenue, gains and other support over expenses as the performance indicator. Excluded from the performance indicator are permanent transfers of assets to or from related entities, changes in the additional minimum pension liability, and change in accounting principle.

*Tax Status:* The Hospital is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The Hospital also is exempt from New York State and City income taxes.

*Reclassifications:* Certain reclassifications have been made to 2005 balances previously reported in order to conform with the 2006 presentation. The Hospital reclassified approximately \$62.5 million at December 31, 2005 from short-term investments to assets limited as to use—funded depreciation in accordance with the expected use of the assets. Additionally, the Hospital reclassified approximately \$61.9 million at December 31, 2005 from beneficial interest in net assets held by related organizations—noncurrent to a current asset in order to reflect the timing of applicable expenditures.

*New Accounting Pronouncement:* In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. The new standard applies to all plan sponsors that offer defined benefit postretirement benefit plans. SFAS 158 requires an entity to recognize in its statement of financial position an asset, for a defined benefit postretirement plan’s overfunded status, or a liability, for a plan’s underfunded status; measure a defined benefit postretirement plan’s assets and obligations that determine funded status as of the end of the employer’s fiscal year; and recognize the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs. The Hospital adopted the provisions of SFAS No. 158 in 2006 (see Note 9).

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **2. Net Patient Service Revenue**

*Non-Medicare Reimbursement:* The New York Health Care Reform Act of 1996 (the “Act”), as periodically updated, governs non-Medicare payments to hospitals in New York State. The Act is subject to periodic renewal and currently is in effect through June 30, 2007. Under the Act, 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 on a prospective basis. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (“CMS”), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years’ rates will continue to be made in future years.

*Medicare Reimbursement:* Hospitals are paid for most Medicare patient services under National prospective payment systems 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. Medicare and Medicaid regulations require annual retroactive settlements for payments through cost reports filed by the Hospital. The estimated settlements recorded at December 31, 2006 and 2005 could differ from actual settlements based on the results of cost report audits. Medicare cost reports for all years through 2000 have been audited and settled as of December 31, 2006. Other years remain open for settlement, as are settlements with the State Medicaid program.

During 2006 and 2005, the Hospital revised estimates made in prior years to reflect the passage of time and the availability of more recent information associated with the related reimbursement items. The 2006 and 2005 effect of the Hospital’s revisions was to reduce liabilities totaling approximately \$4.9 million and \$15.0 million, respectively, recorded in prior years.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 2. Net Patient Service Revenue (continued)

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 payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years could be realized.

For the years ended December 31, 2006 and 2005, revenue from the Medicare and Medicaid programs accounted for approximately 53% and 57% of the Hospital's net patient service revenue, respectively. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations. Action for noncompliance could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs.

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Medicare	21%	20%
Medicaid	28	31
Commercial carriers and health maintenance organizations (none of which individually exceeds 5% of the total)	43	39
Self-pay patients	8	10
	<u>100%</u>	<u>100%</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **2. Net Patient Service Revenue (continued)**

#### *Uncompensated Care and Community Benefit Expense*

The Hospital's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

For financial reporting purposes, the Hospital reports care provided for which the patient's payment obligation was not fully satisfied as uncompensated care. Uncompensated care is the sum of the Hospital's free care provided, charity care provided, and bad debt expense. In determining uncompensated care, the Hospital excludes contractual allowances. Uncompensated care is reported at customary (i.e., undiscounted) charges. For the years ended December 31, 2006 and 2005, uncompensated care amounted to approximately \$133.6 million and \$126.3 million, respectively.

The Hospital makes available free care programs for qualifying patients. During the registration, billing and collection process a patient's eligibility for free care funds is determined. For the years ended December 31, 2006 and 2005, free care provided to patients qualifying for Hospital-based assistance programs at customary charges was approximately \$8.0 million and \$2.8 million, respectively.

For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of a patient's ability to pay. For the years ended December 31, 2006 and 2005, the bad debt expense was \$59.7 million and \$64.7 million, respectively, and is included in supplies and other expenses.

For patients who do not receive free care and who are deemed eligible for charity care, and patients who apply and qualify for financial aid under the Hospital's financial aid policy, care given but not paid for, is classified as charity care. For the years ended December 31, 2006 and 2005, charity care at customary charges was approximately \$65.9 million and \$58.8 million, respectively.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **2. Net Patient Service Revenue (continued)**

Annually, the Hospital accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At December 31, 2006 and 2005, the amount estimated by management to represent the Hospital's uncollectible allowance, which is included in the accompanying statements of financial position as a reduction of accounts receivable for services to patients, was approximately \$187.5 million and \$182.2 million, respectively.

Additionally, the Hospital provides quality medical care regardless of race, creed, sex, sexual orientation, national origin, handicap, age, or ability to pay. Although reimbursement for services rendered is critical to the operations and stability of the Hospital, it is recognized that not all individuals possess the ability to pay for essential medical services and furthermore the Hospital's mission is to serve the community with respect to health care and health care education.

Therefore, in keeping with the Hospital's commitment to serve members of the community, the Hospital provides the following: free and or subsidized care to the indigent; care to persons covered by governmental programs at below cost; and health care activities and programs to support the community. These activities include wellness programs, community education programs, health screenings, and a broad variety of community support services.

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**3. Investments**

The composition and fair value of investments, excluding assets held by related organizations (see Note 7), at December 31, 2006 and 2005, consist of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Marketable securities:		
Cash equivalents	\$ 51,255	\$ 27,413
U.S. government bonds and notes	150,125	144,570
Equity securities	110,525	127,845
Mutual funds	16,761	14,773
	<u>328,666</u>	314,601
Alternative investments:		
Event driven	46,279	69,958
Funds of funds	91,451	128,816
Emerging market debt	51,555	44,897
Multi-strategy	87,846	46,524
Energy	20,647	19,597
	<u>297,778</u>	309,792
Total investments	626,444	624,393
Less short-term investments	29,029	11,730
Less current portion of assets limited as to use	16,761	14,773
Assets limited as to use—noncurrent	<u>\$ 580,654</u>	<u>\$ 597,890</u>

Investment return included in other revenue (see Note 11) for the years ended December 31, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 11,294	\$ 4,481
Net realized gains	20,180	8,585
Equity in earnings of alternative investment companies	29,192	25,416
Net change in unrealized gains and losses	909	(2,219)
	<u>\$ 61,575</u>	<u>\$ 36,263</u>

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**4. Property, Buildings and Equipment**

A summary of property, buildings and equipment at December 31, 2006 and 2005 follows (in thousands):

	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 39,644	\$ 39,457
Buildings, building improvements and fixed equipment	2,590,422	2,515,495
Movable equipment	943,555	875,537
Leasehold improvements	32,506	32,506
	<u>3,606,127</u>	<u>3,462,995</u>
Less accumulated depreciation and amortization	2,306,012	2,147,490
	<u>1,300,115</u>	<u>1,315,505</u>
Construction-in-progress	101,529	85,656
	<u><u>\$ 1,401,644</u></u>	<u><u>\$ 1,401,161</u></u>

Substantially all property, buildings and equipment have been pledged as collateral under various debt agreements (see Note 5). At December 31, 2006 and 2005, assets recorded in connection with capitalized leases aggregated approximately \$43.1 million and \$41.1 million, respectively, with accumulated amortization aggregating approximately \$34.4 million and \$35.2 million, respectively.

The land on which the Westchester division is built is leased by the Hospital from Royal Charter Properties—Westchester, Inc., a related entity (see Note 10).



## The New York and Presbyterian Hospital

### Notes to Financial Statements (continued)

#### 5. Long-Term Debt

A summary of long-term debt at December 31, 2006 and 2005 follows (in thousands):

	2006	2005
FHA Section 242 insured mortgage loan (a)	\$ 414,661	\$ 439,346
FHA Section 242 insured mortgage loans (b)	277,830	300,991
Capitalized leases (c)	20,007	21,869
	712,498	762,206
Less current portion	55,057	51,485
Long-term portion	\$ 657,441	\$ 710,721

- (a) *FHA Section 242 Insured Mortgage Loan:* The Hospital's mortgage agreement, which is insured under the provisions of the Federal Housing Agency ("FHA") Section 242 Program, with the Dormitory Authority of the State of New York ("DASNY"), requires monthly payments through July 2025 and carries an interest rate of 5.3%.

The Hospital holds an escrow account for which the balance at December 31, 2006 and 2005 was approximately \$12.5 million and \$11.9 million, respectively. At the time of final endorsement (anticipated to occur in 2007 subsequent to a planned FHA financing transaction), a portion of the balance of the escrow is expected to be used to reduce the obligation. During 2005, the Hospital received \$8.4 million from DASNY in relation to a release of assets held by DASNY in reserve under the mortgage note and recorded the receipt as an increase to the Hospital's deferred revenue balance. The deferred revenue will be amortized over the remaining life of the mortgage using the effective interest method.

- (b) *FHA Section 242 Insured Mortgage Loans:* The Hospital has two mortgage loans, with identical terms, issued through DASNY. The two mortgage loans are insured under the provisions of the FHA Section 242 program. The mortgage loans are payable monthly through April 2015 and carry an interest rate of 7.5%. In connection with a 1998 revision to one of the mortgage notes, a deferred revenue liability with an initial balance of \$29.5 million was created reflecting the present value of the interest rate savings that were advanced to the Hospital upon creation of the 1998 mortgage.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 5. Long-Term Debt (continued)

Estimated principal payments under the FHA-insured mortgages (subject to final endorsement of the mortgage described in (a) above) for the next five years and thereafter consist of (in thousands):

2007	\$ 50,871
2008	54,208
2009	57,770
2010	61,574
2011	65,637
Thereafter	402,431

Pursuant to the mortgage agreements and related documents, the Hospital is required to maintain certain debt service funds, including mortgage reserve funds. In addition, the Hospital is required to maintain certain working capital, debt service coverage and other financial ratios and financial conditions and obtain approval to incur additional debt above specified levels if profitability requirements are not met. Through December 31, 2006 and 2005, the Hospital was in compliance with the financial covenants. The mortgages are collateralized by the Hospital's property, buildings and equipment and gross receipts derived from operations.

- (c) *Capitalized Leases:* Certain leases are the equivalent of an installment purchase for purposes of financial statement reporting. In December 2005, the Hospital entered into a \$20.7 million capital lease financing agreement with a commercial lender in conjunction with DASNY's tax-exempt lease program. Through December 31, 2006, approximately \$11.5 million of the available financing was utilized for equipment purchases. The remaining funds available are reported as assets limited as to use at December 31, 2006 (approximately \$9.2 million). The lender holds a first security interest on the financed equipment. The Hospital entered into several capital leases in 2006 totaling approximately \$2.0 million. Interest rates related to the Hospital's outstanding capital lease obligations range from 3.3% to 5.5%.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 5. Long-Term Debt (continued)

Following is a summary of payments due under capitalized lease obligations for the years ending December 31 (in thousands):

2007	\$ 4,840
2008	4,477
2009	4,312
2010	4,286
2011	3,865
Thereafter	—
	<hr/>
	21,780
Less imputed interest	1,773
	<hr/>
	<u>\$ 20,007</u>

Interest paid under all borrowings for the years ended December 31, 2006 and 2005 aggregated approximately \$43.9 million and \$46.2 million, respectively.

The Hospital is planning to enter into a mortgage loan agreement of approximately \$280.0 million in May 2007. The proceeds from the financing will be used for various expansion projects. In connection with the planned financing, in October 2006 the Hospital entered into an interest rate lock derivative instrument to manage the risk of potential increases to interest rates prior to the closing of the financing transaction. The Hospital accounts for the derivative instrument in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that the derivative be carried at fair value, with the periodic change in fair value reported as a component of the excess of revenue, gains and other support over expenses. The fair value of the derivative is determined utilizing forward interest rate estimates and present value techniques. At December 31, 2006, this derivative instrument had a fair value representing a liability of approximately \$5.3 million. The change in fair value of approximately \$2.6 million was recognized as a component of unrealized gains and losses in 2006.

### 6. Operating Leases

Total rental expense charged to operations for the years ended December 31, 2006 and 2005 aggregated approximately \$63.8 million and \$62.1 million, respectively. Sublease income and contingent rentals were not significant. The Hospital leases certain properties owned by related entities (see Note 10).

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**6. Operating Leases (continued)**

Future minimum lease payments under noncancellable operating leases with initial or remaining terms of one year or more at December 31, 2006 consisted of the following (in thousands):

2007	\$ 46,835
2008	42,880
2009	38,659
2010	33,463
2011	27,748
Thereafter	87,961

**7. Beneficial Interest in Net Assets Held by Related Organizations**

The Hospital recognizes its accumulated interest in net assets held by Fund, Inc. and WCMC Fund which were as follows at December 31, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Temporarily restricted:		
Fund, Inc.:		
Building and equipment replacement	\$ 391,741	\$ 356,697
Specific purpose health care services	371,097	333,009
Endowment earnings restricted for specific-purpose health care services	248,764	236,600
	<u>1,011,602</u>	<u>926,306</u>
Permanently restricted:		
Fund, Inc.—Investments to be held in perpetuity	183,025	150,431
WCMC Fund—Investments to be held in perpetuity	33,285	—
	<u>216,310</u>	<u>150,431</u>
	<u>\$ 1,227,912</u>	<u>\$ 1,076,737</u>

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**7. Beneficial Interest in Net Assets Held by Related Organizations (continued)**

Assets held by Fund, Inc. and WCMC Fund for the benefit of the Hospital consist of pledges and investments (at fair value) which represent allocated amounts from Fund, Inc.'s pooled investments portfolio and WCMC Fund's interest in a perpetual trust. These assets comprised the following at December 31, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Fund, Inc.:		
Marketable securities:		
U.S. government bonds	\$ 17,640	\$ 17,355
Money market funds	25,548	45,436
Equity securities	296,169	252,778
	<u>339,357</u>	<u>315,569</u>
Alternative investments:		
Event driven	87,326	96,370
Funds of funds	132,816	137,374
Emerging market debt	40,127	41,820
Multi-strategy	90,526	69,211
Global	131,590	100,555
Energy	38,465	37,163
Private equity	80,768	58,087
	<u>601,618</u>	<u>540,580</u>
Total investments	940,975	856,149
Pledges receivable, net of present value discount of \$45.9 million and \$39.5 million in 2006 and 2005, respectively	253,652	220,588
	<u>1,194,627</u>	<u>1,076,737</u>
WCMC Fund:		
Interest in perpetual trust	33,285	—
Total beneficial interest in net assets held by related organizations	1,227,912	1,076,737
Less current portion	62,000	61,906
	<u>\$ 1,165,912</u>	<u>\$ 1,014,831</u>

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**7. Beneficial Interest in Net Assets Held by Related Organizations (continued)**

The current portion of beneficial interest in net assets held by related organizations represents amounts the Hospital expects to receive and expend on operations in the subsequent year (based on the current year's expenditures).

At December 31, 2006, pledges receivable, net of present value discount and allowance factor of 7.35%, due in each of the next five years and thereafter are as follows (in thousands):

2007	\$ 79,764
2008	49,752
2009	28,724
2010	20,045
2011	34,237
Thereafter	41,130
	<u>\$ 253,652</u>

## The New York and Presbyterian Hospital

### Notes to Financial Statements (continued)

#### 7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Changes in the net assets held by Fund, Inc. and WCMC Fund on the Hospital's behalf are recognized in the Hospital's statements of changes in net assets for the years ended December 31, 2006 and 2005 and are summarized as follows (in thousands):

	Temporarily Restricted			Total Temporarily Restricted	Permanently Restricted	Total Interest in Net Assets
	Plant Replacement	Specific Purposes	Endowment Earnings			
<b>Year ended December 31, 2006</b>						
Gifts, bequests and similar items	\$ 68,848	\$ 77,524	\$ —	\$ 146,372	\$ 59,464	\$ 205,836
Net investment income and realized and unrealized gains and losses	23,943	28,837	17,571	70,351	6,415	76,766
Net assets released from restrictions for administrative and fund raising costs	(3,949)	(4,378)	(3,072)	(11,399)	—	(11,399)
Net assets released from restrictions for program expenditures	(1,775)	(57,796)	(2,335)	(61,906)	—	(61,906)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(52,023)	(6,099)	—	(58,122)	—	(58,122)
Changes in net assets	\$ 35,044	\$ 38,088	\$ 12,164	\$ 85,296	\$ 65,879	\$ 151,175
<b>Year ended December 31, 2005</b>						
Gifts, bequests and similar items	\$ 114,726	\$ 66,694	\$ —	\$ 181,420	\$ 6,710	\$ 188,130
Net investment income and realized and unrealized gains and losses	15,477	21,384	13,158	50,019	2,425	52,444
Net assets released from restrictions for administrative and fund raising costs	(2,688)	(2,769)	(5,787)	(11,244)	—	(11,244)
Net assets released from restrictions for program expenditures	(5,554)	(41,314)	—	(46,868)	—	(46,868)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(24,425)	(8,705)	—	(33,130)	—	(33,130)
Changes in net assets	\$ 97,536	\$ 35,290	\$ 7,371	\$ 140,197	\$ 9,135	\$ 149,332

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **8. Insurance**

*Professional Liability Insurance:* In 1978, the Hospital, in conjunction with a number of unrelated health care entities, participated in the formation of captive insurance companies (collectively, the “Captive”) to provide professional liability and general liability insurance to its participants. The premiums are based on a modified claims-made coverage and are actuarially determined based on the actual experience of the Captive, Hospital-specific experience, and estimated current exposure. The Captive has reinsurance coverage from reinsurers for amounts above its coverage level per claim limits.

The investments in the Captive are owned by Fund, Inc. Accordingly, Fund, Inc. acts as an insurance broker for the Hospital and, as such, insurance premiums are paid by the Hospital initially to Fund, Inc. (see Note 10).

The estimated undiscounted professional liabilities for incidents that have been incurred but not reported aggregated approximately \$166.1 million and \$154.3 million at December 31, 2006 and 2005, respectively, and are included in estimated self-insurance and other professional liabilities in the accompanying statements of financial position at the actuarially determined present value of approximately \$119.3 million and \$110.4 million, respectively, based on a discount rate of 5.0% for each of the years ended December 31, 2006 and 2005. The Hospital records liabilities related to professional claims on a net basis in consideration of expected insurance recoveries.

The Hospital’s estimates for professional liabilities for incidents that have been incurred but not reported are based upon complex actuarial calculations which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

*Workers’ Compensation Insurance:* Prior to April 1, 1999, the Hospital was self-insured for workers’ compensation claims. At December 31, 2006 and 2005, the estimated liability for self-insured workers’ compensation claims and incurred but not reported liabilities prior to April 1, 1999 aggregated approximately \$12.1 million and \$13.2 million, respectively, and is included in estimated self-insurance and other professional liabilities in the accompanying statements of financial position.



## The New York and Presbyterian Hospital

### Notes to Financial Statements (continued)

#### **8. Insurance (continued)**

In connection with the workers' compensation self-insurance programs, the Hospital has obtained an unsecured surety bond in favor of the New York State Workers' Compensation Board in the amount of approximately \$17.0 million, which satisfies the collateral deposit requirement.

#### **9. Pension and Similar Benefit Plans**

##### *Retirement Benefits*

The Hospital provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees, a qualified noncontributory defined benefit plan primarily for eligible nonunion employees of the Hospital and certain of its related organizations, and a nonqualified defined benefit plan for certain executives. The Hospital also provides pension and similar benefits to certain employees through a defined contribution plan. The Hospital funds the noncontributory defined benefit plans in accordance with the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA"), plus additional amounts that the Hospital may deem appropriate from time to time. The Pension Protection Act of 2006 will require certain changes to the minimum funding requirements, among other provisions, commencing in 2008. Amounts contributed to the defined benefit plans are based on actuarial valuations. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements. Contributions to the Hospital's defined contribution plan are generally based on percentages of annual salaries.

The benefits for participants or their beneficiaries in the qualified defined benefit plan sponsored by the Hospital are based on the highest average compensation for five consecutive years during the last ten years of credited service, subject to ERISA limitations.

During 2006 and 2005, the nonqualified defined benefit plan experienced a change in participants which met the criteria of a curtailment.

## The New York and Presbyterian Hospital

### Notes to Financial Statements (continued)

#### **9. Pension and Similar Benefit Plans (continued)**

##### *Postretirement Benefits*

The Hospital provides certain health care and life insurance benefits to its retired nonunion employees, through several plans, if they have worked 15 years and attained age 62 while still working for the Hospital. Coverage continues until the retiree is Medicare-eligible and is 100% paid by the Hospital up to certain predetermined limits. Special coverage for non-Medicare-eligible dependents may be purchased at group rates. The plans contain cost-sharing features such as deductibles and coinsurance.

##### *Change in Accounting Principle*

In September 2006, the FASB issued SFAS No. 158. The new standard applies to all plan sponsors that offer defined benefit postretirement benefit plans. SFAS No. 158 requires an entity to recognize in its statement of financial position an asset, for a defined benefit postretirement plan's overfunded status, or a liability, for a plan's underfunded status; measure a defined benefit postretirement plan's assets and obligations that determine funded status as of the end of the employer's fiscal year; and recognize the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs.

SFAS No. 158 does not change the amount of net periodic benefit cost recognized or address various measurement issues associated with postretirement benefit plan accounting. Such issues are being reconsidered by the FASB. The requirement to recognize the funded status of its defined benefit postretirement plans and the related disclosure requirements with a corresponding adjustment to other changes in unrestricted net assets was adopted by the Hospital as of December 31, 2006. The Hospital measures its plan assets and benefit obligations as of the date of its fiscal year-end and, consequently, SFAS No. 158's requirements related to measurement timing did not have an effect on the Hospital's financial statements.

The effect of the change in accounting principle upon adoption of SFAS No. 158 represents the net unrecognized actuarial losses and unrecognized prior service costs, both of which previously were netted against the plans' funded status in the Hospital's statements of financial position pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension and postretirement cost pursuant to the

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**9. Pension and Similar Benefit Plans (continued)**

Hospital's historical accounting policy for amortizing such amounts, as indicated in SFAS No. 87. Further, actuarial gains and losses that arise in subsequent periods which are not recognized as net periodic pension and postretirement cost in the same periods will be recognized as a component of other changes in unrestricted net assets. Such amounts will be subsequently recognized as a component of net periodic pension and postretirement cost through amortization.

The incremental effects of adopting the provisions of SFAS No. 158 on the Hospital's statement of financial position at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Hospital's excess of revenue, gains and other support over expenses for the years ended December 31, 2006 or 2005, and it will not affect the Hospital's operating results in future periods. Had the Hospital not adopted SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability as a component of other changes in unrestricted net assets pursuant to the provisions of SFAS No. 87 as shown below in the column labeled "Prior to Application of SFAS 158."

	<b>At December 31, 2006</b>		
	<b>Prior to Application of SFAS 158</b>	<b>Effect of Adopting SFAS 158</b>	<b>As Reported at December 31, 2006</b>
	<i>(In Thousands)</i>		
Accrued benefit liability	\$ 90,607	\$ 28,077	\$ 118,684
Other changes in unrestricted net assets	48,425	28,077	76,502

Included in other changes in unrestricted net assets at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	<b>December 31, 2006</b>		
	<b>Pension Plans</b>	<b>Postretirement Benefits</b>	<b>Total</b>
	<i>(In Thousands)</i>		
Unrecognized prior service cost	\$ 2,298	\$ (1,784)	\$ 514
Unrecognized actuarial loss	64,767	11,221	75,988
	<u>\$67,065</u>	<u>\$ 9,437</u>	<u>\$ 76,502</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

The prior service cost and actuarial loss included in changes in unrestricted net assets at December 31, 2006 and expected to be recognized in net periodic pension and postretirement cost during the year ending December 31, 2007 are as follows (in thousands):

	<b>Year ending December 31, 2007</b>	
	<b>Pension Plans</b>	<b>Postretirement Benefits</b>
Unrecognized prior service cost	\$ 499	\$ (1,498)
Unrecognized actuarial loss	3,707	840

The reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plans' assets for the years ended December 31, 2006 and 2005 is as follows (in thousands):

	<b>Pension Plans</b>		<b>Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Benefit obligation</b>				
Benefit obligation at beginning of year	\$ 580,233	\$ 529,023	\$ 41,809	\$ 52,514
Service cost	24,050	22,668	480	397
Interest cost	32,887	31,017	2,247	2,331
Actuarial (gains) losses	(7,769)	22,989	1,132	(7,326)
Plan amendments	59	483	561	-
Effect of curtailment	(1,667)	(540)	-	-
Medicare Part D subsidy	-	-	238	-
Benefits paid	(32,556)	(25,407)	(6,853)	(6,107)
Benefit obligation at end of year	<u>595,237</u>	<u>580,233</u>	<u>39,614</u>	<u>41,809</u>
<b>Fair value of plan assets</b>				
Fair value of plan assets at beginning of year	470,188	437,685	-	-
Actual return on plan assets	60,067	39,910	-	-
Hospital contributions	18,468	18,000	6,853	6,107
Benefits paid	(32,556)	(25,407)	(6,853)	(6,107)
Fair value of plan assets at end of year	<u>516,167</u>	<u>470,188</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (79,070)</u>	(110,045)	<u>\$ (39,614)</u>	(41,809)
Unrecognized net actuarial loss		97,968		10,770
Unrecognized prior service cost		3,684		(3,843)
		(8,393)		(34,882)
Additional minimum pension liability		(80,548)		-
Accrued benefit cost recognized in the statements of financial position	<u>\$ (79,070)</u>	<u>\$ (88,941)</u>	<u>\$ (39,614)</u>	<u>\$ (34,882)</u>

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**9. Pension and Similar Benefit Plans (continued)**

At December 31, 2006, the funded status of the pension and postretirement benefit plans are reported in the statement of financial position as follows (in thousands):

	<b>December 31, 2006</b>		
	<b>Pension Plans</b>	<b>Postretirement Benefits</b>	<b>Total</b>
Current liability	\$ 4,494	\$ 4,320	\$ 8,814
Noncurrent liability	74,576	35,294	109,870
	<u>\$ 79,070</u>	<u>\$ 39,614</u>	<u>\$ 118,684</u>

The accumulated benefit obligation for the Hospital's qualified and nonqualified pension plans totaled approximately \$572.8 million and \$556.9 million at December 31, 2006 and 2005, respectively.

At December 31, 2005, a pension intangible asset totaling approximately \$0.7 million was recorded.

The nonqualified plan was formed effective January 1, 2003. As of December 31, 2006 and 2005, the accumulated benefit obligation and the underfunded status of the nonqualified plan are as follows (in thousands):

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Accumulated benefit obligation	<b>\$ 14,812</b>	\$ 13,286
Underfunded status	<b>21,646</b>	20,475

Weighted-average assumptions used in determining the pension and postretirement benefits obligations as of December 31, 2006 and 2005 were as follows:

	<b>Pension Plans</b>		<b>Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Discount rate	<b>6.00%</b>	5.75%	<b>5.75%</b>	5.75%
Rate of compensation increase	<b>4.0</b>	4.0	—	—

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**9. Pension and Similar Benefit Plans (continued)**

Net periodic pension cost and postretirement cost for the years ended December 31, 2006 and 2005 consist of the following components (in thousands):

	<b>Pension Plans</b>		<b>Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 24,050	\$ 22,668	\$ 480	\$ 397
Interest cost	32,887	31,017	2,247	2,331
Expected return on plan assets	(41,035)	(40,383)	–	–
Net amortization of prior service cost	506	622	(1,498)	(1,556)
Recognized actuarial loss	5,686	7	680	451
Curtailment (gain) loss	(16)	1,258	–	–
Net periodic pension cost and postretirement cost	<b>\$ 22,078</b>	<b>\$ 15,189</b>	<b>\$ 1,909</b>	<b>\$ 1,623</b>

Weighted-average assumptions used in determining the net periodic pension and postretirement benefits costs for the years ended December 31, 2006 and 2005 were as follows:

	<b>Pension Plans</b>		<b>Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected rate of return on plan assets	8.75	8.75	–	–
Rate of compensation increase	4.00	4.00	–	–

The overall expected long-term rate of return on plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the Hospital's desired risk and return characteristics. The Hospital reviews the expected long-term rate periodically, and based on the building block approach, updates the rate for changes in the marketplace.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

In relation to postretirement benefits plans, the weighted-average annual assumed rate of increase per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to start at 9.3% and decrease to 4.8% by 2014. The health care cost trend rate assumption has an effect on the amounts reported. A 1% change in the assumed health care cost trend rate would have the following effects (in thousands):

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components in health care cost trend rate	\$ 97	\$ (88)
Effect on postretirement benefit obligation as of December 31, 2006	1,637	(1,483)

The measurement date used to determine the pension and postretirement benefits measurements is December 31.

The overall objective of the investment policy of the defined benefit pension plan is to produce an asset allocation that will generate return annually in order to meet the expense and income needs and provide for sufficient annual asset growth.

Funds are invested with a long-term (five years or greater) return objective. The Hospital's weighted-average asset allocations at December 31, 2006 and 2005, by asset category, are as follows:

	<b>Plan Assets at December 31</b>	
	<b>2006</b>	<b>2005</b>
Domestic equity securities	<b>22%</b>	23%
Alternative investments—equity securities	<b>12</b>	15
Equity securities subtotal	<b>34</b>	38
Global and international investments	<b>15</b>	14
Alternative investments—other	<b>49</b>	44
Cash	<b>2</b>	4
	<b>100%</b>	100%

The New York and Presbyterian Hospital

Notes to Financial Statements (continued)

**9. Pension and Similar Benefit Plans (continued)**

The defined benefit pension plan's investment policy includes the following asset allocation guidelines:

<u>Asset Category</u>	<u>Policy Range</u>
Domestic equity securities	20% to 75%
Global and international fixed income and equity securities	5 to 50
Alternative investments	10 to 80
Domestic fixed income securities	0 to 40
Cash or cash equivalents	0 to 10

The target and policy ranges above for plan assets are reevaluated quarterly. Investment performance is reviewed quarterly with performance results and benchmarks compiled independently by the plan's trustee, JPMorgan Chase Bank, and the plan's investment consultant.

The Hospital expects to contribute approximately \$24.0 million to its defined benefit pension plans and \$6.9 million to its other postretirement benefits plans in 2007.

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

	<u>Pension Plans</u>	<u>Postretirement Benefits</u>
Year:		
2007	\$ 37,838	\$ 4,915
2008	43,677	4,808
2009	39,086	4,698
2010	38,991	4,636
2011	40,638	4,555
2012 to 2016	239,945	19,115



# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 9. Pension and Similar Benefit Plans (continued)

#### *Other Pension Benefits*

Total expense and contributions for the multiemployer union plans aggregated approximately \$23.2 million and \$24.4 million for the years ended December 31, 2006 and 2005, respectively.

#### *Medicare Prescription Drug, Improvement and Modernization Act of 2003*

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Medicare Prescription Drug Act”) became law. The Medicare Prescription Drug Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Measurements of the accumulated postretirement benefit obligation and net periodic postretirement benefit cost in the accompanying financial statements and notes reflect the effects of the Medicare Prescription Drug Act on the Hospital’s postretirement benefits plans. The accumulated postretirement benefit obligation was reduced in 2005 by \$6.7 million for the impact of the subsidy related to benefits attributed to past service. The implementation of the subsidy resulted in a \$1.0 million reduction to 2005 postretirement cost. Benefits paid under the postretirement plan totaled \$6.9 million in 2006. The Hospital received \$0.2 million of subsidies under Medicare Part D in 2006.

Expected subsidies to be received in future periods are as follows (in thousands):

2007	\$ 473
2008	487
2009	497
2010	501
2011	498
2012 to 2016	2,187

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations

Fund, Inc. is an affiliated not-for-profit public charity whose revenue is derived from soliciting, receiving and administering funds. Royal Charter Properties, Inc. (“RCP”), Royal Charter Properties—East, Inc. (“RCP-East”) and Royal Charter Properties—Westchester, Inc. (“RCP-West”) are affiliated not-for-profit support corporations that derive revenue from acquiring and holding direct and indirect interests in real estate and related personal property, which are primarily used to provide residential housing, office space, and parking to the Hospital and its employees based on the market value of such services. RCP, RCP-East and RCP-West provide services primarily to or for the benefit of the Hospital.

Amounts received by the Hospital from or amounts contributed by the Hospital to related support organizations, reflected in other revenue in the accompanying statements of operations for the years ended December 31, 2006 and 2005, are as follows (see Note 11) (in thousands):

	<u>2006</u>	<u>2005</u>
Distributions according to organization’s bylaws:		
RCP	\$ 14,793	\$ 10,043
RCP-East	12,893	11,350
RCP-West	(395)	(500)
	<u>\$ 27,291</u>	<u>\$ 20,893</u>

Fund, Inc. also pays certain program related costs on behalf of the Hospital (see Note 7).

Services provided to the Hospital by related entities for the years ended December 31, 2006 and 2005 are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Fund, Inc.—insurance ( <i>Note 8</i> )	\$ 79,034	\$ 76,441
RCP—rentals	2,580	1,945
RCP-East—rentals	9,819	9,491
RCP-West—rentals	232	248
	<u>\$ 91,665</u>	<u>\$ 88,125</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations (continued)

In September 2001, RCP completed a financing of approximately \$31.9 million primarily for the renovation and improvement of a parking garage facility. In connection with the financing, the Hospital entered into a noncancellable lease with RCP, for a period not longer than 29 years, whereby the Hospital will lease 50% of the parking space at an amount sufficient to cover the debt service on the financing.

As part of RCP-East's 1998 construction financing, the Hospital entered into a lease agreement for use of approximately 400 units for its staff housing through April 2017.

The Hospital provides employee and other services to related entities for which the Hospital receives reimbursement and the costs of providing such services are recorded directly by those entities. Accordingly, such amounts are not included in the accompanying financial statements of the Hospital. Charges for such services are based on the approximate cost to provide the services. Hospital services provided to related entities for the years ended December 31, 2006 and 2005 consist of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Patient accounting	\$ 3,415	\$ 3,745
Financial planning	2,915	3,174
Information systems and telecommunications	10,250	12,052
General accounting	3,595	3,403
Medical supplies	738	888
Biomedical engineering services	2,451	3,699
House staff	2,606	2,773
Ambulance services	3,822	4,770
Institutional billings	1,437	4,551
Engineering	2,683	2,749
Other	8,564	8,372
	<u>\$ 42,476</u>	<u>\$ 50,176</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations (continued)

The Hospital provided such services to the following related entities during the years ended December 31, 2006 and 2005 (in thousands):

	<b>2006</b>	<b>2005</b>
Fund, Inc.	\$ 165	\$ 218
RCP	130	185
RCP-East	91	88
RCP-West	17	17
New York United Hospital Medical Center	–	141
Network Recovery Services, Inc.	82	62
Palisades Medical Center, Inc. (“Palisades”) (a)	–	724
Silvercrest Extended Care Facility	104	54
The Brooklyn Hospital Center	1,892	2,072
The Hospital for Special Surgery	4,944	5,064
The New York Community Hospital of Brooklyn, Inc.	4,573	5,318
The New York Gracie Square Hospital, Inc.	3,183	2,813
The New York Hospital Medical Center of Queens	14,342	14,883
The New York Methodist Hospital	9,595	9,430
The New York-Presbyterian Community Health Plan, Inc.	828	1,001
New York-Presbyterian Healthcare System, Inc. (“System, Inc.”)	735	759
The New York Westchester Square Medical Center	522	566
The Rogosin Institute	786	669
Wyckoff Heights Medical Center (“Wyckoff”) (a)	–	5,952
Nyack Hospital	487	160
	<b>\$ 42,476</b>	<b>\$ 50,176</b>

(a) Palisades and Wyckoff became Affiliate Members of the New York-Presbyterian Healthcare System during 2006, which provides for the institutions to have contractual affiliate relationships, but not corporate relationships with System, Inc.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations (continued)

The following balances are due from (to) related organizations at December 31, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Fund, Inc.	\$ (13,968)	\$ (33,495)
RCP	1,903	309
RCP-East	638	8,773
RCP-West	(22)	256
New York United Hospital Medical Center (“United”)	18,509	18,512
Network Recovery Services, Inc.	1,302	2,335
Palisades Medical Center, Inc. (a)	–	430
Silvercrest Extended Care Facility	(15)	(30)
The Brooklyn Hospital Center (“Brooklyn”)	9,397	9,431
The Hospital for Special Surgery	35	1,056
The New York Community Hospital of Brooklyn, Inc.	310	764
The New York Gracie Square Hospital, Inc.	3,056	3,348
The New York Hospital Medical Center of Queens	507	109
The New York Methodist Hospital	2,130	2,174
The New York-Presbyterian Community Health Plan, Inc.	140	(761)
New York-Presbyterian Healthcare System, Inc.	(842)	(450)
The New York Westchester Square Medical Center (“Westchester Square”)	2,351	1,918
The Rogosin Institute	470	366
Wyckoff Heights Medical Center (a)	–	907
Nyack Hospital	735	180
	<u>26,636</u>	<u>16,132</u>
Less noncurrent portion included in other noncurrent assets, before valuation allowance	<u>33,313</u>	<u>34,114</u>
Due to related organization—net	<u>\$ (6,677)</u>	<u>\$ (17,982)</u>

The Hospital periodically assesses the collectibility of amounts due from related organizations. The amounts included in other noncurrent assets are adjusted to state the receivables at their estimated net realizable value. United, Brooklyn and Westchester Square filed for bankruptcy protection in December 2004, September 2005 and December 2006, respectively. The balances due from United, Brooklyn and Westchester Square at December 31, 2006 and 2005 are provided for through a valuation allowance.

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### 10. Related Organizations (continued)

The Hospital maintains academic affiliations with two medical colleges: The Columbia University College of Physicians & Surgeons and the Joan and Sanford I. Weill Medical College of Cornell University (collectively referred to as the “Schools”). Transactions occur on a routine basis between the Hospital and the Schools, based upon mutual agreements between the parties.

### 11. Other Revenue

Other revenue consisted of the following for the years ended December 31, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Grants and contracts	\$ 20,395	\$ 22,380
Amounts received from related organizations, net ( <i>Note 10</i> )	27,291	20,893
Rental of space	15,987	15,476
Cafeteria and vending	10,873	9,816
Investment return ( <i>Note 3</i> )	61,575	36,263
Contributions	1,908	1,817
Net assets released from restrictions, including \$61,906 and \$46,868 in 2006 and 2005, respectively, included in changes in beneficial interest in net assets held by related organization ( <i>Note 7</i> )	66,906	51,868
Affiliation agreements	11,454	11,022
Other	17,694	17,891
	<u>\$ 234,083</u>	<u>\$ 187,426</u>

# The New York and Presbyterian Hospital

## Notes to Financial Statements (continued)

### **12. Commitments and Contingencies**

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance or are not deemed material. While the outcome of these lawsuits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Hospital.

At December 31, 2006, approximately 37% of the Hospital's employees were covered by collective bargaining agreements. Collective bargaining agreements covering all such employees are in effect through 2008.

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**UNAUDITED INTERIM FINANCIAL STATEMENTS  
OF THE NEW YORK AND PRESBYTERIAN HOSPITAL**

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**The New York and Presbyterian Hospital  
For the Five Months Ended May 31, 2007**

**C O N T E N T S**

	<u>Page</u>
<b>Financial Statements for the Five Months Ended May 31, 2007:</b>	
Statements of Financial Position.....	1
Statements of Operations.....	2
Statements of Changes in Net Assets .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5

***Forward Looking Information:***

*This report contains disclosures, which 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 New York and Presbyterian Hospital ("NYPH") as 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 NYPH's control, that could significantly affect current plans and expectations and NYPH'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 health care facilities in the NYPH service areas, 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 contain health care costs, increased collection 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 state budget constraints, change 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 NYPH's cost reports, ability to maintain patient membership and control costs of full risk capitated patients, 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 NYPH's medical staffs to obtain appropriate insurance coverage, loss experience under general and professional liability 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 affiliated 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 report. NYPH 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 NEW YORK AND PRESBYTERIAN HOSPITAL**  
**Statements of Financial Position**  
**As of May 31, 2007 and December 31, 2006**  
**(In Thousands)**

<u>Assets</u>	<u>(unaudited)</u> May 31, 2007	<u>(audited)</u> December 31, 2006	<u>Liabilities and net assets</u>	<u>(unaudited)</u> May 31, 2007	<u>(audited)</u> December 31, 2006
<b>Current assets:</b>			<b>Current liabilities:</b>		
Cash and cash equivalents	\$ 78,401	\$ 59,460	Current portion of long-term debt	\$ 56,042	\$ 55,057
Short-term investments	91,736	29,029	Accounts payable and accrued expenses	202,579	195,477
Patient accounts receivable, less allowance for uncollectables (2007 \$19,515; 2006 \$187,498)	376,787	395,995	Accrued salaries and related liabilities	129,343	144,522
Due from related organizations	9,313	-	Due to related organizations	-	7,212
Other current assets	41,549	38,205	Current portion of pension and postretirement benefit liabilities	8,814	8,814
Assets limited as to use - current portion	18,133	16,761	Other current liabilities	59,903	52,320
Beneficial interest in net assets held by related organizations-current portion	53,280	62,600			
<b>Total current assets</b>	<b>669,199</b>	<b>601,450</b>	<b>Total current liabilities</b>	<b>456,681</b>	<b>463,402</b>
Assets limited as to use--noncurrent:			Long-term debt, less current portion	633,832	657,441
Funded depreciation	372,713	414,771	Estimated self-insurance and other professional liabilities	135,227	131,442
Capital acquisition under lease agreements	6,072	9,161	Pension liability	73,494	74,576
Mortgage reserve funds under bond agreements	147,870	144,228	Postretirement benefit liability	34,042	35,294
Debt escrow fund	12,702	12,494	Deferred revenue	14,203	15,422
Total assets limited as to use--noncurrent	539,357	580,654	Other noncurrent liabilities	117,569	117,738
			<b>Total liabilities</b>	<b>1,465,048</b>	<b>1,495,315</b>
Property, buildings and equipment, net	1,429,487	1,401,644	<b>Net assets:</b>		
Other non-current assets	13,267	13,591	Unrestricted	1,114,041	1,019,001
			Temporarily restricted - held by Hospital	18,940	21,023
			Temporarily restricted - held by related organization	1,038,474	1,011,602
			Total temporarily restricted	1,057,414	1,032,625
Beneficial interest in net assets held by related organizations-noncurrent	1,205,167	1,165,912	Permanently restricted - held by related organizations	219,974	216,510
			<b>Total net assets</b>	<b>2,391,429</b>	<b>2,267,936</b>
<b>Total assets</b>	<b>\$ 3,856,477</b>	<b>\$ 3,763,251</b>	<b>Total liabilities and net assets</b>	<b>\$ 3,856,477</b>	<b>\$ 3,763,251</b>

See accompanying notes.

**THE NEW YORK AND PRESBYTERIAN HOSPITAL**  
**STATEMENTS OF OPERATIONS**  
**FOR THE FIVE MONTHS ENDED MAY 31, 2007 AND 2006**  
**(IN THOUSANDS)**

(Unaudited)

	For the five months ended	
	May 31, 2007	May 31, 2006
<b><u>REVENUE, GAINS AND OTHER SUPPORT</u></b>		
Net patient service revenue	\$ 1,131,358	\$ 1,071,583
Other revenue	82,714	84,679
<b>Total revenue, gains and other support</b>	<b>1,214,072</b>	<b>1,156,262</b>
<b><u>OPERATING EXPENSES</u></b>		
Salaries and wages	531,084	497,009
Employee benefits	130,622	129,767
Supplies and other expenses	414,826	391,447
Interest and amortization of deferred financing fees	16,881	17,851
Depreciation and amortization	74,013	67,002
<b>Total operating expenses</b>	<b>1,167,426</b>	<b>1,103,076</b>
 <b>Excess of revenue, gains and other support over operating expenses</b>	 <b>46,646</b>	 <b>53,186</b>
<b><u>OTHER CHANGES IN UNRESTRICTED NET ASSETS</u></b>		
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	48,394	39,534
 <b><u>CHANGE IN UNRESTRICTED NET ASSETS</u></b>	 <b>\$ 95,040</b>	 <b>\$ 92,720</b>

See accompanying notes.

The New York and Presbyterian Hospital

Statements of Changes in Net Assets  
Five Months Ended May 31, 2007 and 2006  
(unaudited)

	Unrestricted	Temporarily Restricted— Building and Equipment Replacement	Beneficial Interests in Temporarily and Permanently Restricted Net Assets Held by Related Organizations					Total Net Assets
			Plant Replacement	Specific Purpose	Endowment Earnings	Temporarily Restricted	Permanently Restricted	
<i>(In Thousands)</i>								
Net assets at January 1, 2006	\$ 847,283	\$ 26,023	\$ 356,697	\$ 333,009	\$ 236,600	\$ 926,306	\$ 150,431	\$ 1,950,043
Changes in net assets for the five month period ended May 31, 2006:								
Change in unrestricted net assets	92,720	-	-	-	-	-	-	92,720
Changes in beneficial interest in net assets held by related organizations	-	-	24,002	30,155	6,104	60,261	883	61,144
Net assets released from restrictions for operations	-	(2,083)	-	-	-	-	-	(2,083)
Change in net assets for the five month period ended May 31, 2006	92,720	(2,083)	24,002	30,155	6,104	60,261	883	151,781
Net assets at May 31, 2006	<b>\$ 940,003</b>	<b>\$ 23,940</b>	<b>\$ 380,699</b>	<b>\$ 363,164</b>	<b>\$ 242,704</b>	<b>\$ 986,567</b>	<b>\$ 151,314</b>	<b>\$ 2,101,824</b>
Net assets at January 1, 2007	\$ 1,019,001	\$ 21,023	\$ 391,741	\$ 371,097	\$ 248,764	\$ 1,011,602	\$ 216,310	\$ 2,267,936
Change in net assets for the five month period ended May 31, 2007:								
Change in unrestricted net assets	95,040	-	-	-	-	-	-	95,040
Changes in beneficial interest in net assets held by related organizations	-	-	(26,218)	36,022	17,068	26,872	3,664	30,536
Net assets released from restrictions for operations	-	(2,083)	-	-	-	-	-	(2,083)
Change in net assets for the five month period ended May 31, 2007	95,040	(2,083)	(26,218)	36,022	17,068	26,872	3,664	123,493
Net assets at May 31, 2007	<b>\$ 1,114,041</b>	<b>\$ 18,940</b>	<b>\$ 365,523</b>	<b>\$ 407,119</b>	<b>\$ 265,832</b>	<b>\$ 1,038,474</b>	<b>\$ 219,974</b>	<b>\$ 2,391,429</b>

See accompanying notes.

The New York and Presbyterian Hospital

Statements of Cash Flows  
Five Months Ended May 31, 2007 and 2006

(Unaudited)

<b>For the five months ended May 31,</b>	
<b>2007</b>	<b>2006</b>

(In Thousands)

**Cash flows from operating activities**

Change in net assets	\$ 123,493	\$ 151,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	74,013	67,002
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	(48,394)	(39,534)
Equity in earnings of alternative investment companies	(11,156)	(18,181)
Net realized gains on sales of investments	(5,733)	(6,155)
Change in unrealized gains and losses	(3,811)	(2,637)
Changes in operating assets and liabilities:		
Patient accounts receivable	19,208	(53,657)
Other assets	(3,020)	(5,236)
Beneficial interest in net assets held by related organizations	(30,535)	(61,143)
Accounts payable and accrued expenses	7,102	8,688
Accrued salaries and related liabilities	(15,179)	3,383
Other liabilities	7,414	6,107
Due to related organizations—net	(16,525)	(28,233)
Estimated self-insurance and other professional liabilities	3,785	(266)
Pension liability	(1,082)	6
Postretirement benefit liability	(1,252)	(1,215)
Deferred revenue	(1,219)	(976)
Net cash provided by operating activities	<u>97,109</u>	<u>19,734</u>
<b>Cash flows from investing activities</b>		
Acquisitions of property, buildings and equipment, net	(101,856)	(68,319)
Net (purchases) sales of short-term investments and assets whose use is limited	(2,082)	32,332
Net cash used in investing activities	<u>(103,938)</u>	<u>(35,987)</u>
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(22,624)	(21,137)
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	48,394	39,534
Net cash provided by financing activities	<u>25,770</u>	<u>18,397</u>
Net increase in cash and cash equivalents	18,941	2,144
Cash and cash equivalents at beginning of period	59,460	22,569
Cash and cash equivalents at end of period	<u>\$ 78,401</u>	<u>\$ 24,713</u>

See accompanying notes.

The New York and Presbyterian Hospital  
Notes to Financial Statements  
As of May 31, 2007 and 2006

Note A – Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States applied on a basis substantially consistent with that of the 2006 audited financial statements of The New York and Presbyterian Hospital (“NYPH”). They do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Note B - Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients and the valuation of alternative investments, and liabilities, including estimated settlements with third party payors and malpractice insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Note C -- Reclassifications

Certain reclassifications have been made to 2006 balances previously reported in order to conform with the 2007 presentation.

Note D – Retirement Plans

NYPH provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees, a qualified noncontributory defined benefit plan primarily for eligible nonunion employees of NYPH and certain of its related organizations, and a nonqualified defined benefit plan for certain executives. NYPH also provides pension and similar benefits to certain employees through a defined contribution plan. NYPH funds the noncontributory defined benefit plans in accordance with the minimum funding requirement of the Employee Retirement Income Security Act of 1974 (“ERISA”), plus additional amounts that the Hospital may deem appropriate from time to time. The Pension Protection Act of 2006 will require certain changes to the minimum funding requirements,



among other provisions, commencing in 2008. Amounts contributed to the defined benefit plans are based on actuarial valuations. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements. Contributions to NYPH's defined contribution plan are generally based on percentages of annual salaries.

Pension expense included in the statements of operations and changes in net assets for the five months ended May 31, 2007 and 2006 totaled \$19.1 million and \$15.5 million, respectively.

NYPH adopted Statement of Financial Accounting Standards ("SFAS") No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*, as of December 31, 2006. The effect of adopting SFAS No. 158 is reflected in the December 31, 2006 and May 31, 2007 pension and postretirement benefit liabilities reported in the accompanying statements of financial position. The adoption of SFAS No. 158 did not have an impact on the determination of the net periodic pension cost and postretirement cost for the five months ended May 31, 2007 and 2006.

#### Note E – Other Revenue

Included in other revenue for each of the five-month periods ended May 31, 2007 and 2006 is approximately \$8.3 million of unrestricted contributions from New York-Presbyterian Fund, Inc. ("Fund, Inc."). The amount reported for the five-month period ended May 31, 2006 was contributed back to Fund, Inc. subsequent to May 31, 2006 and prior to December 31, 2006.

#### Note F – Supplies and Other Expenses

For the five-month periods ended May 31, 2007 and 2006, expenditures of \$22.2 million and \$23.3 million, respectively, funded by restricted funds are reported net of the related revenue funding, such that the expenditures and related revenues net to zero for the respective periods.

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**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

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## SUMMARY OF CERTAIN PROVISIONS OF THE OF THE BOND RESOLUTION

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

### **The New York and Presbyterian Hospital Resolution, the Series Resolutions, and the Bonds Constitute Separate Contracts**

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

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

*(Section 1.03)*

### **Negotiability, Exchange and Registration of Transfer of Bonds**

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

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

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

*(Sections 3.04 and 3.05)*

### **Authorization for Establishment of Funds and Accounts**

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

Construction Fund:

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

Debt Service Fund:

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

Debt Service Reserve Fund:

Reserve Account;  
Collateral Account; and

Arbitrage Rebate Fund.

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

*(Section 5.02)*

### **Pledge of Trust Revenues**

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

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

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

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

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

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

*(Section 5.01)*

### **Payments from Construction Fund**

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

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

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

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

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

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



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

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

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

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

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

(i) In the event (i) any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair, reconstruction or replacement of the Mortgaged Property, and such amounts are equal to or less than the Threshold Amount, or (ii) such amounts constitute Net Condemnation Proceeds and the requirements of the Loan Agreement are complied with, notwithstanding paragraph (h) above, such amounts shall be disbursed by the Applicable Trustee at the written direction of the Authority and with the approval of FHA, if required, to the Bond Insurer to the extent of any amounts owing the Bond Insurer with respect to payments made under the Applicable Bond Insurance Policy or the Authority or the Applicable Trustee to the extent of any unpaid fees and expenses, with any balance thereafter applied to or upon the order of the Institution.

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

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

*(Section 5.04)*

#### **Procedure Upon Completion of Project**

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

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

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

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

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

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

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

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

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

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

*(Section 5.05)*

### **Arbitrage Rebate Fund**

The Applicable Trustee shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of The New York and Presbyterian Hospital Resolution, shall transfer, in accordance with the directions of the Authority, moneys on deposit in any other funds held by the Applicable Trustee under the Applicable Series Resolution at such

times and in such amounts as set forth in such directions; provided that, moneys shall not be transferred from the Applicable Debt Service Reserve Fund unless such Reserve Account Requirement will be met after such transfer.

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

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Applicable Series of Bonds and direct the Applicable Trustee to (i) transfer from any other of the funds and accounts held by the Applicable Trustee under The New York and Presbyterian Hospital Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to each Series of Bonds and (ii) pay out of the Applicable Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

*(Section 5.06)*

### **Collection of Trust Revenues**

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

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

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

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

(A) Income received on the investment of moneys in (i) any account of the Construction Fund (except the Equity Account) or Debt Service Reserve Fund (except the portion, if any, of the Collateral Account representing the Institution's contribution to such account, whether in the form of cash originally deposited by the Institution or other Available Moneys on deposit in the Collateral Account) shall upon receipt be deposited in the Investment Income Account and (ii) any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to The New York and Presbyterian Hospital Resolution) shall upon receipt be deposited in the Surplus Account;

(B) Income received on the investment of moneys in the Equity Account of the Construction Fund and on the portion, if any, of the Collateral Account representing the Institution's contribution to such account or other Available Moneys on deposit in the Collateral Account shall, after payment of all fees and expenses of the

Authority, the Applicable Trustee and the Mortgage Servicer, be disbursed in accordance with a written direction of an Authorized Officer of the Authority;

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

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

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

(A) Payments on the Note (after deducting and paying any applicable Servicing Fee), income received on the investment of moneys in the Construction Fund (except the Equity Account), if any, and income received from the investment of moneys in the Debt Service Reserve Fund (except moneys on deposit in the Collateral Account) and payments received from the Institution pursuant to Section 11(a) of the Loan Agreement, shall be deposited in the Debt Service Account;

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

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

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

(iii) Trust Revenues attributable to hazard insurance or condemnation proceeds which are to be applied to reduction of the outstanding principal balance of the Note in accordance with applicable FHA Documents and pursuant to Sections 26 and 27 of the Loan Agreement shall be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds as provided in the Loan Agreement and in The New York and Presbyterian Hospital Resolution.

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

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

*(Section 6.01)*

### **Debt Service Fund**

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

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

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

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

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

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

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

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

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

(b) Unless the Note and Mortgage have been assigned to FHA pursuant to the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance" hereof, all income from the investment of moneys in any account of the Debt Service Fund (i) shall upon receipt be deposited in the Surplus Account to the extent the amount in the Surplus Account is less than the amount to be deposited therein pursuant to Applicable Series Resolution or Applicable Bond Series Certificate; or (ii) upon the written direction of the Authority applied as a credit against subsequent payments due on the Applicable Note, provided that all fees and expenses of the Trustee and Authority shall have been provided for and all amounts under clauses FIRST, SECOND, THIRD and FIFTH under paragraph (a) above shall have been made. On the last Business Day preceding each Interest Payment Date for Bonds, to the extent moneys are not available from other sources, any moneys on deposit in the Surplus Account shall be applied first to the payment (in semiannual installments) of the Applicable Trustee's Annual Fee and then, to the extent of money available, to all fees and expenses of the Authority pursuant to a certificate of an Authorized Officer of the Authority. Unless the Note and Mortgage have been assigned to FHA pursuant to the provisions under the heading "Remedies under Mortgage and FHA Mortgage Insurance" in which event the provisions of the last sentence of this subsection shall apply, the foregoing fees and expenses of the Authority shall not be paid from any other fund or account held pursuant to The New York and Presbyterian Hospital Resolution, other than the Surplus Account. If on the last Business Day preceding any such Interest Payment Date the amount in the Surplus Account remaining after the payments described in the preceding sentence exceeds the sum set forth in the Applicable Series Resolution or Bond Series Certificate or as the Authority shall specify (but in no event less than the Authority's estimated fees and expenses for the forthcoming six (6) months and one-half (1/2) of the Applicable Trustee's Annual Fee (together with any amounts theretofore unpaid from any previous period)), such excess shall be transferred to the Debt Service Account for application in accordance with paragraph (a) of this Section and, if directed by the Authority, applied as a credit against subsequent payments due on the Applicable Note. Notwithstanding the foregoing, in the event the Note and Mortgage are assigned to FHA, any amount in the Surplus Account shall be used: first, to pay hazard insurance premiums, mortgage insurance premiums or other FHA charges, which amounts may become due prior to the date of such assignment, unless payment of such amounts is waived by FHA; second, to reimburse any Mortgagee Advances; third, to pay the Applicable Trustee's Annual Fee; fourth, to pay the Authority's Annual Administrative Fee; and fifth, to pay any fees and expenses, including legal

fees, incurred by the Authority, the Applicable Trustee, the Mortgage Servicer or the Financial Consultant in connection with the assignment of the Note and Mortgage and the claim for FHA mortgage insurance benefits.

(c) In lieu of redeeming Bonds through Sinking Fund Installments as provided in The New York and Presbyterian Hospital Resolution, at the direction of the Authority, the Applicable Trustee shall apply moneys from time to time on deposit in the Debt Service Account or the Redemption Account to the purchase of an equal principal amount of the Series of Bonds (of the maturity and in amounts then expected to be subject to Sinking Fund Installments) at prices not higher than the principal amount to be redeemed plus accrued interest, provided that firm commitments to sell Bonds are received at least five (5) days before the notice of redemption would otherwise be required to be given. In the event of purchases at purchase prices less than the principal amount to be redeemed plus accrued interest, the difference between the amount in the Debt Service Account representing the principal amount of the Bonds purchased and the purchase price (exclusive of accrued interest) shall be retained in the Debt Service Account for application pursuant to subdivision (a) of this Section. Prior to any such purchase, the Applicable Trustee shall give notice to the Authority of the terms of the proposed purchase, and the Authority shall give written directions to the Trustee to purchase such Bonds for such terms. All Bonds so purchased shall be immediately cancelled. The provisions of this paragraph do not apply to purchases made in lieu of redemption of Bonds pursuant to the provisions of The New York and Presbyterian Hospital Resolution.

(d) Notwithstanding anything in The New York and Presbyterian Hospital Resolution to the contrary, the Applicable Trustee shall, at the direction of the Authority, pursuant to the provisions of The New York and Presbyterian Hospital Resolution deposit funds received for the purchase in lieu of redemption of Bonds of an Applicable Series in the Applicable Purchase Account for the purchase of Bonds of such Applicable Series in whole or in part pursuant to the terms and conditions of the Applicable Series Resolution or Applicable Bond Series Certificate. All Bonds so purchased shall not be cancelled.

(e) For purposes of this heading, any payment of principal and interest on the Note due the first day of February or August shall be treated as received after the 15<sup>th</sup> of such February or August and shall be applied as provided in subdivision (a) under this heading on the day prior to the next succeeding Interest Payment Date.

*(Section 6.02)*

### **Debt Service Reserve Fund**

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

(a) If a payment default occurs under the Note or the Mortgage, on each succeeding Interest Payment Date, unless and until such default is waived as described in the second paragraph under the heading “Remedies under Mortgage and FHA Mortgage Insurance”, the Applicable Trustee will draw upon any Letter of Credit held for the account of the Collateral Account and make transfers from the Debt Service Reserve Fund (first from the Collateral Account and second from the Reserve Account) to the Debt Service Account on the second Business Day preceding each Interest Payment Date in an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest on the Bonds Outstanding and the principal amount of Bonds maturing (if any).

(b) If the Institution fails to make all payments (except for those payments to be applied in accordance with the provisions of paragraph (e) under the heading “Debt Service Fund” without regard to any grace period relating thereto) which become due under the Note by each date 15 days in advance of an Interest Payment Date, (i) the Applicable Trustee will immediately give notice to the issuer of the Investment Agreement that the Applicable Trustee intends to withdraw funds under such Investment Agreement and, if the Floor Ceiling Agreement is then the Investment Agreement in place, the Applicable Trustee will immediately give notice to the bank thereunder of the sale of securities in an amount sufficient, together with moneys then on deposit in the Debt Service Account (including amounts transferred from the Collateral Account pursuant to subparagraph (a) under this heading and the Investment Income Account pursuant to the provisions described under subdivision (e) under the heading “Payments from Construction Fund”), to pay the interest becoming due on the Bonds on the next succeeding Interest Payment Date and the principal amount of Bonds maturing, if any, on such date; and (ii) unless the Institution makes such payment under the Note or Mortgage by the last Business Day preceding the next Interest Payment Date and cures, in accordance with the second paragraph under the heading “Remedies under Mortgage and FHA Mortgage

Insurance”, any other defaults under the FHA Documents (in which event the Applicable Trustee will immediately cancel the withdrawal of funds under such Investment Agreement), then the Applicable Trustee will immediately withdraw funds from the Reserve Account in such amount and deposit the same in the Debt Service Account.

(c) In accordance with the provisions described under the heading “Application of FHA Mortgage Insurance Benefits”, to the extent such provisions direct that amounts on deposit in the Debt Service Reserve Fund are to be applied to the Extraordinary Mandatory Redemption of Bonds, any investments deposited to the credit of the Reserve Account and the Collateral Account of the Debt Service Reserve Fund shall be liquidated and the amounts thus obtained shall be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds.

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

(e) Except as provided in paragraph (d) above, the Applicable Trustee will not draw on any Letter of Credit in the Debt Service Reserve Fund and will not transfer any such moneys to any other fund under The New York and Presbyterian Hospital Resolution until the Authority has given, or caused there to be given, notice to FHA of a default under the Note and Mortgage pursuant to the provisions described under the heading “Remedies under Mortgage and FHA Mortgage Insurance.”

(f) Except as otherwise provided above, the Applicable Trustee shall transfer amounts in excess of the Debt Service Reserve Fund Requirement to the Redemption Account.

*(Section 6.03)*

### **Redemption Account**

The following provisions shall apply to each Applicable Redemption Account:

(a) The Applicable Trustee will cause any optional prepayments and premium on the Note and Mortgage made from any source (other than prepayments described in paragraph (c) of this heading), together with any Non-Asset Bond Prepayment made in connection with an Optional Redemption of Bonds, deposited in the Redemption Account pursuant to the provisions of subdivision (b)(iv) under the heading “Collection of Trust Revenues” to be applied to the optional redemption of Bonds at the times and Redemption Prices set forth in the Bond Series Certificate or to the purchase of Bonds by the Applicable Trustee at prices not in excess of the optional redemption price applicable on the next succeeding optional redemption date plus accrued interest.

(b) The Applicable Trustee will cause any moneys transferred to the Redemption Account from the Debt Service Fund pursuant to the fifth clause of paragraph (a) under the heading “Debt Service Fund” to be applied to the Sinking Fund Redemption of Bonds, on the next succeeding Interest Payment Date, at a Redemption Price equal to the principal amount of the Bonds to be redeemed.

(c) The Applicable Trustee will also transfer from the Insurance and Condemnation Account of the Construction Fund to the credit of the Redemption Account amounts derived from Net Insurance Proceeds and Net Condemnation Proceeds which are applied to the prepayment of the Note and Mortgage as provided in Sections 26 and 27 of the Loan Agreement, together with any Non-Asset Bond Prepayment made in connection with such prepayment. The Applicable Trustee shall cause all such amounts to be applied to the Extraordinary Mandatory Redemption of Bonds, at the earliest practicable redemption date, in accordance with the provisions of The New York and Presbyterian Hospital Resolution and the Applicable Series Resolution.

(d) The Applicable Trustee will cause amounts deposited in the Redemption Account derived from: (i) the Debt Service Reserve Fund; (ii) the Investment Income Account; (iii) the Construction Fund; (iv) the funds available for Extraordinary Mandatory Redemption; and (v) amounts received upon payment of FHA mortgage insurance benefits, to be applied to the Special Mandatory Redemption of Extraordinary Mandatory Redemption of Bonds.

*(Section 6.04)*

#### **Procedure When Funds are Sufficient to Pay all Bonds**

The following procedures shall apply with regard to each Applicable Series of Bonds:

If at any time following the date of Final Endorsement the amounts held by the Applicable Trustee in the funds established pursuant to The New York and Presbyterian Hospital Resolution (except for the Equity Account, the Collateral Account, the Insurance and Condemnation Account and the Arbitrage Rebate Fund) are sufficient to pay the principal or Redemption Price of, and interest on all Bonds Outstanding on the next succeeding Interest Payment Date therefor, together with any amounts due the Authority and the Applicable Trustee, the Applicable Trustee will notify the Authority, the Mortgage Servicer and the Institution to that effect and thereafter the Applicable Trustee will apply, subject to any applicable FHA requirements, the amounts in such funds first to the payment of such principal or Redemption Price and interest, and second, to the payment of any amounts due to itself and the Authority, and, unless the Note and Mortgage have been assigned to FHA, the Authority will credit such payments to prepayment of the Note and the Mortgage, in accordance with the prepayment provisions of the Note and Mortgage, and the redemption provisions of the Bonds.

*(Section 6.05)*

#### **Deposit and Investment of Funds**

The following provisions shall apply to the deposits and investment of funds held in connection with each Series of Bonds:

(a) All moneys received by the Applicable Trustee for deposit in any fund or account established under The New York and Presbyterian Hospital Resolution shall, except as otherwise provided, be deposited with the Applicable Trustee until expended or invested as provided in this heading.

(b) Any moneys received by the Applicable Trustee on behalf of the Authority as mortgagee under the Mortgage which are required to be deposited in escrow accounts or other accounts under the Mortgage will be invested subject to applicable FHA regulations.

(c) Moneys held by the Applicable Trustee in any fund or account described above under the heading "Authorization for Establishment of Funds and Accounts", will, as nearly as may be practicable, be invested by the Applicable Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, in (i) Government Obligations or (ii) Federal Agency Obligations, or (iii) Exempt Obligations and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under The New York and Presbyterian Hospital Resolution; provided that each such investment will permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of The New York and Presbyterian Hospital Resolution.

(d) Moneys held in any fund or account with respect to an Applicable Series of Bonds authorized under The New York and Presbyterian Hospital Resolution may be pooled for purposes of investment only, and such moneys may be invested as one account; provided that the Applicable Trustee will keep records of the amount of principal and accrued investment income (on a pro rata basis) of each fund or account which is pooled for investment purposes pursuant to this paragraph. Moneys in the Mortgage Account in the Construction Fund to be transferred to the Investment Income Account to pay interest on the Note (less the Servicing Fee) pursuant to provisions found under the sections "Payments from the Construction Fund" or "Collection of Trust Revenues" will remain invested under the Applicable Investment Agreement under this heading unless such moneys are required to be used to pay interest on the Bonds as described below. Transfers from the Investment Income Account to the Debt



Service Account to pay interest on the Bonds pursuant to subdivision (d) under the heading “Payments from Construction Fund” will be made semiannually thirty (30) days in advance of each Interest Payment Date. Accrued interest, if any, payable on the initial investment of the Reserve Account may be paid from the Debt Service Account or the Mortgage Account provided the amount so paid is redeposited in the appropriate account upon receipt of the first income on such investments.

*(Section 6.06)*

### **Valuation of Funds**

The Applicable Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, and (iii) upon the request of the Institution, but not more frequently than once a calendar month, will compute the value of the assets of each fund and account authorized to be established under The New York and Presbyterian Hospital Resolution and established by each Applicable Series Resolution. Additionally, the Applicable Trustee will (i) calculate the Reserve Account Requirement and the Collateral Account Requirement at the end of each calendar month and (ii) at Final Endorsement, compute the value of the assets of the Debt Service Reserve Fund, after taking into account any deposits to, and payments and transfers from, any fund or account made under The New York and Presbyterian Hospital Resolution or the Applicable Series Resolution. The Applicable Trustee will provide a written computation to the Authority and the Institution of the amount of the Reserve Account Requirement and the Collateral Account Requirement (after giving effect to any redemption made pursuant to the provisions under the heading “Procedure upon Completion of the Project”). The Applicable Trustee will, to the extent of any decrease in the Collateral Account Requirement (a) with the consent of the Authority reduce any Letter of Credit deposited to the credit of the Collateral Account by the amount of the decrease in the Collateral Account Requirement and/or (b) at the written direction of the Authority remit to the Institution (provided there is no default under the Applicable Mortgage or Note, and there is no deficiency in the Debt Service Reserve Fund, and in the event of a deficiency, transfer such excess to the Debt Service Reserve Fund) any moneys originally deposited by the Institution or other Available Moneys on deposit in the Collateral Account in excess of the reduced Collateral Account Requirement. In addition, in the case of a deficiency in the Collateral Account Requirement or the Reserve Account Requirement, the Applicable Trustee will promptly notify the Institution of the amount of such deficiency. Such investments will be valued at the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, except for any amounts invested pursuant to an Investment Agreement, which will be valued at cost. Promptly after each such computation, the Applicable Trustee will give notice thereof to the Institution and the Authority.

The Authority, in its discretion, may direct the Applicable Trustee to, and the Applicable Trustee will, sell, present for redemption or exchange any Securities held pursuant to The New York and Presbyterian Hospital Resolution by the Applicable Trustee and the proceeds thereof may be reinvested as provided under this heading.

*(Section 6.07)*

### **Additional and Refunding Bonds and Additional Obligations**

Additional Bonds may be issued under The New York and Presbyterian Hospital Resolution for the purpose of financing all or a portion of the Cost of other Projects or refunding all or any portion of outstanding Bonds of one or more Series, or all or any portion of other outstanding obligations issued by the Authority for the benefit of the Institution.

The Authority reserves the right to issue other bonds, notes or any obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or any obligations or such indebtedness are not, entitled to a charge or lien prior to the charge or lien created by The New York and Presbyterian Hospital Resolution or an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of a Series of Bonds or with respect to the moneys pledged under The New York and Presbyterian Hospital Resolution or an Applicable Series Resolution.

*(Article II)*

### **Creation of Liens**

The Authority will not create or cause to be created any lien or charge prior or equal to that of the Bonds of each Series on the proceeds from the sale of such Bonds, the Applicable Trust Revenues pledged for such Applicable Series of Bonds, the rights of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Applicable Trustee, the Applicable FHA Documents (except as allowed pursuant to The New York and Presbyterian Hospital Resolution) or the fund authorized by The New York and Presbyterian Hospital Resolution and established pursuant to the Applicable Series Resolution. Nothing contained in The New York and Presbyterian Hospital Resolution will, however, prevent the Authority from issuing bonds, notes or other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior to the charge or lien created by The New York and Presbyterian Hospital Resolution.

*(Section 7.06)*

### **Notice as to Event of Default Under Loan Agreement**

The Authority will notify the Applicable Trustee in writing that an “Event of Default” under the Loan Agreement, as such term is defined in the Loan Agreement, has occurred and is continuing, which notice will be given within five (5) days after the Authority has obtained actual knowledge thereof.

*(Section 7.11)*

### **Maintenance of Corporate Existence and FHA Mortgagee Status**

The Authority will use its best efforts to maintain and renew its corporate existence and all its rights, powers and privileges under the Act for so long as any Bonds of a Series are Outstanding, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements and directions of any legislative, executive, administrative or judicial body. The Authority will use its best efforts to maintain at all times its status in good standing as an FHA-approved mortgagee.

*(Section 7.13)*

### **Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage**

With respect to each Applicable Series of Bonds:

(a) The Authority will enforce, and will cause the Mortgage Servicer to enforce, the full and punctual performance by the Institution of all covenants, agreements and obligations on the part of the Institution to be performed under the FHA Documents, including, without limitation, the Note, the Mortgage, and the Security Agreement. The Authority will enforce the full and punctual performance by the Mortgage Servicer of all covenants, agreements and obligations on the part of the Mortgage Servicer to be performed under the Servicing Agreement.

(b) The Authority may consent to any amendment to the FHA Documents, including an amendment to the interest rate on the Note at Final Endorsement (or a reduction in principal payments in connection with a prepayment of the Note upon satisfaction of the requirements therefor as set forth in The New York and Presbyterian Hospital Resolution and in the Loan Agreement or in connection with the issuance of Refunding Bonds), provided, however, that no such amendment may be made which would extend or delay the commencement of amortization payments due under the Note or adversely affect the timely receipt of interest and principal payments thereon without the consent of the Holders of 100% of the aggregate principal amount of the Bonds Outstanding.

(c) The Authority, as mortgagee under the Mortgage, may consent to the Institution’s incurring indebtedness in addition to the Applicable Note, secured by the Mortgaged Property, provided the Authority and the Applicable Trustee shall first have received:

(i) if the purpose for which such additional debt is being incurred is to pay or to complete the payment of the costs of a Capital Addition, a certificate of the Institution stating (1) the estimated cost of completion

of such Capital Addition, (2) that the proceeds of such additional debt, together with any funds to be provided by the Institution, will be sufficient to pay such costs, (3) that no Event of Default under the FHA Documents or the Loan Agreement has occurred and is continuing and (4) the written consent of FHA to such Capital Addition;

(ii) if such additional debt is to be insured by FHA and secured by the Mortgage; (A) executed evidence of an increase in the Mortgage Insurance to cover any such increase in the principal amount of the indebtedness secured by the Mortgage; (B) executed or certified counterparts of amendments or supplements to the Applicable Note given by the Institution evidencing such additional debt as required by FHA and the Authority; and (C) an amendment or supplement to the Applicable Mortgage as required by FHA and the Authority evidencing and securing such additional debt;

(iii) if such additional debt is to be insured by FHA and secured by a supplemental mortgage; (A) evidence that such supplemental mortgage shall be eligible for insurance by FHA under the provisions of the National Housing Act, as amended; (B) executed or certified counterparts of the supplemental note given by the Institution evidencing such additional debt as required by FHA and the Authority; and (C) executed or certified counterparts of the supplemental mortgage securing such additional debt as required by FHA and the Authority;

(iv) if such additional debt is not to be insured by FHA, the consent of FHA to the incurrence of such additional debt, the security therefor and the terms thereof, as required by the Regulatory Agreement, which terms may include to the extent approved by FHA and the Authority, the release, subordination or the granting of a parity interest in any fixtures, furnishings or equipment located in or on or used in connection with any Mortgaged Property or any other security interest granted to the Authority pursuant to the Security Agreement or the Mortgage;

(v) if required by FHA, an executed counterpart of an amendment or supplement to the Mortgage or any supplemental mortgage providing that a default under such additional debt will constitute an event of default under the Mortgage;

(vi) executed counterparts of any other instruments given or agreements made by the Institution for the security of such additional debt, which, with the Authority's written permission, may provide that any default thereunder will constitute a default under the Mortgage, together with an opinion of Counsel to the Institution that (1) any amendments to the Note and Mortgage and all such other amendments, instruments or agreements are duly authorized, executed and delivered by the Institution and are legal, valid and binding obligations, enforceable in accordance with their terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights generally and (2) any consents or approvals of any governmental authorities required in connection with the issuance and related transactions have been obtained; and

(vii) such other documents, assurances and provisions, which Bond Counsel, the Authority, FHA or the Applicable Trustee may reasonably require default under the Mortgage.

(d) In connection with the incurring of additional indebtedness secured by the Mortgage or any supplemental mortgage pursuant to paragraph (c) above or an amendment to the interest rate on the Note pursuant to paragraph (b) above, the Applicable Trustee will give or cause to be given to each Rating Service, (1) notice of at least thirty (30) days' prior written notice of the proposed incurrence of such additional indebtedness or amendment to the interest rate on the Note and (2) a Cash Flow Statement if required by the Authority or a Rating Service, showing that the incurrence of additional indebtedness or amendment to the interest rate on the Note will not adversely affect the sufficiency of Trust Revenues (including FHA mortgage insurance benefits) for the payment of debt service on the Bonds Outstanding; and

(e) The Authority will not consent to the release of any cash or letters of credit held pursuant to the FHA Documents for the benefit of the Mortgagor without the consent of the FHA.

*(Section 7.14)*

### **Tax Exemption; Rebates**

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds of each Series, the Authority will comply with the provisions of the Code applicable to such Bonds.

The Authority will not take any action or fail to take any action, which would cause the Bonds of an Applicable Series to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

The Authority’s failure to comply with the provisions of the Code applicable to the Bonds of a Series will not entitle the Holder of Bonds of any other Applicable Series, or the Applicable Trustee on its behalf, to exercise any right or remedy provided to Bondholders under The New York and Presbyterian Hospital Resolution based upon such failure.

*(Section 7.15)*

### **Events of Default**

An event of default will exist under The New York and Presbyterian Hospital Resolution and under an Applicable Series Resolution (called “event of default” in The New York and Presbyterian Hospital Resolution) if:

- (a) With respect to the Applicable Series of Bonds, payment of the principal or Redemption Price of any such Bond is not made by the Authority when the same is due and payable, either at maturity or by proceedings for redemption or otherwise; or
- (b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond is not made by the Authority when the same is due and payable; or
- (c) The Authority files a petition under Chapter 9 of the Federal Bankruptcy Code; or
- (d) With respect to the Applicable Series of Bonds, default by the Authority in the due and punctual performance of the covenants contained in The New York and Presbyterian Hospital Resolution as described under the caption “Tax Exemption; Rebates” above and, as a result thereof, the interest on the Bonds of such Series will no longer be excludable from gross income under Section 103 of the Code; or
- (e) With respect to the Applicable Series of Bonds, default by the Authority in the due and punctual performance of any other covenant, condition, agreement or provision for the benefit of the holders of such Bonds contained in The New York and Presbyterian Hospital Resolution or in the Bonds or in the Applicable Series Resolution to be performed and such default will continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied will have been given to the Authority by the Applicable Trustee, which may give such notice in its discretion and will give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of such Bonds of the Applicable Series at the time outstanding.

An Event of Default under The New York and Presbyterian Hospital Resolution in respect to an Applicable Series of Bonds will not in and of itself be or constitute an Event of Default in respect of any other Series of Bonds.

*(Section 8.02)*

### **Acceleration and Annulment Thereof**

(a) If any Event of Default as described in paragraph (a) or (b) under the heading “Events of Default” occurs, the Applicable Trustee may, and upon request of the Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series, shall, by notice in writing to the Authority, declare the principal amount of all Bonds Outstanding of the Applicable Series and all payments to be made by the Institution therefor (but, except as described hereinbelow under the heading “Remedies under Mortgage and FHA Mortgage Insurance”, solely pursuant to the provisions of the Loan Agreement), and accrued interest on the foregoing, to be immediately due and payable, whereupon the same will become due and payable immediately without any further notice or action, anything in The New York and Presbyterian Hospital Resolution, the Applicable Series Resolution, the Loan Agreement or in the Bonds to the contrary notwithstanding.

(b) If, after any declaration of acceleration of the principal amount of a Series of Bonds, all arrears of interest upon such Bonds and all other outstanding Events of Default (other than the nonpayment of principal and

interest due and payable solely by reason of such declaration) have been cured or provision deemed adequate by the Applicable Trustee have been made therefor, and all required payments by the Institution under the Loan Agreement have been made and the Authority and the Institution also perform all other things in respect to which they or any of them may have been in default under The New York and Presbyterian Hospital Resolution or under the FHA Documents, all in accordance with the second paragraph of subdivision (a) hereinbelow under the heading “Remedies under Mortgage and FHA Mortgage Insurance”, and provision is made for payment of reasonable charges of the Applicable Trustee and the Mortgage Servicer and if all claims under the FHA Mortgage insurance have been withdrawn without payment, then, and in every such case, the Applicable Trustee, by notice to the Authority, may annul such declaration and its consequences. Any such annulment shall be binding upon the Applicable Trustee and upon all holders of the Applicable Series of Bonds, but no such annulment will extend to or affect any subsequent default or impair any right or remedy consequent thereon.

*(Section 8.03)*

### **Remedies under Mortgage and FHA Mortgage Insurance**

The following remedies apply in connection with each Series of Bonds issued under The New York and Presbyterian Hospital Resolution, the Applicable Mortgage and the Institution; provided however a default in connection with one Series of Bonds shall not in and of itself be or constitute a default in respect of any other Series of Bonds:

(a) If the Institution fails to make any payment in full required under the Note or Mortgage and such failure continues for a period of thirty (30) days (the “Grace Period”), or if following a default by such Institution in the performance of any covenant in the Regulatory Agreement or the Mortgage, including but not limited to a default under the Mortgage or Regulatory Agreement caused by a cross-default provision therein or in a mortgage or regulatory agreement of the Institution securing a separate Applicable Series of Bonds, but only to the extent required or consented to by FHA, FHA shall have requested and the Authority shall have declared an acceleration of the unpaid principal balance of the Note, the Authority will immediately give, or cause the Mortgage Servicer to give, written notice to FHA, the Applicable Trustee, and the Rating Service(s) of (i) the occurrence of the default, (ii) the acts or omissions giving rise to the default, (iii) the time period, if any, available to cure such default, (iv) a schedule of remaining Interest Payments Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds, (v) a schedule of the funds available to make payments as they become due on the Bonds, (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds, (vii) the Authority’s election to assign the Note and the Mortgage to FHA, and (viii) the Authority’s intention and election to file a claim for Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement, or FHA Cash Lock Agreement, as and if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice the Authority or the Mortgage Servicer shall request (a) such forms and instructions relating to an assignment of the Note and Mortgage and (b) an endorsement of the Mortgagee’s title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions the Authority will submit legal documentation for review to the Office of the General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit (by no later than thirty days after the date of recordation of the assignment to FHA) in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, and the FHA Debenture Agreement or the FHA Cash Lock Agreement as and if applicable, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority’s election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice in the manner provided in paragraph (i) under this heading to all Bondholders of the Applicable Series of the occurrence of the default by the Institution and the Authority’s intent to file such claim with FHA. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Outstanding Bonds of the Applicable Series within twenty (20) days of the date notice of the Authority’s election to assign the Note and Mortgage to FHA was sent to FHA, the Authority will, except as hereinbelow provided, take all actions necessary to assign the Note and the Mortgage to FHA and to recover such claim under the FHA mortgage insurance; provided that, the Authority shall use its best efforts to complete the assignment of the Note and Mortgage no later than the last Business Day preceding the 30th day following the giving of notice to FHA; provided further however that in the

event such assignment will be completed later than the last Business Day preceding the 30th day following the giving of notice to FHA, notice thereof will be given by the Authority to each Rating Service.

If, prior to the date the Note and Mortgage are assigned to FHA (pursuant to this subdivision or subdivision (b) below under this heading) the Institution (x) pays all amounts due under the Note, Mortgage and Loan Agreement and cures any other defaults thereunder and (y) delivers to the Applicable Trustee funds which are not less than the principal amount, if any, which has been withdrawn as provided under the heading “Debt Service Reserve Fund” from the Collateral Account and the Reserve Account, or delivers to the Applicable Trustee investment obligations meeting the requirements of The New York and Presbyterian Hospital Resolution in a form and amount which are satisfactory to the Authority and the Applicable Trustee, then notwithstanding the provisions of this subdivision and subdivision (b) below, the Authority shall withdraw its notice of assignment to FHA; provided, the Authority, and Applicable Trustee have first received (i) written confirmation from FHA that the withdrawal of the Authority’s claim will not adversely affect the FHA insurance of the Note, or be construed as a waiver or reduction thereof, (ii) agreement from a Qualified Financial Institution providing an Investment Agreement that such moneys can be reinvested at the same rate or rates as were applicable prior to such withdrawal or other comparable arrangements satisfactory to the Authority, and the Rating Agencies were provided, (iii) Cash Flow Statements will have been provided evidencing that the failure to assign the Note and Mortgage to FHA as provided above under this heading will not adversely affect the sufficiency of Trust Revenues for the payment of debt service on the Applicable Series of Bonds, (iv) the respective amounts on deposit in the Reserve Account and the Collateral Account are not less than the Reserve Account Requirement and the Collateral Account Requirement, respectively and (v) an unqualified opinion of nationally recognized bankruptcy Counsel satisfactory to the Applicable Trustee to the effect that the amounts paid by the Institution pursuant to clause (x) and (y) above will not constitute an avoidable preference or be subject to the automatic stay provisions of Section 547(b) or 362(a), respectively, of the Federal Bankruptcy Act in the event that a case in bankruptcy is commenced by or against the Institution.

(b) If a non-monetary default by the Institution under the terms of the Mortgage has occurred (including a default as a result of cross-default provisions included therein), the Authority will, within (i) thirty (30) days after the occurrence of such default or (ii) such other grace period as will be established under applicable FHA regulations, give notice of such default to FHA and the Rating Service(s) and on the basis of its determination as to which course of action will be in the best interest of the Bondholders, either:

(1) declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Institution. Immediately upon such declaration the Authority will give, or cause the Mortgage Servicer to give, within one Business Day after the end of the applicable grace period, written notice to FHA, the Applicable Trustee, the Bond Insurer and the Rating Service(s) of (i) the occurrence of such default, (ii) the acts or omissions giving rise to the default, (iii) the time period, if any, available to cure such default, (iv) a schedule of remaining Interest Payment Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds, (v) a schedule of the funds available to make payments as they come due on the Bonds, (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds, (vii) the Authority’s election to assign the Note and the Mortgage to FHA and (viii) the Authority’s intention and election to file a claim for the Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement or FHA Cash Lock Agreement as and if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer will request (a) such forms and instructions relating to the assignment of the Mortgage and (b) an endorsement of the Mortgagee’s title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority will submit or cause to be submitted the legal documentation for review by the Office of General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit or cause to be completed and submitted (by no later than thirty days after the date of recordation of the assignment to FHA unless an extension of such time period is approved in writing by FHA), in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority’s election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice as provided in paragraph (a) under this heading to all Bondholders of such Applicable Series of the

occurrence of such default and of the Authority's intent to file such claim and promptly certify to the Authority that it has mailed such notice to all such Bondholders, which certificate will be conclusive evidence that such notice was given in the manner required by The New York and Presbyterian Hospital Resolution. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Bonds Outstanding within twenty (20) days of the date such notice was given to FHA and mailed to the Bondholders or unless such default has been cured as provided in the second paragraph of subdivision (a) under this heading, the Authority will take all actions necessary to assign the Note and Mortgage to FHA and recover such claim on the FHA mortgage insurance; or

(2) give, or cause the Mortgage Servicer to give, written notice to FHA of the occurrence of such default and enter into an agreement with the Institution, approved by FHA, extending the time for curing such default; provided that the Authority will not execute any such agreement unless the Authority (a) has notified the Rating Service(s) then rating the Applicable Series of Bonds that the time for curing such default is being extended and (b) has received written confirmation from each such Rating Service that its rating on the Bonds will not be adversely affected as a result of such agreement.

(c) Until the Note and Mortgage have been assigned to FHA pursuant to subdivision (a) or (b) under this heading, the Applicable Trustee will pay upon written request of the Authority and the Mortgage Servicer, from amounts in the Surplus Account, any hazard insurance premiums or mortgage insurance premiums which may become due prior to the date of assignment; unless payment of such mortgage insurance premiums is waived by FHA.

(d) The Authority will or will cause the Mortgage Servicer to proceed with due diligence to obtain payment of the FHA Mortgage insurance on the earliest practicable date.

(e) In the event an FHA Cash Lock Agreement is in effect with respect to a Series of Bonds, payment of FHA Mortgage Insurance Benefits therefor will be requested in cash and not in FHA debentures.

(f) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, the Applicable Trustee will, upon receipt of notice from the Authority that it has received a direction from FHA pursuant to 24 C.F.R. Section 207.258(b)(5) or any other applicable regulation, pay to FHA any amounts which are required to be paid to FHA which remain on deposit in the Construction Fund. If by the date the assignment of the Note and Mortgage to FHA is completed, FHA has not directed the Authority to pay over the undisbursed balance in the Construction Fund, the Authority will direct the Applicable Trustee to, within two (2) Business Days, transfer such amounts to the Redemption Account and apply the same to the Extraordinary Mandatory Redemption of Bonds, provided the Authority has first given written notice to FHA that the Authority intends to apply the undisbursed balance in the Construction Fund to such redemption and the Authority has received written confirmation from FHA that it will not require payment of the undisbursed balance of the Construction Fund pursuant to 24 C.F.R. Section 207.258(b)(5) (or any successor regulation thereto).

(g) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, if at any time prior to final payment of all mortgage insurance benefits, the Authority determines that there will not be sufficient moneys available in the Debt Service Fund and the Debt Service Reserve Fund for payment of the principal amount of and interest on the Applicable Series of Bonds becoming due on the next Interest Payment Date, the Authority will, not later than 30 days prior to such Interest Payment Date, give written notice to FHA of such deficiency and request immediate payment in cash of all mortgage insurance benefits in an amount necessary to avoid an Event of Default under The New York and Presbyterian Hospital Resolution.

(h) Upon payment of a claim for FHA mortgage insurance, the Authority will assign and transfer such insurance benefits to the Applicable Trustee immediately upon the receipt thereof. In the event such benefits are received in the form of FHA debentures, the Applicable Trustee will deposit such debentures upon receipt to the credit of the Debt Service Account and will apply all such debentures as described hereinbelow under the heading "Application of FHA Mortgage Insurance Benefits". In the event such benefits are received in the form of cash, the Applicable Trustee will deposit such cash in the Debt Service Account and apply such moneys as described hereinbelow under the heading "Application of FHA Mortgage Insurance Benefits".

*(Section 8.04)*

### Application of FHA Mortgage Insurance Benefits

The following provisions apply in connection with any receipt of FHA Mortgage Insurance Benefits in connection with an Applicable Series of Bonds:

(a) Upon receipt of the final payment of mortgage insurance benefits from FHA, the Applicable Trustee will calculate the “Funds Available for Extraordinary Mandatory Redemption”, being the sum of: (i) all mortgage insurance proceeds paid in cash (“Cash Proceeds”); (ii) all uninvested moneys held in all funds and accounts (other than the Mortgage Account and the Equity Account of the Construction Fund and the Arbitrage Rebate Fund) established under the Applicable Series Resolution including any unused portion of any Letter of Credit held in such funds and accounts (“Cash on Hand”); and (iii) the amount which could be realized from the sale of all investments (not including FHA debentures) deposited to the credit of all funds and accounts (other than the Mortgage Account, the Equity Account and the Rebate Fund) established under the Series Resolution (“Investments on Hand”).

In the event that all mortgage insurance proceeds are paid by FHA in cash and the Funds Available for Extraordinary Mandatory Redemption are sufficient in reliance upon a certification made or verified by a Financial Consultant to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption on the first practicable date such redemption can be made in accordance with Article IV of The New York and Presbyterian Hospital Resolution, the Applicable Trustee will sell all Investments on Hand and deposit the proceeds of sale, together with all Cash Proceeds and Cash on Hand, in the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of such Bonds.

(b) In the event that all mortgage insurance proceeds, Cash on Hand and proceeds which could be realized from the sale of Investments on Hand are not sufficient to pay the principal or Redemption Price of and interest on all Bonds Outstanding of the Applicable Series in the manner described in subsection (a) above, and the Applicable Trustee and the Authority have received a cash flow statement showing such insufficiency (copies of which will be sent to the Rating Service(s)), then, all such Investments, will be sold and the proceeds of such sale, together with all cash on hand (except the Arbitrage Rebate Fund), shall be applied to the extent available: first, to the Extraordinary Mandatory Redemption of the Bonds, second, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee, and third, to pay the fees and expenses of the Authority and the Trustee; provided, that, if such moneys are insufficient to provide for the Extraordinary Mandatory Redemption of all the Bonds of such Series, then such amounts will be applied, as will be recommended by the Authority, to a *pro rata* Extraordinary Mandatory Redemption of all such Bonds without preference or priority of one Bond of such over another, except as otherwise provided in Section 7.02 of The New York and Presbyterian Hospital Resolution in the case of claims for interest extended or transferred apart from the Bonds after maturity.

(c) In the event that all Mortgage Insurance Benefits are to be paid in cash pursuant to a Cash Lock Agreement and pending final payment from FHA a partial cash payment of Mortgage Insurance Benefits is received, and it is determined, based on Cash Flow Statements to be prepared or verified by a Financial Consultant that is a firm of certified public accountants, that such payment, together with all other cash payments to be received from FHA, all immediately available funds held by the Trustee and the Investments on Hand (without regard to reinvestment), will, upon final payment by FHA, provide a cash flow sufficient upon final payment by FHA to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee and to pay the fees and expenses of the Authority and the Applicable Trustee, then, after depositing to the Debt Service Account such portion, if any, of the partial payment of the Mortgage Insurance Benefits received as is deemed necessary to pay the principal, Sinking Fund Installments and interest becoming due on such Bonds pending final payment of the Mortgage Insurance Benefits from FHA, the Applicable Trustee shall apply any remaining balance from such partial payment of Mortgage Insurance Benefits to the Extraordinary Mandatory Redemption of a portion of the Applicable Series of Bonds Outstanding, the selection of the principal amounts and maturities of which shall be made in accordance with The New York and Presbyterian Hospital Resolution. If, however, the Cash Flow Statements prepared in accordance with the preceding sentence show that said partial payment of Mortgage Insurance Benefits, together with all other cash payments to be received from FHA, all immediately available funds held by the Trustee and the Investments on Hand (without regard to reinvestment), will, upon final payment by FHA, be insufficient upon final payment by FHA to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory



Redemption, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee and to pay the fees and expenses of the Authority and the Applicable Trustee, then such payment received shall, after depositing to the Debt Service Account such portion, if any, of the partial payment of the Mortgage Insurance Benefits received as is deemed necessary to pay the principal, Sinking Fund Installments and interest becoming due on such Bonds pending final payment of the Mortgage Insurance Benefits from FHA, be applied to the pro rata or as otherwise directed by the Authority, based on Cash Flow Statements prepared by a Financial Consultant, Extraordinary Mandatory Redemption of Bonds of the Applicable Series Outstanding in accordance with subdivision (b) under this heading of such final payment.

(Section 8.05)

**Monetary Defaults Prior to the End of the No Call Period or When a Prepayment Premium is Payable Under the Note.**

The following procedures shall apply in connection with a monetary default by the Institution:

(a) In lieu of the provisions of subdivision (a) under the heading “Remedies under Mortgage and FHA Mortgage Insurance,” in the event of a monetary default under the Note and the Mortgage prior to the date set forth in the Applicable Bond Series Certificate or during the period when a prepayment premium in excess of one percent (1%) is payable under, the Note, within one (1) Business Day following the lapse of the thirty (30) day grace period, the Authority will, or will cause the Mortgage Servicer to (1) notify FHA and the Rating Service(s) of the default and of the fact that the Mortgage was given to secure an issue of tax-exempt bonds rated by the Rating Service(s), such notice to be accompanied by a schedule of funds available to make payments as they become due, (2) file with the Central Office a request for a three (3) month extension of the time to file its notice of intention and election to file a claim for mortgage insurance in connection with such default, and (3) file a copy of such extension request with the Authority and the Rating Service(s). In filing such notice, the Authority will, or will cause the Mortgage Servicer to, state that it intends to request priority processing of the mortgage insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice and request, the Authority will, or will cause the Mortgage Servicer to request forms and instructions relating to the assignment of the Note and Mortgage, and within five Business Days of the receipt of such forms and instructions, the Authority will, or will cause the Mortgage Servicer to, submit legal documentation for review to Office of General Counsel of FHA. During the extension period approved by FHA (which, except as provided in subdivision (f) of this heading, will be not longer than three months), the Authority will, or will cause the Mortgage Servicer to follow the directions in subdivision (b) under this heading. If the request by the Authority for the extension is not approved, the Authority will, or will cause the Mortgage Servicer to file with FHA notice of the Authority’s intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the receipt of the decision from FHA and thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subdivision (a) under the heading “Remedies under Mortgage and FHA Insurance.” A copy of the intention and election filed with FHA will also be filed with the Authority and the Rating Service(s).

(b) If an extension period is granted, during the extension period approved by FHA, the Authority will take the following actions, as appropriate:

(i) assist the Institution in arranging a refinancing of the Note to cure the default and avert the filing of the claim for mortgage insurance;

(ii) report to FHA on a monthly basis the progress, if any; in arranging the refinancing;

(iii) cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the mortgage insurance claim;

(iv) if thirty (30) days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Applicable Series of Bonds, notify FHA of such deficiency and request the immediate payment of FHA mortgage insurance benefits in cash; and

(v) if a determination is made by the Authority that the refinancing of the Note is not feasible, (i) file a request with the Central Office of FHA for its concurrence in such determination, (ii) submit to FHA a notice of

intention and election to file a claim for mortgage insurance, (iii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s), and (iv) proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in the heading “Remedies under Mortgage and FHA Mortgage Insurance.”

(c) The Authority agrees that it will not request more than one additional extension of the initial extension period approved by FHA and that it will not make such request until it receives written confirmation from the Rating Service(s) that the rating for the Applicable Series of Bonds will not be adversely affected by such request for extension. If the conditions for such further extension are not met, the Authority will proceed with processing the mortgage insurance claim in a timely fashion in the manner described in the heading “Remedies under Mortgage and FHA Mortgage Insurance.”

(d) Anything under this heading to the contrary notwithstanding, simultaneous with the Authority’s efforts to refinance the Note, the Authority will follow the procedures set forth in the heading “Remedies under Mortgage and FHA Mortgage Insurance” such that if the Note is not refinanced the Authority will be able to file its notice of intention and election to file a mortgage insurance claim within two (2) Business Days after the expiration of the approved extension period and proceed with the processing of the mortgage insurance claim in a timely fashion.

(e) To the extent a refinancing is arranged and approved by FHA, the Note will be prepaid, in whole or in part, and the proceeds will be applied to the Extraordinary Mandatory Redemption of the Bonds as provided in paragraph (d) under the heading “Redemption Account”; provided, however, that the Authority will not consent to such refinancing until it has received written confirmation from each Rating Service that the rating for the applicable Series of Bonds will not be adversely affected by such refinancing; provided further, that such refinancing will result in a prepayment of the Note prior to the expiration of the approved extension period (which, except as provided in subdivision (f) under this heading in no event will be longer than three (3) months).

(f) To the extent a refinancing is not approved by FHA, the Authority will or will cause the Mortgage Servicer to (i) file with FHA its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Trustee and the Rating Service(s) and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described under the heading “Remedies under Mortgage and FHA Mortgage Insurance.” To the extent a refinancing cannot be completed within the approved extension period, the Authority will or will cause the Mortgage Servicer to (i) file with FHA its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s), and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described under the heading “Remedies under Mortgage and FHA Mortgage Insurance”; provided, however, that at the option of the Authority, if a refinancing has been arranged and approved within the approved extension period, and such refinancing can be completed within an additional thirty (30) days, at the Authority’s sole discretion, the refinancing will be accepted by the Authority, as mortgagee, if (a) confirmation is received from the Rating Service(s) that the rating on the Applicable Series of Bonds (disregarding for such purpose the effect of the Applicable Bond Insurance Policy) will not be adversely affected, and (b) the Note and Mortgage have not been assigned to FHA. During the period when the Authority can exercise the right set forth in the prior sentence to accept a refinancing, it will not in any way delay the filing and processing of the mortgage insurance claim during the additional thirty (30) day period.

(g) To the extent there is a partial prepayment of the Note pursuant to a refinancing approved in accordance with the provisions described under this heading, the Authority will consent to any subordinate or parity liens on the Mortgaged Property which may be required.

(h) Notwithstanding any other provisions of The New York and Presbyterian Hospital Resolution, to the extent (i) FHA does not immediately pay a claim as requested by the Authority pursuant to subdivision (b)(4) under this heading, (ii) FHA does not process a claim made pursuant to subdivision (b)(5) under this heading, (iii) the Authority does not receive confirmation from the Rating Service(s) that the rating on the Applicable Series of Bonds is not adversely affected as provided in subdivisions (e) and (f) under this heading, or (iv) the processing of the mortgage insurance claim does not proceed in the fashion set forth under this heading, then the Authority will

proceed in a manner to preserve the mortgage insurance of the Note and the Mortgage, and otherwise protect the interest of the Bondholders.

*(Section 8.06)*

### **Legal Proceedings by Applicable Trustee**

(a) If an Event of Default as defined in paragraph (c) under the heading “Events of Default” has occurred, or if an Event of Default as defined in paragraph (e) under the heading “Events of Default” has occurred by reason of a default by the Authority in the performance of its obligations described herein under the headings “Maintenance of Corporate Existence and FHA Mortgagee Status”, “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage”, “Remedies under Mortgage and FHA Mortgage Insurance” and “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note”, the Applicable Trustee will immediately record the assignment of the FHA Documents referred to in subdivision (b) under the heading “Pledge of Trust Revenues”, notify FHA of such assignment and will thereupon succeed to all duties and obligations of the Authority under the terms of such FHA Documents, and all duties and obligations of the Authority with respect to such FHA Documents under The New York and Presbyterian Hospital Resolution and the Applicable Series Resolution, including without limitation the obligations described herein under the headings “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage”, “Remedies under Mortgage and FHA Mortgage Insurance”, “Application of FHA Mortgage Insurance Benefits” and “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note”. The Applicable Trustee may not declare the principal amount of the Bonds of such Series then Outstanding to be due and payable if an Event of Default if an Event of Default as defined in paragraphs (c), (d) or (e) under the heading “Events of Default” has occurred.

(b) If any Event of Default has occurred and is continuing (other than an Event of Default as defined in paragraphs (c), (d) and (e) under the heading “Events of Default” resulting from a default under the Mortgage), or if any event of default occurs in the Institution’s performance of any of its obligations under the Loan Agreement, the Applicable Trustee in its discretion may, and upon the written request of the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds of the Applicable Series then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

(i) by suit, action or proceeding at law or in equity, enforce all rights of the Bondholders; and

(ii) if an Event of Default defined in paragraph (a) or (b) under the heading “Events of Default” has occurred and is continuing, bring suit upon the Series of Bonds.

(c) If any proceeding taken by the Applicable Trustee on account of any default is discontinued or is determined adversely to the Applicable Trustee, the Authority, the Institution, the Applicable Trustee and the Holders of the Applicable Series of Bonds shall be restored to their former positions and rights under the Resolution as though no such proceeding had been taken.

(d) The Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series will have the rights, subject to the prior written approval of FHA when necessary, to direct the method and place of conducting all remedial proceedings by the Applicable Trustee, provided such direction will be in accordance with law or the provisions of The New York and Presbyterian Hospital Resolution and the Applicable Trustee will have the right to decline to follow any such direction which in the opinion of the Applicable Trustee would be prejudicial to Bondholders not parties to such direction.

*(Section 8.07)*

### **Limitations of Rights of Individual Bondholders**

No Holder of any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under The New York and Presbyterian Hospital Resolution or under any Series Resolution, or for any other remedy under The New York and Presbyterian Hospital Resolution unless such Holder of not less than twenty-five per centum (25%) in principal amount of the Outstanding

Bonds of an Applicable Series, or, in the case of an event of default specified in subdivision (c) under the heading “Events of Default,” the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series, shall have made written request to the Applicable Trustee after the right to exercise such powers or right of action, shall have accrued, and shall have afforded the Applicable Trustee a reasonable opportunity either to proceed to exercise the powers granted by The New York and Presbyterian Hospital Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Applicable Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Applicable Trustee shall have refused or neglected to comply with such request within a reasonable time. Under The New York and Presbyterian Hospital Resolution, such notification, request and offer of indemnity are declared in every such case, at the option of the Applicable Trustee, to be conditions precedent to the execution of the powers and trusts of The New York and Presbyterian Hospital Resolution or for any other remedy under The New York and Presbyterian Hospital Resolution.

*(Section 8.08)*

### **Modification and Amendment Without Consent**

The Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, effective upon the filing with the Applicable Trustee of a certified copy thereof by the Authority:

(a) To provide for the issuance of a Series of Bonds pursuant to the provisions hereof and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(b) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of any Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in The New York and Presbyterian Hospital Resolution;

(c) To provide for additional security for the payment of the Bonds including, but not limited to, provisions to allow a Bond Insurer to confirm its obligations under a Bond Insurance Policy or Surety Bond;

(d) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(e) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of The New York and Presbyterian Hospital 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 New York and Presbyterian Hospital Resolution;

(f) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, The New York and Presbyterian Hospital Resolution, or any Applicable Series Resolution, the Applicable Trust Revenues, or any pledge of any other moneys, Securities or funds;

(g) To modify any of the provisions of The New York and Presbyterian Hospital Resolution or any previously adopted Series Resolution or Supplement Resolution in any other respect, provided that such modifications will not be effective until after all Bonds outstanding as of the date of adoption of such Supplemental Resolution will cease to be outstanding; or

(h) With the consent of any Applicable Trustee, to cure any ambiguity or defect or inconsistent provision in The New York and Presbyterian Hospital Resolution or to insert such provisions clarifying matters or questions arising under The New York and Presbyterian Hospital Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with The New York and Presbyterian Hospital Resolution as theretofore in effect, or to modify any of the provisions of The New York and Presbyterian Hospital Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect,

provided that such modification will not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(i) To amend a Series Resolution previously adopted by the Authority to provide for the issuance of an additional series of bonds under such Series Resolution for the purpose of financing a Capital Addition; provided, however, that such additional bonds may only be issued upon (i) compliance with the provisions of The New York and Presbyterian Hospital Resolution; (ii) written notification from all Rating Service(s) that issuance of such additional series of bonds will not effect the rating for Outstanding Bonds and (iii) to the extent such additional series of bonds are secured by the Mortgage or Note, a Cash Flow Statement shall be prepared.

*(Section 10.02)*

### **Applicable Supplemental Resolutions Effective With Consent of Bondholders**

All other modifications of The New York and Presbyterian Hospital Resolution and a Series Resolution may be made only with at least two-thirds (two-thirds of bonds effected in the case of modification to the amount or date of any sinking fund installment) in principal amount of each Series of Bonds affected thereby except that certain of the modifications relating to changes in the maturity or interest rate on any Bond, among other things, may be made only with the consent of each Holder affected thereby.

*(Section 10.03 and Article XI)*

### **Amendment of Loan Agreement**

No amendment to the Loan Agreement will be effective between the parties thereto until approved in writing by the Applicable Trustee, who will give such approval if it reasonably determines (in reliance upon an opinion of Counsel, if so required by the Applicable Trustee) that such amendment or supplement is not inconsistent with The New York and Presbyterian Hospital Resolution and would not impair the security of the Applicable Series of Bonds. In the event the Applicable Trustee has made no written response to any such request for approval of an amendment or supplement to a Loan Agreement by the close of business on the 30th day after confirmed receipt by a Trust Officer, the Trustee shall be deemed to have given its approval.

*(Section 10.06)*

### **Defeasance**

(a) If the Authority will pay or cause to be paid to the Holders of the Bonds of any Series the Applicable principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated in said Bonds, in The New York and Presbyterian Hospital Resolution, and the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Applicable Trust Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by The New York and Presbyterian Hospital Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Loan Agreement, the Note, the Mortgage and the Trust Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, will release the lien of The New York and Presbyterian Hospital Resolution and Applicable Series Resolution, but only with respect to such Applicable Series except as it covers moneys and securities provided for the payment of such Bonds, will cancel the Applicable Note and endorse the Applicable Mortgage for cancellation and return the same to the Institution together with a release of the Mortgage in proper form for recordation (unless the Note and Mortgage have been assigned to FHA or pledged for the benefit of the holders of any indebtedness authorized pursuant to Section 2.02 of The New York and Presbyterian Hospital Resolution or indebtedness issued or incurred to refund the Applicable Series of Bonds in which latter case the Applicable Trustee will deliver and assign such Note and Mortgage to such person as the Institution will direct), and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and will turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith including any amounts due

under the Applicable Servicing Agreement; provided that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with The New York and Presbyterian Hospital Resolution or irrevocable instructions to mail such notice shall have been given to the Applicable Trustee.

(b) Bonds of an Applicable Series for which moneys have been set aside and shall be held in trust by the Applicable Trustee for the payment or redemption thereof (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Applicable Trustee, irrevocable instructions to publish as provided in Article IV of The New York and Presbyterian Hospital Resolution notice of redemption on said date of such Bonds, (b) there has been deposited with the Applicable Trustee either moneys, in an amount which will be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Applicable Trustee at the same time, will be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority will have given the Applicable Trustee, irrevocable instructions to provide notice to the Holders of such Bonds, by first class mail, postage prepaid to the registered owners of Bonds of the Applicable Series which are to be redeemed, at their last known address, if any, appearing on the registration books of the Authority not more than ten (10) Business Days prior to the date such notice is given that the deposit required by (b) above has been made with the Applicable Trustee and that such Bonds are deemed to have been paid in accordance with the provisions under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority will give written notice to the Applicable Trustee and the Bond Insurer of its selection of the maturity for which payment will be made in accordance with the provisions under this heading including the Schedule of Sinking Fund Installments to be set forth in the Bond Series Certificate as the same may be amended by the Authority from time to time. In the event of a redemption of less than all the Outstanding Bonds of an Applicable Series and maturity, the Applicable Trustee will select which Bonds of such Series and maturity, payment of which will be made in accordance with the provisions under this heading in the manner provided in The New York and Presbyterian Hospital Resolution.

*(Section 12.01)*

**SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT**

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## SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

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

### **Project Financing**

The Authority agrees to use its best efforts to authorize, issue, sell and deliver the Bonds in an aggregate principal amount not exceeding the amount set forth in the Series Resolution. The proceeds of the Bonds shall be applied as specified in The New York and Presbyterian Hospital Resolution, the Series Resolution and the Bond Series Certificate relating to such Bonds.

*(Section 4)*

### **Project Construction; Institution's Role**

The Institution hereby agrees that it has undertaken and will continue to undertake the acquisition, construction and installation of the Project in accordance with, and subject to, the terms, provisions and covenants of the Building Loan Agreement and the documents executed in connection therewith or required thereby, including, without limiting the foregoing, the plans and specification as approved by FHA, and it will continue to do so until the completion thereof.

*(Section 5)*

### **Application of Bond Proceeds**

(a) The Authority shall deposit in the Mortgage Account, from the proceeds of the sale of the Bonds an amount equal to the original principal amount of the Note. The Institution shall deposit in the Equity Account the amount equal to the equity, if any, required pursuant to the Applicable FHA documents, less any approved equity advances in the form of cash, a Letter of Credit or any combination thereof set forth in Exhibit B of the Loan Agreement.

(b) The Authority shall deposit in the Reserve Account, from the proceeds of the sale of the Bonds, an amount equal to the Reserve Account Requirement. The Institution shall deposit in the Collateral Account Available Moneys, a Letter of Credit or any combination thereof in an amount equal to the Collateral Account Requirement, if any.

(c) The Authority shall deposit in the Costs of Issuance Account, from the proceeds of the sale of the Bonds initially deposited into the Mortgage Account and from any other source, an amount as specified in the Bond Series Certificate.

(d) The Authority agrees that there shall be remitted to the Institution any sums payable to the Institution from the Construction Fund and the Debt Service Reserve Fund in the amounts and as otherwise provided in Articles V and VI of The New York and Presbyterian Hospital Resolution. The Authority further agrees that there shall be credited or applied to the reduction of the Letter of Credit deposited to the credit of the Collateral Account, if any, and to interest payments due from the Institution under the Note, and to prepayments of the Note, such sums as are to be so credited or applied at the times and in the manner provided in said Articles V and VI of The New York and Presbyterian Hospital Resolution.

*(Section 6)*

### **Payments from Construction Fund**

(a) Payments from the Construction Fund shall be made only in accordance with the provisions of the Loan Agreement, The New York and Presbyterian Hospital Resolution, the Series Resolution, the Building Loan Agreement and the Servicing Agreement. Until the conditions for disbursement from the Construction Fund have been met, as specified in the Loan Agreement and in The New York and Presbyterian Hospital Resolution, the Construction Fund shall be held for the benefit of the owners of the Bonds, subject to the provisions of The New York and Presbyterian Hospital Resolution in the event the Note and Mortgage are in default and assigned to FHA.

(b) To the extent not paid from the Construction Fund, the Institution shall pay (i) to the Authority upon its written request, the Costs of Issuance, and (ii) to the Trustee, upon approval of the Authority, its reasonable fees and expenses.

(c) Upon the approval of FHA and an Authorized Officer of the Authority and upon compliance with the applicable provisions of the Building Loan Agreement and the Servicing Agreement, disbursements from the Equity Account and the Mortgage Account of the Construction Fund shall be made by the Trustee to pay directly or to reimburse the Institution for Costs of the Project as directed by Requisitions signed on behalf of the Institution by an Authorized Officer.

(d) The estimated cost of the Project and the Institution's equity contribution are set forth in the Loan Agreement. The Institution will provide for a deposit to the Collateral Account of the Debt Service Reserve Fund in the amount set forth in Exhibit B to the Loan Agreement. Unless otherwise provided in the Loan Agreement or The New York and Presbyterian Hospital Resolution, the Institution further agrees and certifies that the moneys to be provided by it pursuant to the provisions described under this heading and to it pursuant to the Building Loan Agreement shall be deposited in the Construction Fund and used solely for completing the construction, reconstruction, renovation, equipping and financing of the Project (for such purposes and in such amounts as described in the Loan Agreement), including all necessary and incidental expenditures related thereto, as approved by FHA.

(e) The Authority's obligations to make advances to the Institution under the Building Loan Agreement are governed by the terms of the Building Loan Agreement and other applicable agreements and are not limited by the terms of the Loan Agreement.

*(Section 7)*

### **Institution to Complete Payment for Project**

No funds of the Authority, other than the proceeds of the Bonds available therefor as provided in The New York and Presbyterian Hospital Resolution, shall be available to pay Costs of the Project. If the moneys in the Mortgage Account available for payment of the Costs of the Project, together with moneys held in the Equity Account, are not sufficient therefor, the Institution shall complete the Project at its own expense unless the Authority, in its sole discretion, has determined to finance such excess Costs by the issuance and sale of additional bonds. The Authority makes no warranty, expressed or implied, that the moneys held in the Construction Fund will be sufficient to pay the Costs of the Project. Whether or not the Institution shall pay any portion of the Costs of the Project pursuant to the provisions described under this heading, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee, the Mortgage Servicer or the Holders of any of the Bonds, nor shall the Institution be entitled to any diminution in or postponement of the payments required to be made by it under the Loan Agreement and under the Note. Notwithstanding anything in the Loan Agreement to the contrary, the provisions described under this heading are not in any way intended to limit or waive any rights of the Authority to the proceeds of any performance bonds or payment bonds to be used to complete the Project.

*(Section 8)*

### **Procedure upon Completion of the Project**

(a) Upon the completion of the Project in accordance with the Building Loan Agreement and applicable FHA regulations, and the Final Endorsement by the FHA of the Note, the Institution shall furnish to the

Trustee, the Mortgage Servicer and the Authority, a certificate of an Authorized Officer certifying that the Project has been substantially completed so as to permit its efficient use in the operations of the Institution, that all insurance required by the Commitment, the Mortgage and the Loan Agreement, is in full force and effect, and that all Costs of the Project have been paid, or stating the amounts to be reserved for the payment of any unpaid Costs.

(b) In the event that the Institution is obligated by the FHA to prepay or reduce the Note in connection with the Project cost certification process and the amounts available in the Construction Fund for application to such prepayment or reduction are less than the amount which the Institution is so obligated to prepay or reduce, the Institution shall promptly pay the amount of such deficiency to the Authority. Any such payment by the Institution whether or not received prior to Final Endorsement, shall together with the amounts available in the Construction Fund be credited as a prepayment or reduction of the principal outstanding amount of the Note and deposited in the Redemption Fund and applied to the Special Mandatory Redemption of Bonds as provided in The New York and Presbyterian Hospital Resolution.

*(Section 9)*

### **Prepayments under the Note; Redemption of Bonds**

(a) The Institution agrees that, with respect to certain prepayments hereunder and/or certain prepayments of the Note, the following requirements apply. However, the requirements shall not apply if (i) such prepayment is to be made with Net Insurance Proceeds or Net Condemnation Proceeds; (ii) such prepayment is made with borrowed funds, including one or more draws on a letter of credit, which are required by the terms thereof to be applied to such prepayment; (iii) such prepayment is made with the proceeds of refunding bonds; or (iv) the prepayment is to be made pursuant to and in accordance with a final non-appealable order of the United States Bankruptcy Court.

(i) At least one hundred twenty-three (123) days prior to the date on which the redemption of Bonds is to be made from a prepayment of either the Note or the Loan Agreement, the Institution shall (A) give written notice of the proposed prepayment to the Authority, the Trustee and the Mortgage Servicer, specifying the prepayment date and amount to be prepaid, (B) deposit with the Trustee an amount equal to the principal amount of the Note to be prepaid, which deposit shall not be credited as a prepayment of the Note until the redemption date for the Bonds; (C) deposit with the Trustee an amount equal to the premium, if any, required to be paid in connection with any prepayment of the principal of the Note, (D) deposit with the Trustee the Non-Asset Bond Prepayment, if any, sufficient to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds such that, after giving effect to such redemption, the ratio of (i) the aggregate principal amount of Bonds Outstanding less the Reserve Account Requirement to (ii) the outstanding principal amount of the Note is the same, as nearly as practicable, as such ratio immediately prior to such redemption; and (E) deliver an opinion of nationally recognized counsel experienced in bankruptcy matters, addressed to the Authority and the Trustee to the effect that any payment to the Holders of moneys deposited pursuant to clauses (B), (C), or (D) above would not constitute a transfer which may be avoided under Section 547 or Section 550 of the United States Bankruptcy Code in the event of an Act of Bankruptcy

(ii) The Institution shall deliver to the Trustee a certificate stating that the Institution is not insolvent and that no bankruptcy or insolvency proceedings have been commenced by or against the Institution, and that no threat has been made concerning the commencement of any such proceedings. The certificate shall be dated, signed and delivered not less than ninety (90) days following the date the deposits described in clauses (B), (C) and (D) of subparagraph (i) above are made and at least one day prior to the date the notice of redemption is given; and

(iii) On the redemption date, if the foregoing conditions are satisfied, (A) the deposits made pursuant to clause (B) and clause (C) of subparagraph (i) above shall be credited as a prepayment of principal of and premium on the Note and shall be applied to the reduction of succeeding payments due under such Note (as recast in the manner provided in the Note over the remaining term thereof), (B) subject to the provisions of The New York and Presbyterian Hospital Resolution, Bonds selected and called for redemption from the prepayment shall be redeemed and (C) any interest and income received upon the

investment of the deposits made pursuant to subparagraph (i) above shall be credited to such person as the Institution directs, subject to the requirements of The New York and Presbyterian Hospital Resolution.

(b) If the available amounts in the funds and accounts established under The New York and Presbyterian Hospital Resolution and the Series Resolution are insufficient for the payment of the Redemption Price of the Applicable Series of Bonds called for redemption, including accrued interest on such Bonds to the redemption date and expenses of giving notice and other expenses of such redemption, the Institution shall pay to the Trustee the amount of such deficiency in immediately available funds.

*(Section 10)*

### **Payments by the Institution**

(a) The Institution covenants to make all payments under the Note on a timely basis.

(b) If at any time and for any reason amounts received by the Authority (as mortgagee under the Mortgage), or by the Mortgage Servicer on account of the payments due under the Note, less the Servicing Fee payable pursuant to the Servicing Agreement, together with all other moneys held by the Trustee and then available under the terms of The New York and Presbyterian Hospital Resolution are not sufficient to pay when due (i) the Trustee's Annual Fee and other fees and expenses and (ii) the Annual Administrative Fee and other fees and expenses, the Institution will pay to the Trustee the amounts required to make up any such deficiencies as to amounts under clause (i) above and as to the Authority, the amounts required to make up any deficiencies as to the amounts under clause (ii) above.

(c) The Institution shall pay the Authority's Annual Administrative Fee to the Authority. The Institution shall pay promptly to the Trustee the Trustee's Annual Fee to the extent that moneys in the Surplus Account are insufficient therefor.

(d) Within thirty (30) days after notice from the Paying Agent, the Institution shall pay to the Paying Agent or the Co-Paying Agent its reasonable fees and expenses.

(e) The Institution shall pay on or before the date of delivery of the Bonds, the Authority Fee as set forth in the Loan Agreement.

(f) The Institution shall pay on or before the date of delivery of the Bonds, the Costs of Issuance of the Bonds and other costs in connection with the issuance of the Bonds.

(g) The Institution shall pay promptly after notice from the Authority, but in any event not later than 15 days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for any expenses or liabilities incurred pursuant to Sections 33, 39 or 41 of the Loan Agreement, (iii) to reimburse the Authority for any external costs or expenses incurred by it and attributable to the issuance of the Bonds or the financing or construction of the Project, including, but not limited to costs and expenses of insurance, auditing and arbitrage analysis and (iv) for the costs and expenses incurred to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement, the Servicing Agreement, the FHA Documents, the Series Resolution and The New York and Presbyterian Hospital Resolution in accordance with the terms thereof, and (v) for the fees and expenses of the Trustee in connection with the performance of its duties under The New York and Presbyterian Hospital Resolution and Series Resolution.

(h) In the event the Institution receives notice pursuant to The New York and Presbyterian Hospital Resolution, that as a result of the FHA cost certification process for Final Endorsement the principal amount of the Note is to be reduced in an amount in excess of the amount available in the Construction Fund, the Institution shall promptly pay the Authority the amount necessary to reduce the Note to the amount to be so endorsed.

(i) The Institution shall pay promptly upon demand by the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds or otherwise available therefor under The New York and Presbyterian Hospital Resolution and the amount required to be rebated

to the Department of the Treasury of the United States of America in accordance with the Code in connection with such Bonds.

(j) In the event the amount or deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Institution shall deposit an amount equal to such deficiency with the Trustee.

*(Section 11)*

#### **Payments by the Institution; Assignment**

As a source of the payments to be made by the Institution under the Loan Agreement, except any payments required under the heading "Payments by the Institution", the Institution shall deliver or cause to be delivered to the Authority the FHA Documents. The Institution also consents to the assignment by the Authority to the Trustee, as provided in The New York and Presbyterian Hospital Resolution, of any or all of the Authority's right, title and interest in and to the Loan Agreement, except for the rights of the Authority to amend the Loan Agreement and to give consents, receive notices and receive indemnity against claims and payment of its fees and expenses. The Institution covenants to fully perform, in timely fashion, all of its agreements and obligations under the Loan Agreement and the FHA Documents.

*(Section 12)*

#### **Funding of the Equity Account, Collateral Account and the Investment Income Account**

In the event that the Authority is required to make a deposit to the Equity Account, the Collateral Account or the Investment Income Account established under The New York and Presbyterian Hospital Resolution and the Series Resolution, the Institution agrees to satisfy such required deposits with Available Moneys or Letters of Credit. To the extent that the Institution provides such Letters of Credit it shall also provide an opinion of counsel acceptable and addressed to the Authority and the Trustee to the effect that such Letters of Credit are valid and enforceable obligations of the issuer thereof and covering such other matters as are required for such purpose. In the event the Institution determines to satisfy such obligations with cash, such cash must constitute Available Moneys. Any such obligation may be met by any combination of Letters of Credit or Available Moneys which satisfy the requirements of the Loan Agreement.

*(Section 13)*

#### **Compliance with Governmental Requirements**

The Institution shall comply and where applicable shall cause any operator of the Project to comply, with all Governmental Requirements with respect to the Mortgaged Property and the Project, or any part thereof, and the construction, operation, maintenance, repair and replacement thereof and any requirement of an insurance company writing insurance thereon irrespective of the nature of the work required to be done, extraordinary as well as ordinary and foreseen as well as unforeseen. Anything contained under this heading to the contrary notwithstanding, the Institution shall have the right to contest the validity of any Governmental Requirement or the application thereof at the Institution's sole cost and expense. During such contest, compliance with any such contested Governmental Requirement may be deferred by the Institution, provided that prior to commencing any action or proceeding, administrative or judicial, contesting such Governmental Requirement the Institution shall notify the Authority of the Institution's intention to contest such Governmental Requirement and, if the Authority requests, shall furnish to the Authority a surety bond, moneys or other security, reasonably satisfactory to the Authority, securing compliance with the contested Governmental Requirement and payment of all interest, penalties, fines, fees and expenses resulting from or in connection with such contest or the failure of the Institution to comply with the contested Governmental Requirement. Any such action or proceeding instituted by the Institution shall be commenced as soon as is reasonably possible after the assertion of the applicability to the Project or the Mortgaged Property, or any part thereof, of the contested Governmental Requirement by a governmental authority, and shall be prosecuted to final adjudication or other final disposition with reasonable dispatch. Notwithstanding the furnishing of any bond, deposit or other security, the Institution promptly shall comply with any such Governmental Requirement and compliance shall not be deferred if at the time the Mortgaged Property or the Project, or any part thereof, to which such contested Governmental Requirement relates, would in the reasonable judgment of the Authority be in substantial danger by reason of the Institution's noncompliance with such Governmental

Requirement of being sold, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would materially impair (i) the interests or security of the Authority under the Loan Agreement, The New York and Presbyterian Hospital Resolution or the Mortgage; (ii) the ability of the Authority to enforce its rights thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under The New York and Presbyterian Hospital Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Mortgage.

*(Section 14)*

### **Information Concerning the Institution**

The Institution, whenever requested by the Authority, shall provide and certify or cause to be provided and certified: (i) such information concerning the Institution, its finances and other related topics as the Authority reasonably determines to be necessary or desirable, including, but not limited to, such information as in the sole judgment of the Authority is necessary to enable the Authority to complete, execute and deliver an Official Statement relating to and in connection with the sale of the Bonds at the time when the Bonds are to be offered for sale; (ii) that the Institution has reviewed the parts of the Official Statement describing the Institution, the Project, the Mortgaged Property, the sources and uses of the proceeds of the Bonds, and such information as was supplied by the Institution and is contained in the Official Statement; (iii) that as of the dates of sale and delivery of the Bonds such parts of the Official Statement do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements were made, not misleading; (iv) such additional information as the Authority considers necessary to comply with any proposed or promulgated regulations of the Securities and Exchange Commission or the Municipal Securities Rulemaking Bond and (v) such additional information as the Authority from time to time reasonably considers necessary or desirable to make any reports or obtain any approvals required by law, governmental regulation or The New York and Presbyterian Hospital Resolution or by the Series Resolution.

*(Section 15)*

### **Tax-Exempt Status**

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a “private foundation”, as such term is defined in Section 509(a) of the Code; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect and such letter or other notification has not been modified, limited or revoked; (iii) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (iv) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (v) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that: (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project to be used in any manner, or for any trade or business or other non-exempt use unrelated to the purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds if the interest on such Bonds is intended to be excluded from federal gross income.

*(Section 16)*

### **Use of Project; Restrictions on Religious Use**

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Institution shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Mortgaged Property, (ii) the operation of the Project and all Mortgaged Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Mortgaged Property. All terms of the Regulatory Agreement between the Institution and FHA are incorporated into the Loan Agreement.

The Institution agrees that with respect to the Project or portion thereof financed by the Bonds, so long as the Project or portion thereof exists and unless and until the Project or portion thereof is sold for the fair market value thereof, the Project or portion thereof financed by the Bonds shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof financed by the Bonds to be used without regard to the above stated restriction, said restriction shall not apply to the Project or such portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project, or any portion of real property thereof financed by Bonds, is being used for any purpose proscribed by the Loan Agreement. The Institution further agrees that prior to any disposition of any portion of the Project financed by the Bonds for less than its fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of the portion of such Project to the restriction that (i) so long as such portion of the Project (and, if included in the Project, the real property on or in which such portion of the Project is situated) shall exist and (ii) until such portion of the Project is sold or otherwise transferred to a person who purchases the same for its then fair market value at the time of such sale or transfer, such portion of the Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of the Project financed by the Bonds, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of the Project or a portion thereof financed by the Bonds, upon foreclosure or otherwise, shall be considered a sale for the fair market value.

*(Section 21 and 22)*

### **Insurance**

The Institution shall procure and maintain all insurance required by the FHA Documents in accordance with the terms and conditions thereof. In addition, the Institution shall insure against risks normally associated with the operations of similar facilities in the State, including specifically professional liability insurance in an annual aggregate amount of not less than \$2,000,000 and not less than \$1,000,000 per accident or occurrence; general liability insurance in an annual aggregate amount of not less than \$2,000,000 and not less than \$1,000,000 per accident or occurrence; statutory workers compensation and employers liability insurance; fire and extended insurance as required by FHA. In addition to any other form of property insurance, the Institution shall also procure and maintain business income interruption insurance in an amount equal to one year's debt service and extra expense insurance in an amount sufficient to defray extra expenses incurred as a result of a covered loss for a period of not less than 120 days. Boiler and machinery insurance shall also be required if there are any steam heat or pressure vessels used to provide heat to the Project and the vessels are located in or near buildings of the Project. Upon recommendation of an insurance consultant as hereinafter described, the insurance referred to herein may have deductibles and retentions which are deemed to be within the ability of the Institution to self-insure. Subject to the requirements of FHA, no provision described under this heading shall be construed to prohibit the Institution from self-insuring against any risk which might otherwise be covered by insurance at the recommendation of an insurance consultant; provided, however, that the Institution shall provide adequate funding of such self-insurance as directed by such insurance consultant and not objected to by FHA, and no self insurance, other than reasonable deductibles shall be permitted unless approved by the Authority.

The Institution may purchase additional insurance on the Project and the Mortgaged Property for amounts considered adequate by the Institution against direct physical loss or damage from other perils under forms normally available in the State.

The policies procured by the Institution and filed with the Authority shall be open to inspection by the Trustee and the Mortgage Servicer at all reasonable times. Certificates of insurance describing the policies shall be forwarded by the Institution to the Authority at or prior to delivery of the Bonds, and a list describing such policies

and certificates as of each June 30 shall be furnished by the Institution to such parties annually, together with a certificate of an Authorized Officer of the Institution certifying that such insurance meets all the requirements of the Loan Agreement. Neither the Trustee nor the Authority shall have any other responsibilities with respect to any such insurance except as the Institution may be required, at the request of the Authority, to provide copies of such policies and certificates to the Mortgage Servicer for its records.

The Institution agrees to give the Mortgage Servicer, the Authority, FHA and the Trustee written notice of any change in any insurance or insurance policy required by the Loan Agreement or the FHA Documents at least thirty (30) days prior to such change unless a lesser period of notice is expressly approved in writing by the Authority.

On the date of the delivery of the Bonds, the Institution shall designate, with the concurrence of the Authority an insurance consultant, who may be an insurance broker or an insurance agent with whom the Institution, the Mortgage Servicer or the Authority transacts business. The Institution may replace such insurance consultant and appoint a new insurance consultant by giving the Authority at least ten (10) days' written notice, stating the name, address and qualifications of the proposed insurance consultant; and, unless within such ten day period, the Authority shall give the Institution written notice of objection to such appointment, which notice shall state the reasonable grounds upon which it bases such objection, the insurance consultant named in such written notice shall be considered to be acceptable. The insurance consultant shall render, upon the request of the Authority, a report relating to the Institution's compliance with the requirements described under this heading. Such report shall not be required more than once in any one calendar year and shall, upon any such request, be furnished to the Institution, the Trustee and the Mortgage Servicer.

All policies of hazard insurance required by the first paragraph under this heading shall be written in the names of FHA, the Authority (as mortgagee under the Mortgage) and the Institution, as their respective interests may appear, and shall be made payable as provided therein. The policies for such insurance shall not be cancelable without at least 30 days' written notice to the Authority, the Trustee and FHA and shall provide that all losses thereunder which are payable to the Authority shall be paid to the Authority notwithstanding any act or neglect of the Institution or other interested party which might otherwise result in a forfeiture of such insurance.

*(Section 25)*

#### **Application of Proceeds of Hazard Insurance**

(a) Any amounts paid under a contract of hazard insurance paid to the Authority, under the Mortgage shall be applied to the prepayment of the Note if approved in writing by FHA prior to the payment of such proceeds or released for the repairing or replacing of the Mortgaged Property. The Authority shall recover and deliver to the Trustee all proceeds of hazard insurance payable to the mortgagee, for deposit in the Insurance and Condemnation Account of the Construction Fund pending application thereof pursuant to paragraph (c) of this heading.

(b) In the event of any damage to the Project or the Mortgaged Property, the Institution shall immediately notify the Authority, the Trustee, the Mortgage Servicer and FHA, prepare an estimate of the costs of repairing or replacing the damaged property, and (if appropriate) prepare plans and specifications. If the insurance proceeds received exceed one percent of net Plant, Property and Equipment as shown on the Institution's audited financial statements for its most recent fiscal year (the "Threshold Amount"), such estimate and a copy of any such plans and specifications shall be filed with the Authority and FHA.

(c) If, within 90 days from the occurrence of such damage or destruction, the Institution and the Authority agree in writing that the efficient utilization of the Mortgaged Property has not been so impaired that the ability of the Institution, taking into account all financial resources, to make the payments required under the Loan Agreement and the FHA Documents will be materially adversely affected prior to the completion of the replacement or restoration of such property so damaged or destroyed, the proceeds of insurance received by reason of such occurrence (after deducting any reasonable expenses incurred by the Authority or the Institution in collecting the same) and any investment earnings on such proceeds (the "Net Insurance Proceeds") shall, subject to any applicable FHA requirements, be applied to the repair or replacement of the property damaged or destroyed. If no such agreement shall be reached within such 90-day period (or such longer period as the Authority and the Trustee may agree in writing), all Net Insurance Proceeds shall, subject to the prior written approval of FHA and any other



applicable FHA requirements, be credited to prepayment of the principal of the Note in accordance with, and transferred to the Redemption Account for application to the Extraordinary Mandatory Redemption of the Bonds pursuant to The New York and Presbyterian Hospital Resolution. Such Net Insurance Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption.

(d) Notwithstanding the provisions under subdivision (c) above, if at the time of such damage or destruction there are any Non-Asset Bonds Outstanding and the Net Insurance Proceeds are to be applied to the prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee at least 123 days prior to the date on which notice is given for the redemption of Bonds to be made from such prepayment of the Note an amount equal to the Non-Asset Bond Prepayment. The Non-Asset Bond Prepayment shall not be credited as a prepayment of principal of the Note.

(e) If the Net Insurance Proceeds to be applied to the repair or replacement of the property damaged or destroyed exceed the Threshold Amount, such proceeds shall be disbursed by the Trustee from the Insurance and Condemnation Account of the Construction Fund in accordance with the requisition procedure described in The New York and Presbyterian Hospital Resolution upon the approval of FHA, if required. If the Net Insurance Proceeds are equal to or less than the Threshold Amount such proceeds shall, at the request of the Institution and with the approval of the Authority, be paid by the Trustee in accordance with The New York and Presbyterian Hospital Resolution to or upon the order of the Institution, which shall keep them separate from all other funds for application first to pay the costs of repair or replacement of the property damaged or destroyed, second to pay in full any unpaid fees or expenses of the Authority or the Trustee and third subject to any applicable FHA requirements, to any lawful purpose of the Institution. The Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, the repair or replacement of the property damaged or destroyed in accordance with any plans and specifications approved by FHA (if required by the FHA Documents) and shall pay any amounts required for the completion of such repair or replacement if the Net Insurance Proceeds are insufficient therefor.

*(Section 26)*

#### **Application of Proceeds of Condemnation Compensation**

(a) The Mortgage provides that all proceeds of condemnation shall be paid to the Authority (as mortgagee under the Mortgage) to be applied at the option of the Authority and with the prior approval of FHA either to prepayment of the Note or the restoration or repair of the damage to the Mortgaged Property. The Authority (as mortgagee under the Mortgage) shall recover and deliver to the Trustee all condemnation proceeds. Pending the application of such condemnation proceeds pursuant to paragraph (c) below, such condemnation proceeds shall be held by the Trustee in the Insurance and Condemnation Account of the Construction Fund.

(b) Upon the occurrence of any condemnation proceedings with respect to the Mortgaged Property, or any portion thereof, the Institution shall immediately notify the Authority, the Mortgage Servicer and the Trustee.

(c) Any condemnation proceeds (after deducting any reasonable expenses incurred by the Institution, the Mortgage Servicer, or the Authority in collecting the same) and any investment earnings on such proceeds (the "Net Condemnation Proceeds") received from a taking of substantially all of the Mortgaged Property shall subject to any applicable FHA requirements, be applied to prepayment of the principal of the Note.

(d) Any Net Condemnation Proceeds received from a taking of less than substantially all of the Mortgaged Property shall be applied as follows:

(1) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the efficient utilization of the Mortgaged Property has not impaired in any material respect by such taking, then; subject to any applicable FHA documents, all of the Net Condemnation Proceeds shall, whether or not such proceeds are equal to or less than the Threshold Amount, be paid to the Institution;

(2) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the efficient utilization of the Mortgaged Property has been impaired and the repair, rebuilding, restoration, or rearrangement of the Mortgaged Property is not possible so as to restore the operational condition of the Mortgaged Property to substantially the condition existing immediately preceding such condemnation or if FHA will not permit

the Net Condemnation Proceeds to be so applied, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be applied to the prepayment of principal of the Note and transferred by the Trustee to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Bonds pursuant to The New York and Presbyterian Hospital Resolution;

(3) if the Authority (as mortgagee under the Mortgage) in its discretion determines that such repair, rebuilding, restoration or rearrangement is possible and that the efficient utilization of the Mortgaged Property has not been impaired, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be disbursed to the Institution as described in subparagraph (5) below for the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, so as to restore the operational condition thereof, insofar as may be possible, to that existing immediately preceding such condemnation (provided that, if the Net Condemnation Proceeds exceed the Threshold Amount, the estimate of the cost of repair, rebuilding, restoration or rearrangement of the Mortgaged Property and a copy of any plans and specifications prepared in connection therewith shall be filed with the Authority and FHA);

(4) notwithstanding the provisions of subparagraph (2) above, if at the time such Net Condemnation Proceeds are received there are any Non-Asset Bonds Outstanding and the Net Condemnation Proceeds are to be applied to prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee an amount equal to the Non-Asset Bond Prepayment required in connection with the taking or damage in questions, such payment of the Non-Asset Bond Prepayment to be on deposit at least 123 days prior to the date on which notice is given for the redemption of Bonds to be made from such prepayment of the Note. In no event shall the Non-Asset Bond Prepayment be credited as a prepayment of principal of the Note; and

(5) if the Net Condemnation Proceeds are to be applied to the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and if such Net Condemnation Proceeds are greater than the Threshold Amount, such Net Condemnation Proceeds shall be disbursed by the Trustee in accordance with the requisition procedures described in The New York and Presbyterian Hospital Resolution and with the approval of FHA, if required. If such Net Condemnation Proceeds are less than or equal to the Threshold Amount, such Net Condemnation Proceeds shall be paid by the Trustee in accordance with The New York and Presbyterian Hospital Resolution to or upon the order of the Institution and with the approval of the Authority. The Institution shall keep such proceeds separate from all other funds and apply them, first to pay the costs of repair, rebuilding, restoration or rearrangement of the Mortgaged Property, second to full payment of any unpaid fees or expenses of the Authority or the Trustee and third, subject to any applicable FHA requirements, to any lawful purpose of the Institution. In either of such events the Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, such repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and shall pay any amounts required for the completion thereof if the Net Condemnation Proceeds are not sufficient therefor.

(e) Net Condemnation Proceeds to be applied to prepayment of principal of the Note pursuant to paragraph (d) above shall be applied to the reduction of succeeding payments due under the Note (as recast in the manner provided in the Note over the remaining term thereof); provided that such Net Condemnation Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption.

*(Section 27)*

### **Defaults and Remedies**

Failure by the Institution to observe and perform any covenant, agreement or obligation contained in the Loan Agreement for a period of thirty (30) days after written notice, specifying such failure and requesting the same to be remedied, has been given to the Institution by the Authority or the Trustee, shall constitute an “Event of Default” under the Loan Agreement; provided that if the Authority agrees that such failure is of such nature that it can be corrected within a reasonable time (as determined by the Authority), but not within thirty (30) days, and if the Institution promptly institutes corrective action and is diligently pursuing the same, such failure by the Institution to observe and perform such covenant, agreement or obligation shall not constitute an Event of Default unless it is not cured within such reasonable time (as determined by the Authority).

Upon the occurrence of an Event of Default under the Loan Agreement, in addition to any other rights which the Authority may have under law, the Authority may withhold further performance under the Loan

Agreement (including, without limitation withholding further disbursements from the Insurance and Condemnation Account or the Mortgage Account) and may also take whatever action at law or in equity may appear necessary or desirable to enforce the performance and observation by the Institution of any of its obligations, agreements or covenants under the Loan Agreement and to collect any payments due or to obtain other remedies; provided, however, that prior to commencing any action, suit or proceeding under the Loan Agreement against the Institution, the Authority shall have received the prior written consent of FHA, if required by the FHA Documents.

*(Sections 35 and 36)*

### **Remedies Cumulative**

Subject to the limitations thereon provided in the Loan Agreement, the rights and remedies under the Loan Agreement will be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Institution or to exercise any remedy for any violation thereof will not be taken as a waiver for the future of the right to insist upon strict performance or of the right to exercise any remedy for the violation.

*(Section 42)*

### **Arbitrage; Rebate Calculations**

The Institution covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or use of the proceeds of the Bonds, which would cause such Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. The Institution shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof to the Department of the Treasury of the United States of America, which shall be subject at all reasonable times to the inspection of the Authority and its agents and representatives, any of whom may make copies thereof. Upon written request therefor from the Authority, the Institution shall as soon as practicable provide the Authority with a copy of any such documents, reports or computations.

*(Sections 48 and 49)*

### **Amendments to Loan Agreement and the FHA Documents**

The Loan Agreement and the FHA Documents may be amended only in accordance with The New York and Presbyterian Hospital Resolution and any such amendment of any of the foregoing instruments to which the Authority is a party shall be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which shall be filed with the Trustee.

*(Section 55)*

### **Termination**

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof; provided, however, that the liabilities and obligations of the Institution under the Loan Agreement to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, the Authority shall promptly deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of its duties under the Loan Agreement, including the satisfaction of the Mortgage and the release or surrender of any security interests granted by the Institution to the Authority pursuant thereto.

*(Section 57)*

**FHA Documents Controlling**

To the extent that any provision of the Loan Agreement is in conflict with any provision of the FHA Documents, or be in conflict with the National Housing Act or FHA regulations thereunder, the provisions of the FHA Documents or the provisions of the National Housing Act and FHA regulations or written program requirements thereunder, as the case may be, will be controlling.

*(Section 58)*

**FORM OF APPROVING OPINION OF BOND COUNSEL**

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**PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL**

[Date of Closing]

Dormitory Authority of the  
State of New York  
515 Broadway  
Albany, New York 12207

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$296,075,000 aggregate principal amount of The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the "Series 2007 Bonds") by the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"), created and existing under and pursuant to the Constitution and statutes of the State, including the Dormitory Authority Act, being Titles 4 and 4-B of Article 8 of the Public Authorities Law of the State of New York, as amended to the date hereof, including, without limitation, by the Health Care Financing Consolidation Act, being Title 4-B of the Public Authorities Law of the State of New York (as so amended, the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Series 2007 Bonds are issued under and pursuant to the Act, the Authority's The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted February 28, 2007, (the "Resolution") and the Authority's The New York and Presbyterian Hospital Series Resolution Authorizing Up To \$330,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007 (the "Series Resolution"), adopted February 28, 2007. The Resolution and the Series Resolution are herein collectively referred to as the "Resolutions." Unless otherwise defined herein, capitalized terms used herein have the respective meanings assigned to them in the Resolutions.

The Series 2007 Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolutions and the Bond Series Certificate (as defined in the Series Resolution).

The Authority and The New York and Presbyterian Hospital (the "Hospital") have entered into a Loan Agreement, dated as of February 28, 2007 (the "Loan Agreement"), pursuant to which (a) the Authority has agreed to make a loan to the Hospital and (b) the Hospital is required to make payments on the Note, as well as a part of the Authority's annual administrative expenditures and costs. All amounts payable under the Note which are required to be paid to the Trustee under the Resolutions for payment of the principal or Redemption Price of or interest on the Series 2007 Bonds or to maintain the Debt Service Reserve Fund established for the Series 2007 Bonds at its requirement has been pledged by the Authority for the benefit of the Holders of the Series 2007 Bonds.

The Series 2007 Bonds are subject to various requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code") which must be met at and subsequent to the issuance and delivery of the Series 2007 Bonds in order that interest on the Series 2007 Bonds be and remain not includable in gross income of the Bondholders for federal income tax purposes. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, required ownership of the bond-financed facilities by a Section 501(c)(3) organization or governmental unit, and the rebate to the United States of certain earnings in respect of investments. Failure to comply with the continuing requirements may cause interest on the Series 2007 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Resolution, the Series

Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Hospital have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinions set forth herein as to federal and state income tax matters assume continuing compliance by the Authority and the Hospital (and their successors) with such covenants and the accuracy, in all material respects, of such representations and certifications (as to which we have made no independent investigation).

Certain requirements and procedures contained or referred to in the Resolutions, the Loan Agreement and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents. Winston & Strawn LLP expresses no opinion as to any Series 2007 Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Based upon the foregoing and subject to the qualifications set forth herein, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2007 Bonds thereunder.

2. The Series Resolution has been duly adopted in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

3. The Series 2007 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolution and the Series Resolution. The Series 2007 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolution and the Series Resolution, are enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Series Resolution and are entitled to the benefits of the Resolution, the Series Resolution and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and assuming due authorization, execution and delivery thereof by the Hospital, constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

5. Based on the above stated assumptions, under existing statutes, regulations, rulings and court decisions, interest on the Series 2007 Bonds is not includable in gross income for federal income tax purposes. Interest on the Series 2007 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax on individuals and corporations. However, interest on the Series 2007 Bonds owned by corporations (other than S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, Real Estate Mortgage Investment Conduits and Financial Asset Securitization Investment Trusts) will be included in the calculation of corporate "adjusted current earnings," a portion of which is an adjustment to corporate alternative minimum taxable income for purposes of calculating the alternative minimum tax imposed on corporations (but not individuals).

6. Certain maturities of the Series 2007 Bonds are initially offered to the public at prices less than the principal amount thereof payable to maturity. If the first price at which a substantial amount of the Series 2007 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and principal amount constitutes original issue discount in respect of each Series 2007 Bond of the same maturity (the "Discount Bonds"). We are of the opinion that original issue discount, as it accrues, is not includable in gross income for federal income tax purposes to the same extent as interest on the Series 2007 Bonds. The owner of a Discount Bond who purchases it in the initial offering at the initial offering price is deemed to accrue in each taxable year original issue discount over the term of such bond under the "constant yield method" described in regulations interpreting Section 1272 of the Code with certain adjustments.



7. The interest on the Series 2007 Bonds is exempt under existing statutes from personal income taxes imposed by the State of New York and its political subdivisions thereof (including The City of New York).

Other than the foregoing, we express no opinion regarding other federal tax consequences related to the ownership of disposition of, or the accrual or receipt of interest on the Series 2007 Bonds.

We have examined a specimen of the executed Series 2007 Bond and, in our opinion, the form of said bonds are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Series 2007 Bonds and the Loan Agreement may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. Except as stated in paragraphs 5 and 6 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Series 2007 Bonds.

In connection with the delivery of this opinion letter, we are not passing upon the authorization, execution and delivery of the Loan Agreement by the Hospital.

Our opinions set forth herein are based upon the facts in existence and the laws in effect on the date hereof and we disclaim any obligation to update our opinions herein, regardless of whether changes in such facts or laws come to our attention after the delivery hereof.

Very truly yours,

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**SPECIMEN BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

Page 2 of 2  
Policy No. -N

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



