



<p>\$18,690,000</p> <p>DORMITORY AUTHORITY OF THE STATE OF NEW YORK</p> <p>GNMA COLLATERALIZED REVENUE BONDS</p> <p>(CONCORD NURSING HOME, INC. PROJECT),</p> <p>SERIES 2007</p> <p>Dated: Date of Delivery Due: As shown on the inside cover</p>

Security: The Series 2007 Bonds will be special obligations of the Dormitory Authority of the State of New York (the "Authority") secured by (i) a fully modified pass-through mortgage-backed security (the "GNMA Security") to be issued by Capmark Finance Inc. (the "Mortgage Banker") and held by the Trustee, which will be guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), and (ii) such other moneys and funds as may be made available therefor to the Trustee pursuant to an Agreement, dated as of July 25, 2007 (the "Agreement"), by and among the Authority, Concord Nursing Home, Inc., often referred to as Concord Nursing and Rehabilitation Center, Inc. (the "Institution") and the Mortgage Banker and as provided for in the GNMA Collateralized Revenue Bond (Concord Nursing Home, Inc. Project) Resolution adopted by the Authority on July 25, 2007 (the "General Resolution"), and established under the Authority's Series Resolution Authorizing Up To \$20,000,000 GNMA Collateralized Revenue Bonds adopted on July 25, 2007 (the "Series 2007 Resolution", and together with the General Resolution, the "Resolution"). See "PART 3 - THE SERIES 2007 BONDS - Security for the Series 2007 Bonds" herein.

Timely payment of principal of, and interest on, the GNMA Security is guaranteed by GNMA pursuant to Section 306(g) of Title III of the National Housing Act. Section 306(g) provides that "The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection" and an opinion, dated December 12, 1969, of an Assistant Attorney General of the United States, recites that such guaranties "constitute general obligations of the United States backed by its full faith and credit".

The Series 2007 Bonds are special obligations of the Authority and will not be a debt of the State of New York 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 GNMA, the Department of Housing and Urban Development ("HUD") or the Federal Housing Administration ("FHA").

Description: The Series 2007 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due on February 15, 2008 and on each August 15 and February 15 thereafter) will be payable by check mailed to the registered owners of the Series 2007 Bonds as of the Record Date, as described herein. Principal, Amortization Payments and Redemption Price of the Series 2007 Bonds will be payable upon surrender of the Series 2007 Bonds at the principal corporate trust office of U.S. Bank National Association, New York, New York, the Trustee.

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, (i) Amortization Payments, principal and Redemption Price of, and interest on such Series 2007 Bonds will be made directly to DTC or its nominee, and (ii) all references in this Official Statement to Bondowners or registered owners shall mean Cede Co. as aforesaid, and shall not mean the beneficial owners of the Series 2007 Bonds. 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.

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

Tax Exemption: In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, under existing statutes, regulations, administrative rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Series 2007 Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. However, such interest is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability of certain corporations. See "PART 13 - TAX MATTERS" herein regarding certain other related federal tax considerations. Bond Counsel is also of the opinion that, under existing statutes, including the Act, interest on the Series 2007 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivisions thereof. Bond Counsel expresses no opinion regarding any other consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 Bonds.

The Series 2007 Bonds are offered when, as and if issued and received by the Underwriter. 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 Harris Beach PLLC, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York; for the Institution by its counsel, Windels Marx Lane & Mittendorf, LLP, New York, New York; and for the Mortgage Banker by its counsel, Byrne Costello & Pickard, P.C., Syracuse, New York. The Authority expects to deliver the Series 2007 Bonds in definitive form in New York, New York, on or about October 25, 2007.

Cain Brothers

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
GNMA COLLATERALIZED REVENUE BONDS
(CONCORD NURSING HOME, INC. PROJECT), SERIES 2007

\$2,385,000	Term Bonds Due August 15, 2012,	Price 100%	Yield 3.875%	CUSIP ¹ 64983Q7M5
\$3,240,000	Term Bonds Due August 15, 2017,	Price 100%	Yield 4.150%	CUSIP ¹ 64983Q7N3
\$13,065,000	Term Bonds Due February 15, 2030,	Price 107.122% ²	Yield 4.770%	CUSIP ¹ 64983Q7P8

¹ Copyright 2007, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers indicated have been assigned by an independent company not affiliated with the Authority and are provided solely for the convenience of the holders of the Series 2007 Bonds only at the time of issuance of the Series 2007 Bonds. No representations are made with respect to such numbers nor does any party undertake any responsibility for the accuracy of the CUSIP numbers now or at any time in the future. The Authority is not responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 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 of the Series 2007 Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2007 Bonds.

² Priced at the stated yield to the February 15, 2021 optional redemption date at a redemption price of 100%.

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

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

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

Certain information in this Official Statement has been supplied by the Institution, the Mortgage Banker, and other sources that the Authority and the Underwriter believe are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Institution has reviewed the parts of this Official Statement describing the Institution, the Project, Estimated Sources and Uses of Funds and Bondholders' Risks. The Institution will certify, as of the dates of sale and delivery by the Authority of the Series 2007 Bonds, that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Mortgage Banker has reviewed the information in the sections of this Official Statement entitled "PART 1 - INTRODUCTORY STATEMENT - Description of Plan of Finance" (to the extent it relates to its role as Mortgage Banker, the issuance of the GNMA Security, the GNMA Guaranty Agreement and the FHA Documents), "PART 2 - PLAN OF FINANCING" (to the extent it relates to its role as Mortgage Banker, the issuance of the GNMA Security, the GNMA Guaranty Agreement and the FHA Documents), "PART 5 - GNMA SECURITY," "PART 6 - CERTAIN PROVISIONS OF THE FHA DOCUMENTS," "PART 8 - THE MORTGAGE BANKER" and "PART 11 - BONDHOLDERS' RISKS" (to the extent it relates to its role as Mortgage Banker, the issuance of the GNMA Security, the GNMA Guaranty Agreement and the FHA Documents), and will 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 Mortgage Banker 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 Resolution, the GNMA Guaranty Agreement, the FHA Documents, the Agreement and the GNMA Security do not purport to be complete. Refer to the Act, the Resolution, the GNMA Guaranty Agreement, the FHA Documents, the Agreement and the GNMA Security for full and complete details of their provisions. Copies of the Resolution the FHA Documents and the Agreement are on file with the Authority and the Trustee. Information regarding the GNMA Security is on file with the Mortgage Banker.

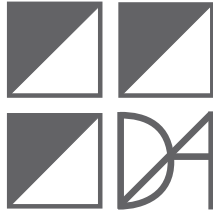
The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including the appendices, must be considered in its entirety.

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, GNMA, FHA, HUD, the Mortgage Banker or the Institution have remained unchanged after the date of this Official Statement.

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

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DAVID D. BROWN, IV - EXECUTIVE DIRECTOR

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

OFFICIAL STATEMENT RELATING TO
\$18,690,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
GNMA COLLATERALIZED REVENUE BONDS
(CONCORD NURSING HOME, INC. PROJECT),
SERIES 2007

PART 1 - INTRODUCTORY STATEMENT

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the Dormitory Authority of the State of New York (the "Authority") and its \$18,690,000 GNMA Collateralized Revenue Bonds (Concord Nursing Home, Inc. Project), Series 2007 (the "Series 2007 Bonds").

The following is a brief description of certain information concerning the Series 2007 Bonds, the GNMA Security, the Authority, Concord Nursing Home, Inc., often referred to as Concord Nursing and Rehabilitation Center, Inc. (the "Institution") and Capmark Finance Inc. (the "Mortgage Banker"). 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 Series 2007 Bonds will be issued pursuant to the GNMA Collateralized Revenue Bond (Concord Nursing Home, Inc. Project) Resolution adopted by the Authority on July 25, 2007 (the "General Resolution"), the Authority's Series Resolution Authorizing Up To \$20,000,000 GNMA Collateralized Revenue Bonds adopted on July 25, 2007 (the "Series Resolution", and together with the General Resolution, the "Resolution") and the Act. All references to funds and accounts in this Official Statement are to those funds and accounts authorized to be created pursuant to the Resolution. See "PART 3 – THE SERIES 2007 BONDS".

Description of Plan of Finance

Substantially all of the proceeds of the Series 2007 Bonds, will be used to purchase a GNMA Security in the form of a fully modified mortgage-backed security guaranteed as to timely payment of principal and interest by a GNMA Permanent Loan Certificate (a "PLC") from the Mortgage Banker who will use the proceeds from the sale of the PLC to make a mortgage loan (the "Mortgage Loan") insured by FHA to the Institution. Proceeds of the Mortgage Loan, together with the Institution's equity contribution will be used to (i) refinance a

commercial loan incurred by the Institution following the redemption of the Authority's The Concord Nursing Home, Inc. Revenue Bonds, Series 1999, and (ii) pay certain expenses incurred in connection with the issuance of the Series 2007 Bonds (the "Project"). See "PART 10 - THE PROJECT". The conditions of purchase of the PLC and the relationship among the Authority, the Institution and the Mortgage Banker are as set forth in an Agreement dated as of July 25, 2007 (the "Agreement"). See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT".

FHA has issued a mortgage loan insurance commitment under Section 232/223f of the National Housing Act, as amended (the "Commitment") that will enable the Mortgage Banker, upon compliance with the terms and conditions thereof, to make a lump sum advance to the Institution, evidenced by a nonrecourse mortgage note in the amount of \$18,773,600 (the "Mortgage Note") secured by a first lien mortgage (the "Mortgage") on the Institution's nursing home facility in Brooklyn, New York and to issue and deliver to the Trustee the PLC. The PLC is sometimes also referred to herein as the "GNMA Security". The GNMA Security is an interest bearing certificate on which the timely payment of principal and interest is guaranteed in accordance with the terms thereof by GNMA, which guaranty is further backed by the full faith and credit of the United States of America. The guaranty by GNMA of the principal of and interest on the PLC relates only to the timely payment of principal of and interest on the PLC and does not provide a guaranty of the payment of principal of and interest on the Series 2007 Bonds. See "PART 5 - GNMA SECURITY - GNMA Guaranty".

The PLC acquired by the Trustee, on behalf of the Authority, shall be deposited by the Trustee into the GNMA Securities Account and pledged as security for the payment of principal of and interest on the Series 2007 Bonds. The PLC will be dated and bear interest from the first day of the month in which it is issued. Interest on the PLC for any given month is payable on the fifteenth day of the following month commencing and is payable at the rate of 5.37% per annum (which is equal to the interest rate on the Mortgage Note less the GNMA guaranty fee and the servicing fee paid to the Mortgage Banker).

The principal of, and redemption premium, if any, and interest on the Series 2007 Bonds are primarily payable from the payments on the PLC. As further security for the Series 2007 Bonds, and subject to the qualifications set forth in the Resolution, the Authority may assign and pledge to the Trustee certain of its rights under the Agreement. In addition to the pledge of the PLC, the Authority will pledge and grant a security interest to the Trustee in all moneys, securities and instruments held from time to time under the Resolution (other than the Arbitrage Rebate Fund, the Equity Fund and the Collateral Account of the Bond Proceeds Fund, which Collateral Account Requirement is \$0). The Series 2007 Bonds and the security therefor are more fully described below under "PART 3 - THE SERIES 2007 BONDS" and "Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION".

The Series 2007 Bonds are special obligations of the Authority and under the Resolution are payable solely from the amounts available under the Resolution, including moneys derived from the PLC and certain funds held by the Trustee, including the investment income thereon, net of amounts, if any, applied to the Arbitrage Rebate Fund, the Equity Fund and the Collateral Account of the Bond Proceeds Fund. The Authority shall not be obligated to pay the principal of, or interest on, the Series 2007 Bonds except from amounts available therefor under the Resolution. Neither the faith and credit nor the taxing power of the State of New York 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 GNMA, HUD or FHA.

Attached hereto as Appendices C and D are summaries of certain provisions of the Agreement and the Resolution, respectively. Such summaries do not purport to be complete and reference is hereby made to these documents in their entirety 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 Series 2007 Bonds

The Series 2007 Bonds will be dated their date of delivery and will bear interest from such date, payable on February 15, 2008 and on each August 15 and February 15 thereafter, until the maturity of such Series 2007 Bonds (or earlier redemption thereof) at the rates set forth on the inside cover page of this Official Statement. See "PART 3 - THE SERIES 2007 BONDS".

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 12 - THE AUTHORITY".

The Institution

Concord Nursing Home, Inc., often referred to as Concord Nursing and Rehabilitation Center, Inc., Brooklyn, New York is a not-for-profit corporation which is exempt from federal income tax as an organization described in Section 501(c)(3) of the Code. See "PART 9 - THE INSTITUTION".

The Project

The Project consists of the refinancing of a commercial loan incurred by the Institution following the redemption of the Authority's The Concord Nursing Home, Inc. Revenue Bonds, Series 1999 (the "Series 1999 Bonds"). Proceeds of the Series 1999 Bonds were used (i) to pay the costs of renovations and capital improvements to the Institution's existing 123-bed nursing facility, (ii) to pay the costs to construct, furnish and equip a 17-bed unit for individuals who are ventilator dependent and to provide additional new space for an Adult Day Health Care Program, and (iii) to refinance the Institution's portion of the New York State Housing Finance Agency Nursing Home and Health Care Project Revenue Bonds, Series 1998A. See "PART 10 - THE PROJECT".

PART 2 - PLAN OF FINANCING

Application of Series 2007 Bond Proceeds and Other Moneys

Substantially all of the proceeds of the Series 2007 Bonds will be deposited (1) in the Acquisition Account of the Bond Proceeds Fund, in an amount equal to the face amount of the Mortgage Note to purchase the PLC on the PLC Delivery Date; and (2) the Expense Fund to pay certain costs of issuance of the Series 2007 Bonds. The balance of the proceeds of the Series 2007 Bonds will be deposited into the Debt Service Account of the Debt Service Fund and the Interest Escrow Account of the Bond Proceeds Fund.

The Agreement requires that, upon delivery of the Series 2007 Bonds, there shall be deposited with the Trustee an amount which, when combined with the amounts on deposit in the Interest Escrow Account of the Bond Proceeds Fund and the Debt Service Account of the Debt Service Fund, is at least equal to the maximum amount which may be required on any date of determination to pay interest shortfalls for the period from the date of delivery of the Series 2007 Bonds to February 15, 2008. Such amount will be funded with Available Moneys and will be deposited in the Equity Fund. In the event that the PLC is not be delivered by January 8, 2008 (unless such date shall, at the discretion of the Authority, be extended to a date not later than February 1, 2008 based on Cash Flow Statements demonstrating that the extension will not adversely affect the timely payment of the principal of and interest on the Series 2007 Bonds), amounts in the Equity Fund shall be transferred to the Redemption Account of the Debt Service Fund for the redemption of the Series 2007 Bonds on a date not later than February 15, 2008. See "PART 3 – THE SERIES 2007 BONDS - Redemption of the Series 2007 Bonds – Extraordinary Mandatory Redemption". In the event that the PLC is delivered as described above, any moneys in the Equity Fund not needed to pay interest on the Series 2007 Bonds shall be returned to the Institution. The Resolution also establishes a Collateral Account, however, the Collateral Account Requirement is \$0.

The funds deposited in the Acquisition Account will be invested in short term Permitted Investments. It is currently expected that funds deposited in the Acquisition Account will be applied to the purchase of the PLC from the Mortgage Banker on or about November 15, 2007. A portion of the amounts on deposit in the Interest Escrow Account will be used to pay accrued interest on the PLC upon purchase thereof.

Payment of the Series 2007 Bonds

The PLC will bear interest at 5.37%, and the Mortgage Banker will pass through principal payments on the Mortgage Note as principal payments on the PLC which will be sufficient to amortize the PLC in full by its maturity which is to be 266 months from commencement of amortization of the Mortgage Note on December 1, 2007. See "PART 3 - THE SERIES 2007 BONDS - Redemption of the Series 2007 Bonds".

The Resolution provides that on each Bond Payment Date, the Trustee will pay from the Debt Service Account, first, the interest due on such Bond Payment Date, second, an amount equal to the amount of maturing principal or Amortization Payments, if any, then due, third, to the Expense Fund, an amount equal to the sum of the Annual Administration Fee, the Dissemination Fee, if any, the Rebate Analyst Fee, if any, the Trustee's Annual Fee due and payable on such Bond Payment Date and such amount as is necessary to maintain a balance of \$10,000 in the Expense Fund after payment of the foregoing.

PART 3 - THE SERIES 2007 BONDS

Description of the Series 2007 Bonds

The Series 2007 Bonds will be issued as fully registered bonds in the initial aggregate principal amount set forth on the cover page hereof. The Series 2007 Bonds will be dated their date of delivery and will bear interest from such date payable on February 15, 2008 and on each August 15 and February 15 thereafter, and will bear interest at the rates and mature on the dates set forth on the 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 issued in denominations of \$5,000 or any integral multiple thereof. The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchase of beneficial interests in the Series 2007 Bonds will be made in book-entry form, without certificates. See "PART 3 - THE SERIES 2007 BONDS - Book-Entry Only System".

The principal and Redemption Price of the Series 2007 Bonds will be payable at the principal corporate trust office of U.S. Bank National Association, New York, New York (the "Trustee"). 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 fifteenth day of the calendar month next preceding a Bond Payment Date. In the event that the Series 2007 Bonds are no longer held in book-entry only form, beneficial owners 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 beneficial owner, upon the written request of such beneficial owner received not less than 20 days prior to the next Bond Payment Date, which written request may apply to multiple Bond Payment Dates. In such event, such beneficial owners may also receive the principal and Redemption Price by wire transfer at the address in the continental United States specified by such beneficial owner in a written request to the Trustee upon presentation and surrender to the Trustee of the Series 2007 Bond to be redeemed.

Security for the Series 2007 Bonds

Prior to delivery of the PLC (which is anticipated to occur approximately 20 days after the date of delivery of the Series 2007 Bonds), moneys on deposit in the funds and accounts under the Resolution will be invested in Permitted Investments. See "Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION".

Upon delivery of the PLC, the Series 2007 Bonds will be secured by a pledge of (i) the PLC and (ii) such other moneys and funds as may be made available to the Trustee pursuant to the Agreement and the Resolution. Upon acquisition, the PLC shall be deposited in the GNMA Securities Account established by the Resolution.

The Resolution also provides for the establishment of the Equity Fund. The Equity Fund will be funded with Available Moneys upon the delivery of the Series 2007 Bonds in an amount which, when combined with the amounts on deposit in the Interest Escrow Account of the Bond Proceeds Fund and the Debt Service Account of the Debt Service Fund, will be at least equal to the maximum amount which may be required on any date of determination to pay interest shortfalls for the period from the date of delivery of the Series 2007 Bonds to January 23, 2008. Except as described below, if the PLC is not delivered by January 8, 2008, amounts in the Equity Fund shall be transferred to the Redemption Account of the Debt Service Fund for the redemption of the Series 2007 Bonds on January 23, 2008; provided, however if a Cash Flow Statement is delivered demonstrating that an extension of the PLC delivery date will not adversely affect the timely payment of principal and interest on the Series 2007 Bonds, the Authority, in its discretion, may extend the delivery date of the PLC to a date not later than February 1, 2008. If the PLC is not delivered by February 1, 2008, the Series 2007 Bonds shall be called for Extraordinary Mandatory Redemption on February 15, 2008. See PART 3 – THE SERIES 2007 BONDS - Redemption of the Series 2007 Bonds – Extraordinary Mandatory Redemption”. In the event that the PLC is delivered as described above, any moneys in the Equity Fund not needed to pay interest on the Series 2007 Bonds on February 15, 2008 shall be returned to the Institution.

The Resolution also provides for the establishment of the Interest Escrow Account in the Bond Proceeds Fund. The Interest Escrow Account Requirement shall be in an amount equal to the anticipated amount of accrued interest on the PLC on the expected PLC Delivery Date. The Resolution also establishes a Collateral Account, however the Collateral Account Requirement is \$0.

The Institution’s monthly payments on the Mortgage Note, which is secured by the Mortgage (less the servicing fee and the GNMA guaranty fee) will be passed through monthly by the Mortgage Banker to the Trustee. The Trustee will hold such monthly payments and apply them to interest, principal and Amortization Payments on the Series 2007 Bonds. See “PART 4 - ESTIMATED AMORTIZATION PAYMENTS ON THE SERIES 2007 BONDS - Principal and Amortization Payments”.

The Series 2007 Bonds are special obligations of the Authority payable from the above-described sources. The guaranty of GNMA of the payment of principal of and interest on the PLC relates only to the timely payment of principal of and interest on the PLC and does not provide a guaranty of the payment of principal of and interest on the Series 2007 Bonds; provided, however, that a failure to make an Amortization Payment on the Series 2007 Bonds when due is an event of default under the Resolution. Based on the initial Cash Flow Statement, it is anticipated that the interest and principal on the PLC and the Permitted Investments as described above will be sufficient to pay interest and principal on the Series 2007 Bonds.

In the event the Institution defaults under the provisions of the Mortgage and Mortgage Note, the Mortgage Banker may make a claim for FHA mortgage insurance benefits. Mortgage insurance benefits for an insured loan are payable by FHA in cash in an aggregate amount approximately equal to the outstanding principal amount of the Mortgage Note. If FHA elects to make partial payments, the Mortgage Banker may elect to pass through the initial payment to the Trustee in prepayment of the PLC and to pay the remaining balance of the PLC by making the regularly scheduled payments under the original amortization schedule without recasting the mortgage until the final payment is received from FHA. When the final payment is received from FHA for the mortgage insurance benefits, the Mortgage Banker will use such cash, together with other funds of the Mortgage Banker, to redeem the PLC at par plus interest. In the alternative, the Mortgage Banker may elect to use such initial partial payment, together with other funds of the Mortgage Banker, to redeem the PLC in full the month following receipt of such amount. Such moneys, together with any moneys on deposit in any Fund established under the Resolution, except the Arbitrage Rebate Fund, shall be used to redeem the Series 2007 Bonds in accordance with the terms of the Resolution.

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 GNMA, 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 of the Series 2007 Bonds

In addition to redemption of the Series 2007 Bonds from Amortization Payments (as described in “PART 4 - ESTIMATED AMORTIZATION PAYMENTS ON THE SERIES 2007 BONDS”), the Series 2007 Bonds are subject to redemption at such times as hereinafter set forth and, except in the case of Optional Redemption and Extraordinary Redemption, at a Redemption Price equal to 100% of the principal amount of the Series 2007 Bonds to be redeemed, plus interest accrued to the redemption date.

Optional Redemption. The Series 2007 Bonds maturing on August 15, 2012 and August 15, 2017 are not subject to optional redemption prior to maturity. The Series 2007 Bonds maturing on February 15, 2030 are subject to optional redemption prior to maturity by the Authority at the direction of the Institution at any time on or after February 15, 2018, as a whole or in part, from payments on the PLC representing voluntary prepayments on the Mortgage Loan, or other Available Moneys, at the redemption prices set forth in the table below, expressed as percentages of the principal amount of the Series 2007 Bonds to be redeemed, plus accrued interest to the redemption date, as follows:

<u>Redemption Period</u>	<u>Redemption Prices</u>
February 15, 2018 through February 14, 2019	103%
February 15, 2019 through February 14, 2020	102
February 15, 2020 through February 14, 2021	101
February 15, 2021 and thereafter	100

Extraordinary Mandatory Redemption. The Series 2007 Bonds are subject to mandatory redemption at a redemption price equal to the principal amount thereof redeemed plus accrued interest to the redemption date, except as otherwise provided below, as follows:

(i) in whole or in part, on any Business Day, as soon as practicable, to the extent that the Trustee receives payments on the GNMA Security in excess of regularly scheduled payments of principal and interest thereon (other than payments representing optional prepayments of the Mortgage Loan by the Institution) including payments resulting from (A) casualty insurance proceeds or condemnation awards applied to the prepayment of the Mortgage Loan following a partial or total destruction or condemnation of the Project, (B) mortgage insurance proceeds or other amounts received with respect to the Mortgage Loan following the acceleration thereof upon the occurrence of an event of default thereunder, (C) a prepayment of the Mortgage Loan required by the applicable rules, regulations, policies and procedures of FHA or GNMA (including the possible exercise by HUD of its right to override the prepayment and premium provisions of the Mortgage Note under certain circumstances) or (D) a prepayment of the Mortgage Loan if HUD determines that prepayment will avoid a mortgage insurance claim and is therefore in the best interest of the federal government; or

(ii) in whole or in part, on any Business Day, as soon as practicable, to the extent the Trustee receives payments on the GNMA Security representing prepayments of the Mortgage Loan made by the Institution with respect to the Project without notice or prepayment penalty while under the supervision of a trustee in bankruptcy; or

(iii) except as provided in the next sentence, in whole, on January 23, 2008, at a redemption price equal to the principal amount of the Series 2007 Bonds plus accrued interest to the redemption date, if the PLC has not been delivered to the Trustee on or before January 8, 2008. Notwithstanding the foregoing, in the event that the PLC has not been delivered by January 8, 2008, the Authority at its discretion, may delay such mandatory redemption of the Series 2007 Bonds to a date not later than February 15, 2008 if it is provided with a Cash Flow Statement demonstrating that such extension will not adversely affect the timely payment of the principal

and/or Redemption Price of and interest on the Series 2007 Bonds on the redemption date, which date shall be not later than February 15, 2008.

Selection of the Bonds to be Redeemed. Prior to the redemption of less than all of the Series 2007 Bonds (other than from Amortization Payments), the Authority shall direct the Trustee as to which maturities of Series 2007 Bonds and the amount of each such maturity to which funds available for such redemption shall be applied. The Authority shall give such direction in accordance with a revised Cash Flow Statement which gives effect to such redemption. The Authority also shall (i) deliver or cause to be delivered to the Repositories a revised schedule of Amortization Payments based on such revised Cash Flow Statement, (ii) cause the Collateral Account Requirement to be recalculated as of the date of such redemption and (iii) promptly provide or cause the Trustee to provide a copy of the revised Cash Flow Statement and recalculated Collateral Account Requirement to the Rating Services.

If less than all Series 2007 Bonds of a particular maturity shall be redeemed, the Series 2007 Bonds to be redeemed shall be selected by the Trustee by such method as it shall deem fair and appropriate in its discretion.

If all of the Series 2007 Bonds are subject to redemption and there are not sufficient moneys immediately available to pay the entire amount of the Redemption Price plus accrued interest on all of the Series 2007 Bonds on a single redemption date, due to the scheduled maturity on a later date of any Permitted Investment or to the periodic receipt by the Trustee of prepayment on the PLC, or both, the Trustee shall first redeem any Series 2007 Bonds maturing within the next 12 months and then shall redeem the Series 2007 Bonds in such manner that a portion of each maturity of Series 2007 Bonds will be redeemed and thereby reduced in principal amount such that after the Bond redemption, payments which will be available in connection with the GNMA Security and the amounts to be received from the Mortgage Banker as principal payments on the Mortgage Note prior to Final Endorsement or as proceeds of an insurance or condemnation award will be sufficient to pay the principal of and interest on the remaining Series 2007 Bonds when due. Although all Series 2007 Bonds may become subject to redemption at the same time, the Series 2007 Bonds may in fact be redeemed at different times as provided above, but any such redemption shall not constitute a preference of one Series 2007 Bond over another or constitute a default under the Resolution.

Notice of Redemption. Whenever Series 2007 Bonds are to be redeemed, the Trustee shall give notice of the redemption of such Series 2007 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 thirty (30) days prior to the redemption date, or fifteen (15) days prior to the redemption date in the event of an Extraordinary Mandatory Redemption as described in paragraph (iii) above. Such notice shall specify: (i) the Series 2007 Bonds to be redeemed; (ii) the redemption date; (iii) the Redemption Price; (iv) the numbers, any CUSIP number and other distinguishing characteristics of the Series 2007 Bonds to be redeemed; (v) that such Series 2007 Bonds will be redeemed at the principal corporate trust office of the Trustee; and (vi) that no representation is made as to the correctness of the CUSIP number either as printed on any Bonds or as contained in such notice and that an error in a CUSIP number as printed on any Bond or as contained in such notice shall not affect the validity of the redemption proceedings. Such notice shall further state that on such date there shall become due and payable on each Series 2007 Bond to be redeemed, the Redemption Price thereof, together with interest accrued to the redemption date, and that 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 Resolution. Any notice of redemption of the Series 2007 Bonds, other than a notice for Extraordinary Mandatory Redemption, may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on such Series 2007 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 2007 Bonds shall not be required to be redeemed.

Additional Bonds

In addition to the Series 2007 Bonds, the Resolution authorizes the issuance of other Series of Bonds (i) to refund all or a portion of a Series of Bonds, including the Series 2007 Bonds or (ii) to acquire additional

GNMA Security enabling the Institution to finance or refinance facilities or improvements or obtain additional financing to complete such facilities or improvements and pay the costs of issuance of such Series of Bonds. Each Series of Bonds shall be secured by GNMA Security. The Series 2007 Bonds are the first Series of Bonds issued under the Resolution.

Additional Indebtedness

The Mortgage Banker, as FHA mortgagee, may consent to the Institution's incurring indebtedness in addition to the Mortgage Note, secured by a lien on the Mortgaged Property equal or subordinate to (but not superior to) the lien of the Mortgage. See "Appendix C - SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT".

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates 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 and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries 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, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information of DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no

knowledge of the actual Beneficial Owners of the Series 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults and proposed amendments to the documents relating to the Series 2007 Bonds. For example, Beneficial Owners of the Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

Pursuant to the Resolution, the Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2007 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2007 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2007 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Series 2007 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2007 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

For every transfer and exchange of beneficial ownership of the Series 2007 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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

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

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

THE AUTHORITY, THE INSTITUTION, THE TRUSTEE AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2007 BONDS (i) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2007 BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN SERIES 2007 BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2007 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. The current "rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

NEITHER THE AUTHORITY, THE INSTITUTION, THE TRUSTEE NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE SERIES 2007 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL, OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2007 BONDS; (4) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2007 BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

So long as Cede & Co. is the registered owner of the Series 2007 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2007 Bonds (other than under the captions "PART 13 - TAX MATTERS" and "PART 20 - CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2007 Bonds.

PART 4 - ESTIMATED AMORTIZATION PAYMENTS ON THE SERIES 2007 BONDS

Principal and Amortization Payments

On each Bond Payment Date, the Trustee will pay from the Debt Service Account, first, the interest due on such Bond Payment Date, second, an amount equal to the amount of principal or Amortization Payments, if any, then due, third, to the Expense Fund an amount equal to the sum of the Annual Administration Fee, the Dissemination Fee, if any, the Rebate Analyst Fee, if any, the Trustee Annual Fee due and payable on such

Bond Payment Date and such amount as is necessary to maintain a balance of \$10,000 in the Expense Fund after payment of the foregoing and, fourth, any moneys remaining to the Redemption Account for application as an Amortization Payment. See “PART 3 – THE SERIES 2007 BONDS – Redemption of the Series 2007 Bonds”.

The Amortization Payment for any Bond Year is the principal amount initially determined by the Bond Series Certificate to be payable for such Bond Year for the retirement of Term Bonds by redemption at par, as each such initially determined Amortization Payment scheduled may thereafter be adjusted. Series 2007 Term Bonds, to be paid from Amortization Payments, shall be subject to redemption in direct order of maturities on each Bond Payment Date in the appropriate Bond Years in the amount of the Amortization Payments available therefor, if any, without premium, plus accrued interest to the date of redemption.

The following table sets forth the estimated Amortization Payment schedule for the Series 2007 Bonds. This Amortization Payment schedule is based on the following assumptions:

1. The first payment of principal and interest on the Mortgage Note occurs on December 1, 2007;
2. The rate on the PLC is 5.37%;
3. Final maturity of the PLC is January 15, 2030;
4. There are no Optional or Extraordinary Mandatory Redemptions of the Series 2007 Bonds.

If any of these assumptions changes, the Amortization Payment schedule may be adjusted. Some of the circumstances which affect these assumptions are more fully described following the table.

Amortization Payment Schedule

<u>Payment Date</u>	<u>Estimated Amortization Payment on Term Bond Maturing on August 15, 2012</u>	<u>Estimated Amortization Payment on Term Bond Maturing on August 15, 2017</u>	<u>Estimated Amortization Payment on Term Bond Maturing on February 15, 2030</u>
August 15, 2008	\$245,000		
February 15, 2009	250,000		
August 15, 2009	255,000		
February 15, 2010	260,000		
August 15, 2010	265,000		
February 15, 2011	270,000		
August 15, 2011	275,000		
February 15, 2012	280,000		
August 15, 2012	285,000		
February 15, 2013		\$295,000	
August 15, 2013		300,000	
February 15, 2014		305,000	
August 15, 2014		315,000	
February 15, 2015		320,000	
August 15, 2015		325,000	
February 15, 2016		335,000	
August 15, 2016		340,000	
February 15, 2017		350,000	
August 15, 2017		355,000	
February 15, 2018			\$365,000

Payment Date	Estimated Amortization Payment on Term Bond Maturing on August 15, 2012	Estimated Amortization Payment on Term Bond Maturing on August 15, 2017	Estimated Amortization Payment on Term Bond Maturing on February 15, 2030
August 15, 2018			375,000
February 15, 2019			385,000
August 15, 2019			395,000
February 15, 2020			410,000
August 15, 2020			420,000
February 15, 2021			430,000
August 15, 2021			445,000
February 15, 2022			455,000
August 15, 2022			470,000
February 15, 2023			485,000
August 15, 2023			500,000
February 15, 2024			510,000
August 15, 2024			525,000
February 15, 2025			540,000
August 15, 2025			555,000
February 15, 2026			575,000
August 15, 2026			590,000
February 15, 2027			605,000
August 15, 2027			625,000
February 15, 2028			645,000
August 15, 2028			660,000
February 15, 2029			680,000
August 15, 2029			700,000
February 15, 2030			720,000

Adjustment to Amortization Payment Schedule

The schedule of Amortization Payments indicated on the preceding table may be adjusted for a number of reasons including:

1. The amount of moneys, if any, in the Debt Service Account available for Amortization Payments or Extraordinary Mandatory Redemption of the Series 2007 Bonds, as provided in the Resolution, will depend upon the delivery date of the PLC. To the extent that any or all of the variables differ from what has been assumed, the amount and date of any Amortization Payments and of any Extraordinary Mandatory Redemption similarly will differ.

2. If the Institution makes a prepayment on the Mortgage Note resulting in a prepayment on the PLC, payments on the Mortgage Note (and thus the PLC) may be recast (which means that succeeding required monthly payments due on the Mortgage Note shall be made in approximately equal amounts sufficient to pay the Mortgage Note over the remaining term thereof). In such event, the Trustee shall redeem Series 2007 Bonds from such prepayment as described in "PART 3 - THE SERIES 2007 BONDS - Redemption of the Series 2007 Bonds". If the Mortgage Note is recast resulting in reduced payments on the PLC, or if the Series 2007 Bonds are redeemed in part following the occurrence of certain events of default under the Resolution, the Trustee shall recalculate the Amortization Payments payable on the Series 2007 Bonds which remain Outstanding after such redemption in accordance with a revised Cash Flow Statement.

The initial schedule of Amortization Payments contained on the preceding page may be revised for any of the foregoing reasons and a new schedule established thereafter. All future schedules of Amortization Payments are likewise subject to adjustment, from time to time, for any of the foregoing or other reasons.

PART 5 - GNMA SECURITY

General

The summary and explanation of the GNMA Mortgage-Backed Securities Program (the “GNMA Program”) and the other documents referred to herein do not purport to be complete, and reference is made to the GNMA I Mortgage-Backed Securities Guide (GNMA Handbook 5500.3, as amended, hereafter, the “GNMA Guide”) and to said documents, copies of which are on file with the Mortgage Banker, for full and complete statements of their provisions.

GNMA is a non-stock corporate instrumentality of the United States of America within the Department of Housing and Urban Development (“HUD”) with its principal office in Washington, D.C.

The GNMA Security will be “fully modified pass-through” mortgage-backed securities issued and serviced by the Mortgage Banker. By the 15th day of each month, the Mortgage Banker will be required to pass through to the Trustee, as the holder of the GNMA Security, the monthly scheduled installments of principal and interest on the Mortgage Note (less the GNMA guaranty fee and the Mortgage Banker’s servicing fee), whether or not the Mortgage Banker receives such payment from the Institution, plus any unscheduled prepayments of principal of the Mortgage Note received by the Mortgage Banker. GNMA guarantees the timely payment of the principal of and interest on the GNMA Security.

Payment of interest and principal (upon commencement of such payments under the Mortgage Note) on the PLC shall be made in monthly installments commencing with the 15th day of the month next following the date of issue of the PLC.

GNMA Guaranty

GNMA is authorized by Section 306(g) of Title III of the National Housing Act, as amended (the “National Housing Act”), to guarantee the timely payment of the principal of, and interest on, securities which are based on and backed by mortgage pools consisting of a single mortgage insured by FHA pursuant to Sections 223(f) and 232 of the National Housing Act. Section 306(g) of the National Housing Act further provides that “[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection”. An opinion, dated December 9, 1969, of the then Assistant Attorney General of the United States of America, states that such guaranties under Section 306(g) of mortgage-backed securities of the type being delivered to the Trustee on behalf of the Authority are authorized to be made by GNMA and “would constitute general obligations of the United States backed by its full faith and credit”.

Pursuant to such authority, GNMA, upon delivery of the PLC to the Trustee in accordance with the related GNMA Guaranty Agreement, will have guaranteed the timely payment of principal of and interest on such PLC.

GNMA Borrowing Authority

In order to meet its obligations under such guaranty, GNMA, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury Department (the “Treasury”) in an amount outstanding at any one time sufficient to enable GNMA, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Security. The Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the then Secretary of the Treasury to the then Secretary of HUD that the Treasury will make loans to GNMA, if needed, to implement the aforementioned guaranty.

GNMA warrants to the holder of the PLC, as described in the GNMA Prospectus, that in the event it is called upon at any time to make good its guaranty of the payment of principal of and interest on the PLC, it will, if necessary, in accordance with Section 306(d), apply to the Treasury for a loan or loans in amounts sufficient to make payments of principal and interest on the PLC.

Servicing of Mortgage Loans

The Mortgage Banker is responsible for servicing and otherwise administering the Mortgage Loan in accordance with generally accepted practices of the mortgage banking industry and the GNMA Guide.

The monthly remuneration of the Mortgage Banker, for its servicing and administrative functions, and the guaranty fee charged by GNMA, total 0.25% (25 basis points) per annum (payable monthly) of the unpaid principal amount of the Mortgage Note outstanding on the last day of the month preceding such date of calculation. The Mortgage Note carries an initial interest rate that is 0.25% per annum greater than the interest rate on the PLC because the 0.25% total of the Mortgage Banker's servicing fee and the GNMA guaranty fee are deducted from payments on the Mortgage Note prior to making payments on the PLC. Counsel to the Mortgage Banker has opined that it is not necessary for GNMA to receive its guaranty fee for the guaranty to be effective for holders of PLC.

It is expected that interest and principal payments on the Mortgage Note will be the source of moneys for payments on the PLC. If such payments are less than what is due, the Mortgage Banker may advance its own funds to ensure timely payment of scheduled installments of principal and interest due on the PLC. GNMA guarantees such timely payment in the event of the failure of the Mortgage Banker to pass through such scheduled principal and interest payments when due.

The Mortgage Banker is required to advise GNMA in advance of any impending default on scheduled payments on the PLC so that GNMA as guarantor will be able to continue such payments as scheduled on the 15th day of each month. If, however, such payments are not received as scheduled, the Trustee, on behalf of the Authority, has recourse directly to GNMA.

The Guaranty Agreement to be entered into by GNMA and the Mortgage Banker in connection with the PLC (the "GNMA Guaranty Agreement") will provide that, in the event of a default by the Mortgage Banker, including (a) a request to GNMA to make a payment of principal or interest on the PLC when the Institution is not in default under the Mortgage Note, (b) insolvency of the Mortgage Banker, or (c) default by the Mortgage Banker under any other guaranty agreement with GNMA, GNMA will have the right, by letter to the Mortgage Banker, to effect and complete the extinguishment of the Mortgage Banker's interest in the Mortgage Note, and the Mortgage Note will thereupon become the absolute property of GNMA, subject only to the unsatisfied rights of the holder of the PLC. In such event, the GNMA Guaranty Agreement will provide that on and after the time GNMA directs such a letter of extinguishment to the Mortgage Banker, GNMA will be the successor in all respects to the Mortgage Banker in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and will be subject to all responsibilities, duties and liabilities (except the Mortgage Banker's indemnification of GNMA) theretofore placed on the Mortgage Banker by the terms and provisions of the GNMA Guaranty Agreement, provided that, at any time, GNMA may enter into an agreement with any other eligible issuer of the PLC under which the latter undertakes and agrees to assume any part or all of such responsibilities, duties or liabilities theretofore placed on the Mortgage Banker, and provided that no such agreement will detract from or diminish the responsibilities, duties or liabilities of GNMA in its capacity as guarantor of the PLC, or otherwise adversely affect the rights of the holders thereof.

The PLC does not constitute a liability of, nor evidence any recourse against, the Mortgage Banker as the issuer of the PLC, but recourse thereon is solely against GNMA as provided in the GNMA Guaranty Agreement and the PLC. The GNMA Guaranty Agreement provides that the full faith and credit of the United States of America is pledged to the payment of all amounts required to be paid pursuant to the GNMA guaranty of such securities.

Payment of Principal and Interest on the GNMA Security

The PLC is a "fully-modified pass through" security which requires monthly payments by the Mortgage Banker, as the GNMA Security issuer, to the Trustee, on behalf of the Authority, of principal and interest at the rate stated thereon on the aggregate unpaid principal balance, whether or not the Mortgage Banker receives payments on the Mortgage Note underlying such GNMA Security, plus any prepayments of principal of the Mortgage Note received by the Mortgage Banker.

Following the issuance of the PLC and commencement of the payment of principal thereon, the PLC will be payable in monthly installments of not less than the interest due on the PLC the rate specified thereon, together with any scheduled installments of principal, whether or not collected from the Institution and any prepayments or early recovery of principal and premium, if any. Each installment on the PLC shall be applied first to interest and then in reduction of the principal balance of the PLC then outstanding. Interest shall be paid at the specified rate on the unpaid portion of the principal. The amount of principal due on the PLC shall be in an amount equal to the scheduled principal amortization currently due on the Mortgage Note. Final payment shall be made to the Trustee upon surrender of the outstanding PLC.

Liability of Mortgage Banker

The GNMA Security will not constitute a liability of nor evidence any recourse against the Mortgage Banker. Recourse may be had by the Trustee only to GNMA in the event of any failure of timely payment as provided for in the GNMA Guaranty Agreement appended to the GNMA Security.

PART 6 - CERTAIN PROVISIONS OF THE FHA DOCUMENTS

The Mortgage Note

The loan will be evidenced by the Mortgage Note and secured by the Mortgage. The Mortgage Note is a non-recourse obligation of the Institution. The Mortgage Note is insured by FHA under Section 232/223f of the National Housing Act, as amended, and the regulations thereunder. The aggregate principal amount of the Mortgage Note (and of the GNMA Security issued in respect thereof) will be in an amount not to exceed \$18,773,600.

Amortization of the principal of the Mortgage Note is required to begin on December 1, 2007. The Mortgage Note shall bear interest at the rate of 5.62 percent per annum on the outstanding principal payable on the first of each month. The maturity date for the Mortgage Note shall be January 1, 2030.

The Mortgage

A mortgage will be executed and delivered by the Institution to the Mortgage Banker, as FHA mortgagee, and modified to the form prescribed by FHA. The Mortgage grants a lien on the Mortgaged Property together with all buildings, improvements and fixtures thereon, rents, issues and profits thereof, and all building materials, equipment, furnishings and other property incident to use and occupancy thereof. Until the final payment of the Mortgage Note, the Institution agrees not to sell, encumber or alienate the Mortgaged Property in any way without the consent of the Mortgage Banker and FHA, which consent shall not be unreasonably withheld, delayed or conditioned. The Institution also covenants that it will not voluntarily create or permit to be created any other lien or liens against the Mortgaged Property, except for permitted encumbrances.

The Institution agrees that, in addition to payments for debt service due on the Mortgage Note, it will pay monthly amounts to provide for the payment when due of premiums on the FHA mortgage insurance, casualty insurance, water rates, and taxes and assessments. In the event the Institution fails to pay any of the sums required to be paid under the Mortgage, the Mortgage Banker, at its option, may pay such amounts. The Mortgage provides that all sums paid by the Mortgage Banker may be added to the principal amount of the Mortgage Note, bear interest at the rate set forth in the Mortgage Note and will be due and payable on written demand. The Institution covenants that it shall keep the Project in good repair, and may not make structural alterations without the consents of the Mortgage Banker and FHA, which consent shall not be unreasonably withheld, delayed or conditioned.

The Mortgage incorporates by reference a regulatory agreement between the Institution and FHA (the "Regulatory Agreement"). The Regulatory Agreement sets forth certain of the Institution's obligations in connection with the management and operation of the Project. Among its provisions it restricts the use of the Project and the revenues which it generates and prohibits or restricts transferring, encumbering or altering the Project.

Under the Mortgage and applicable FHA regulations, the following are events of default on the FHA Documents: (i) any default in any payment on the Mortgage Note or under the Mortgage or (ii) any failure in the observance or performance of any other covenant in the Mortgage, if the Mortgage Banker, because of such failure, has accelerated the debt. If such defaults as defined in (i) and (ii) above continue uncured after a grace period of 30 days, the Mortgage Banker shall be entitled to receive mortgage insurance benefits, provided that within 30 days after the end of the grace period it notifies FHA of the default, and within 45 days, or any permitted additional time, after the end of the grace period it files with FHA a notice of its intention to file an insurance claim and its election either to assign the Note and Mortgage to FHA or to acquire and convey title to the Project to FHA. A default solely under the Regulatory Agreement will not constitute a default under the Mortgage unless declared by the Mortgage Banker at the request of FHA. *An event of default under the Mortgage is not an Event of Default under the Resolution and will not automatically result in an acceleration of the Series 2007 Bonds.* Under GNMA regulations, the Mortgage Banker has broad latitude to enter into workout arrangements and to negotiate modifications of the Mortgage subject to the approval of FHA and GNMA. So long as the Mortgage Banker continues to make regularly scheduled payments of principal and interest on the GNMA Security no default will exist as a result of any such mortgage modifications.

FHA and GNMA Documents and Regulations Control

To the extent that any provision in the Agreement or the Resolution shall be inconsistent or in conflict with the provisions of the National Housing Act as amended, FHA regulations, related FHA administrative requirements, the GNMA regulations, the GNMA I Mortgage-Backed Securities Guide, the FHA Documents, the GNMA Security or the GNMA Guaranty Agreement, as the case may be, the provisions of the National Housing Act as amended, FHA regulations, related FHA administrative requirements, the GNMA regulations, the GNMA I Mortgage-Backed Securities Guide, the FHA Documents, the GNMA Security or the GNMA Guaranty Agreement, as the case may be, shall govern. No provision of the Agreement or the Resolution or of any instruments referred to in the Agreement or the Resolution shall alter the non-recourse nature of the Mortgage Banker’s obligations under the GNMA Security.

PART 7 - ESTIMATED SOURCES AND USES OF FUNDS

Set forth below is a description of the sources and uses of funds in connection with the issuance of the Series 2007 Bonds.

Sources of Funds	
Principal Amount of Series 2007 Bonds.....	\$18,690,000
Original Issue Premium	930,489
Other Available Moneys.....	<u>375,985</u>
Total Sources	<u>\$19,996,474</u>
Uses of Funds	
Deposit to Acquisition Account	\$18,773,600
Deposit to Interest Escrow Account.....	42,006
Deposit to Expense Fund ¹	943,862
Deposit to Equity Fund	210,419
Deposit to Debt Service Fund	<u>26,587</u>
Total Uses	<u>\$19,996,474</u>

¹ Includes the Underwriter’s fee, Mortgage Broker’s fee, legal, consulting, printing and other fees associated with the issuance of the Series 2007 Bonds.

PART 8 - THE MORTGAGE BANKER

Capmark Finance Inc., a California corporation, the Mortgage Banker is approved as a GNMA Issuer and FHA Mortgagee. The Mortgage Banker is engaged in originating and servicing mortgage loans,

including FHA-insured mortgage loans and is an FHA-approved mortgagee and is an issuer in good standing of GNMA Security. The mailing address of the Mortgage Banker is 116 Welsh Road, Horsham, Pennsylvania 19044. Further information about the Mortgage Banker may be obtained by written request to its address indicated in the preceding sentence.

To be approved by GNMA to issue modified pass-through securities with respect to long-term mortgages on a nursing home project, a GNMA issuer is required to have a net worth (based on audited financial statements) equal to at least \$500,000 plus 0.2% of any securities outstanding in excess of \$35,000,000.

PART 9 - THE INSTITUTION

General Overview and History

The Institution is a New York not-for-profit corporation licensed to operate a “Residential Health Care Facility” in the Bedford-Stuyvesant section of Brooklyn, New York, one of the five boroughs of New York City. The Institution is sponsored by Concord Baptist Church of Christ, Inc. (the “Church”), a religious corporation located adjacent to the Institution. The Church was constituted as a congregation in Brooklyn on May 18, 1847. The Church is an offspring of the Abyssinian Baptist Church (“Abyssinian”), one of the oldest African-American churches in New York State, located in the borough of Manhattan in New York City. The Church, with more than 7,500 active members, was founded because Brooklyn members of Abyssinian endured traveling difficulties, particularly in the winter, when traveling to Manhattan. The Church is not obligated with respect to the Bonds or the Mortgage.

The Institution facility provides programs and services almost exclusively to the elderly of its community. The Institution was founded by the Reverend Gardner Calvin Taylor, L.H.D., in 1966. Construction was completed in May 1975 and the Institution accepted its first residents the following month. The Institution originally was constructed as a dual-level facility, with 82 skilled nursing beds and 41 health-related beds. All 123 beds became skilled beds when level of care distinctions were removed by the State of New York in 1991. As part of the 2002 project, 17 ventilator beds were added resulting in a total bed complement of 140. At the same time, the Institution opened an adult day healthcare program.

The Institution is licensed to operate under Article 28 of the New York State Public Health Law, converting from an Article 28-A corporation, see “Management’s Discussion of Recent Financial Performance”. The Institution is a Section 501(c)(3) corporation under the Not-for-Profit Corporation Law. While the Institution is unaffiliated with any other major health care provider or network, it is community-oriented and is involved in various community programs. These include an affiliation with Medgar Evers College of the City University of New York for a nursing program that provides clinical experience for students while they are at the Institution. In addition, the Institution participates in the Adopt-a-Grandparent Program through which young students periodically visit the Institution and provide an opportunity for intergenerational interaction.

Services

The Institution provides a diverse range of services, including, medical services, adult day healthcare, skilled nursing, social services, dietary services, occupational therapy, physical therapy, speech therapy, religious services, recreational activities, podiatry, ophthalmology, dentistry, transportation, a beauty salon and a barber shop. The Institution currently is configured as a four-story structure, with an adult day healthcare center with 25 registrants per day and occupational, physical and speech therapy rooms on the first floor, 33 skilled nursing beds and 17 ventilator beds on the second floor, and 45 skilled nursing beds on each of the third and fourth floors.

The availability of these and other services which the Institution provides is mandated by the State. These services are reviewed during an annual survey by the New York State Department of Health (“DOH”).

Nursing Facility Care

Skilled nursing care in all the Institution's 140 beds is provided by registered nurses, licensed practical nurses and certified nursing assistants. The Institution employs a medical director, as required by the New York State Health Code, on a part-time basis, and it organizes the delivery of medical care at three levels. At the first level, each resident is assigned an attending, primary care physician who is a member of the Institution's medical staff. This physician is responsible for routine medical visits, as required under the State Health Code, and for responding appropriately to changes in a resident's condition. At a minimum, on a monthly basis, the Institution requires each attending physician to review and renew or update the medical orders of each resident. Presently, the Institution is served by two attending physicians.

A second level of medical care is delivered by the Institution's medical and dental specialists, who provide services including dentistry, podiatry, ophthalmology and dermatology. These medical services are typically delivered at the Institution annually and more often as clinical circumstances warrant. The third level of medical care is rendered by a diverse group of consulting physicians, who offer specialty medical care on an as-needed basis. All are credentialized by the Institution's medical board. If certain specialty medical services cannot be provided conveniently at the Institution, the facility makes the necessary transportation arrangements to an appropriate specialist's office or hospital.

Other health services which the Institution offers to its residents include routine x-rays, laboratory work, electrocardiography, audiology, oxygen therapy, intravenous therapy, therapeutic recreation, pharmacy services and nutritional services. Most of the Institution's specialty physicians are compensated for their services by the Medicare program.

Affiliations and Transfer Agreements

The Institution has agreements for the transfer or referral of residents to various health care providers listed below. However, the Institution also has received admissions from more than 12 other hospitals in the past two years. The Institution maintains frequent contact with the discharge planners and social workers in all of the area's hospitals.

- Brooklyn Hospital (Affiliate of New York University Medical Center)
- Interfaith Medical Center
- Methodist Hospital (Affiliate of New York-Presbyterian Medical Center)
- Visiting Nurse Association of Brooklyn.

School affiliations include Medgar Evers College of the City University of New York.

Facility

The Institution is located at 300 Madison Street in the Bedford-Stuyvesant section of Brooklyn and owns the land and building on which it is currently located. The Institution sits adjacent to the Church, with which it entered into a Ground Lease dated February 9, 2000, for the Church Parking Lot, by the Church as landlord and the Institution as tenant. The Church and the Institution also entered into a Zoning Lot and Development Agreement dated February 9, 2000, whereby the Church conveyed certain development rights to the Institution to enable the renovation of and capital improvements to the Institution facility.

Governance

The Institution is governed by a Board of Directors (the "Board"), which presently comprises seven Directors. Directors are elected by the membership, a self-perpetuating body of the Institution, to serve a three-year term, with no limit on the number of terms a Director may serve. The Board meets six times each year

and presently has Executive and Quality Assessment and Assurance Committees, each of which meets quarterly, and a Finance Committee, which meets monthly. The following table sets forth the Institution's current Directors, their year of initial election or appointment and their principal affiliation or occupation:

<u>Name</u>	<u>Year Initially Appointed</u>	<u>Occupation Affiliation</u>
Gary V. Simpson President	1990	Senior Pastor, the Church
Dorothy Straker Chair	1975	Retired, former New York City Board of Education school principal and teacher
Cozetta Green Vice Chair and Secretary	1974	Retired, former Executive Assistant, Internal Revenue Service North Atlantic Region (EEO and Diversity)
Kim D'Abreu-Herbert	1992	Program coordinator, College of Medicine SUNY Health Science Center of Brooklyn
Elena Franklin	1992	Senior Associate Director, Human Resources; Lincoln Medical and Health Center
Deirdre Pilgrim	1993	Executive Director, Summer Youth Employment Program; New York City Department of Employment
Johnnie White	1984	Director, Facility Service; Lindsay Park Housing Corporation

Management

Senior management of the Institution includes the President, Chairperson, Executive Director, Director of Finance and the Medical Director. The individuals occupying these positions are:

Dr. Gary V. Simpson, President. Dr. Simpson, age 45, has been Senior Pastor of the Church since 1990. Prior to his appointment at the Church, he was pastor of the Cavalry Baptist Church in Morristown, New Jersey. Dr. Simpson oversees the Church's various programs and organizations. Dr. Simpson received a Bachelor of Arts degree with honors from Denison University in Granville, Ohio in 1984; his Master of Divinity Degree from Union Theological Seminary in New York City in 1987 and a Doctor of Ministry Degree from United Theological Seminary in Dayton, Ohio in 1995. He is a member of the Board of Denison University, the Union Theological Seminary and the United Way of Metropolitan New York.

Dorothy D. Straker, Chairperson. Ms. Straker, age 75, has been Chairperson of the Institution since 1991. From 1965 through the date of her retirement in 1987, Ms. Straker was an assistant principal in the New York City public school system; from 1952 through 1965, she was a public school teacher. Ms. Straker received a Bachelor of Science degree from Brooklyn College in 1952 and a Master in Education degree from the same institution in 1956. Ms. Straker is a certified supervisor and administrator in the New York City public school system. Ms. Straker is a member of the National Association of University Women, the National Association for the Advancement of Colored People and the Friends of the Institution.

Lillie M. Bryant-Hobbs, Executive Director. Mrs. Bryant-Hobbs, age 58, joined the Institution in her present position in 1994. Mrs. Bryant-Hobbs is responsible for the overall operation of the facility. Prior to her current position, she was assistant administrator of St. Vincent de Paul Residence in the Bronx, New York, from 1992 through 1994, and assistant administrator of SS. Joachim & Anne Residence, in Brooklyn, New York, from 1990 through 1992. From 1988 to 1990, Mrs. Bryant-Hobbs was assistant administrator of the Woodland Nursing

Home in New Rochelle, New York and served from 1982 through 1988 as director of finance at the Haym Solomon Home for the Aged in Brooklyn, New York. Mrs. Bryant-Hobbs also has served as director of finance for the YMCA of Brooklyn; assistant fiscal director for the Wartburg Lutheran Home in Brooklyn; senior staff accountant at St. John's Episcopal Hospital in Brooklyn; part-time instructor at Medgar Evers College; associate accountant for the New York City Health and Hospitals Corporation; assistant program director for the East New York Development Corporation in Brooklyn; statistical coordinator for medical records at Linden General Hospital and bookkeeper at the Sam Levin Metal Products Corporation. Mrs. Bryant Hobbs received a Bachelor of Science degree in Accounting from Brooklyn College in 1978 and a Master in Health Care Administration degree from Central Michigan University in 1997. She also attended the Master's degree in Business Administration program at Long Island University.

Genroy A. Richards, Director of Finance. Mr. Richards, age 48, rejoined the Institution in his current position in December of 2005; previously, he was vice president of Finance for Buena Vida Continuing Care and Rehabilitation Center in Brooklyn, New York from 2001 to 2005 and Director of Finance for the Institution from 1994 to 2001. Genroy was also the Assistant Fiscal Director for the St. Vincent de Paul Residence in the Bronx, New York from 1993 to 1994 and was an auditor with Munns & Dobbins, Certified Public Accountants, from 1989 through 1993. He was a bookkeeper at the New York Foundling Hospital from 1987 through 1989. Mr. Richards received a Bachelor of Science degree from Hunter College, with a major in accounting in 1989 and became a certified public accountant in 1992. Mr. Richards received a Master of Science degree from Central Michigan University with a concentration in Health Services Administration in 2002. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Calvin Simons, Medical Director. Dr. Simons, age 75, has been Medical Director of the Institution since 1996. Dr. Simons is an attending physician at Brooklyn Hospital. Dr. Simons received a Bachelor of Science degree from City College of New York and a medical degree from Howard University College of Medicine. Dr. Simons is board certified in Internal Medicine and is a Fellow of the American College of Physicians. Dr. Simons also is a member of the Board of Brooklyn Hospital.

Selected Utilization Data

Selected utilization data for the Institution for the three years ended December 31, 2006 and for the six-month period ended June 30, 2007 were:

	Year Ended December 31,			Six Months Ended
	2004	2005	2006	June 30, 2007
Licensed Beds - Skilled Nursing Facility	123	123	123	123
Total Resident Days	44,284	43,782	43,286	21,315
Occupancy %	98.4	97.5	96.4	95.7
Licensed Beds - Ventilator	17	17	17	17
Total Resident Days	4,249	5,712	5,318	2,765
Occupancy %	68.3	92.1	85.7	89.9
Licensed Beds - Total	140	140	140	140
Total Resident Days	48,533	49,494	48,604	24,080
Occupancy %	94.7	96.9	95.1	95.0
Admissions	165	157	256	72
Case Mix	1.21	1.26	1.29	1.27

Source: The Institution

Service Area and Competition

The Institution defines its primary service area as the New York City borough of Brooklyn and the Queens border. At December 31, 2006, approximately 99% of the residents were from this service area at the time of their admission to the Institution. The percentage has remained relatively unchanged over the last five years. The Institution has identified three other Brooklyn-based nursing homes as its major competition. These are Marcus Garvey Nursing Home (290 beds); the Center for Nursing and Rehabilitation (320 beds, some of which are specialty beds); and Bishop Eucles Nursing Home (240 beds). The Institution considers its competition to have been somewhat muted over the years because none of the other facilities has a direct church sponsorship, such as the Institution. The Institution does not expect this situation to change significantly. Affiliation with the Church has historically been a competitive advantage for the Institution in attracting residents and maintaining occupancy. The Institution also has attracted some residents from outside its primary service area through church affiliations, word of mouth and outreach initiatives.

Professional Staff and Other Employees

For the year ended December 31, 2006, the staff of the Institution included 149 full-time equivalent employees ("FTE's"). Included among these employees were 8 registered nurses, 10 licensed practical nurses, 76 certified nursing assistants, two social workers and four recreational therapists. The facility maintains contracts with one physical therapist, one occupational therapist and one speech therapist. Eighty-five of the Institution's employees are represented by Local 144 Division of 1199 National Health and Human Service Employees Union/SEIU, AFL-CIO. The current union contract expires April 30, 2008. The management of the Institution considers employee relations to be excellent. The following is a breakdown of the FTE's for 2006:

Management and Supervision	13
Technicians and Specialists	8
Registered Nurses	4
Licensed Practical Nurses	10
Aides and Orderlies	76
Clerical and Administrative	10
Environmental, Housekeeping and Food Service	<u>28</u>
Total	149

Source: *The Institution*

Licensure and Accreditation

The Institution has been issued an operating certificate by the DOH to operate a residential health care facility.

Financial Statements

The following Summary of Operations and Changes in Net Assets (Deficiency) of the Institution (the "Summary") for each year in the three one-year periods ended December 31, 2006 has been derived from the Institution's audited financial statements. The audited statements of financial position of the Institution as of December 31, 2005 and 2006, and the related statements of operations and changes in net assets (deficiency) and cash flows for the years then ended, together with the report of O'Connor Davies Munns & Dobbins, LLP, Certified Public Accountants, independent auditors, are included in Appendix B of this Official Statement. The unaudited Summary for the six months ended June 30, 2006 and 2007 reflects, in the opinion of management, all adjustments (which include normal recurring adjustments) necessary to summarize fairly the results for each period. Operating results for the six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007. The Summary should be read in conjunction with the audited financial

statements and related notes to the financial statements of the Institution and the report of the independent auditors included as Appendix B of this Official Statement.

Summary of Operations and Changes in Net Assets (Deficiency)
(000's)

	Year Ended December 31,			Six Months Ended June 30,	
	2004	2005	2006	2006	2007
Operating revenue					
Net patient service revenue	\$14,419	\$15,964	\$15,478	\$7,652	\$7,794
Investment income	17	31	36	26	11
Other revenue	5	5	202	134	28
Total revenue	<u>14,441</u>	<u>16,000</u>	<u>15,716</u>	<u>7,812</u>	<u>7,833</u>
Operating expenses					
Professional care of patients	7,189	7,137	7,223	3,353	3,469
General services	2,379	2,560	2,353	1,115	1,232
Administrative services	1,688	1,945	1,778	762	777
Non-departmental expenses	4,699	5,171	5,359	2,612	2,711
Total expenses	<u>15,955</u>	<u>16,813</u>	<u>16,713</u>	<u>7,842</u>	<u>8,189</u>
Change in net assets from operations	(1,514)	(813)	(997)	(30)	(356)
Non-operating revenue					
General contributions	35	48	60	3	21
Change in net assets	<u>(\$1,479)</u>	<u>(\$765)</u>	<u>(\$937)</u>	<u>(\$27)</u>	<u>(\$335)</u>

Source: *The Institution*

Management's Discussion of Recent Financial Performance

Introduction

The Institution has generated a deficiency in net assets in each of the three one-year periods ended December 31, 2006 and the six-month periods ended June 30, 2007 and June 30, 2006. A portion of these results are a consequence of the Institution's designation as a voluntary facility organized under Article 28A of the New York State Public Health Law. Such facilities are commonly referred to as "28A's". The majority of voluntary facilities in New York State are organized under Article 28 of the New York State Public Health Law and, as such, are entitled to be reimbursed in the capital component of their Medicaid rates for interest expense and reported depreciation expense, with a two-year lag between the year reported and the year reimbursed. However, the capital cost reimbursement to 28A facilities substitutes the reimbursement for depreciation with the reimbursement of current-year mortgage principal payments plus the reimbursement for current-year required deposits to a reserve and contingency fund known as the operating escrow fund. Primarily because the typical 28A mortgage is a level-payment, self-amortizing debt instrument, the amount of reimbursed annual principal payments grows over time. As a consequence for the majority of the mortgage term the combination of mortgage principal payments and operating escrow deposits will be less than the level of depreciation expense on the 28A assets. As a result, because under Generally Accepted Accounting Principles (GAAP) the amount of principal payments and operating escrow deposits are not operating expenses, whereas depreciation expense is, the stream of allowable Medicaid revenue will fall short of the GAAP-recognized depreciation expense reflected in a facility's results of operations. Beyond the typical minor level of sponsor equity found in most 28A corporations, should a facility remain a 28A for the entire length of its mortgage term, the amount of reimbursed principal would approach, if not equal, the total depreciation expense associated with its 28A assets.

With the redemption of the Institution's formerly-existing 28A debt, the Institution is no longer considered a 28A for Medicaid reimbursement purposes; however, for purely logistical reasons the Institution's capital cost reimbursement has not been revised yet. It continues to receive Medicaid reimbursement as if it were a

28A facility. When the applicable rate revisions are made, they will be effective the first day the Institution no longer was a 28A facility. The revisions in Medicaid reimbursement are expected to be in place by December 31, 2007.

In analyzing the impact of receiving capital cost reimbursement as a 28A facility, the Institution's reimbursement consultants estimated that if it were not reimbursed as a 28A facility, the Institution would have been eligible to receive average additional Medicaid reimbursement of approximately \$344,000 for each year in the three-year period ended December 31, 2006; and approximately an additional \$137,000 during the six months ended June 30, 2007. For the years 2004 and 2005, eligibility for such additional reimbursement would have been contingent on the Institution meeting a requirement to fund the reimbursement. The funding requirement was removed by Medicaid in 2006; thus, once the Institution's Medicaid rates are revised in recognition of its non-28A status, it will not be required to fund the additional reimbursement. As an ongoing entity, the Institution ultimately will receive 28A and non-28A reimbursement which, in total, will equate to the lifetime depreciation expense on its former 28A assets.

In the future, the Institution's ability to generate an increase in net assets will be dependent on the combination of increasing operating revenues from sources other than increased bed utilization and constraining or reducing operating expenses to levels consistent with positive operating results. Overall, the Institution remains substantially dependent for revenue growth on higher reimbursement rates from Medicaid and Medicare. In recognition of these revenue constraints, the Institution expects to control expenses sufficiently to enable it to show a positive change in net assets in future years.

Six-Month Interim Period Ended June 30, 2007

For the six-month period ended June 30, 2007, the Institution experienced a loss from operations of \$356,000 compared to a loss from operations of \$30,000 for the six months ending June 30, 2006. Net patient service revenue for the six-month period increased slightly, by approximately 2%, compared to the same term of the prior year as a result of slightly increased reimbursement rates and increased occupancy of approximately 3%.

Total operating expenses increased for the period by \$347,000, approximately 4.4% over the corresponding six-month period in the prior year, due to normal year-to-year increases.

Year Ended December 31, 2006

For the year ended December 31, 2006 there was a loss from operations of \$997,000 compared to a loss from operations of \$813,000 in the prior year. Total operating revenue of \$15.7 million in 2006 represented a decrease of approximately 1.8% from \$16.0 million in the prior year. The decrease in total operating revenue of approximately \$284,000 was due to a reduction of occupancy of 1.8% partially offset by increased reimbursement rates.

Total operating expenses decreased by \$100,000, from \$16.8 million to \$16.7 million or 0.6%, from 2005 to 2006 and was largely attributable to a decrease in general and administrative services expense. These reductions were a result of administrative staffing and consulting expense reductions.

Year Ended December 31, 2005

For the year ended December 31, 2005 there was a loss from operations of \$813,000 compared to a loss from operations of approximately \$1.5 million in the prior year. Total operating revenue of \$16.0 million for 2005 represented an increase of \$1.6 million or approximately 10.8% from \$14.4 million in the prior year. The increase in total operating revenue was largely due to increases in overall occupancy from 2004 and an increase in higher revenue payor mix including an increase, from 8.8% to 11.5%, of total occupancy, in ventilator bed utilization and an increase from 4.7% to 9.4% in Medicare patient days. In addition a one-time statewide increase in the Medicaid rate to pay for increases in direct care salaries and benefits contributed to the increase in revenue.

Total operating expenses increased from \$16.0 million in 2004 to \$16.8 million, representing an increase of approximately \$860,000 or 5.4% from 2004 to 2005. This increase was largely attributable to increases in administrative services expenses of \$258,000, as a result of higher consultant and legal fees and approximately a \$162,000 increase in the New York State Assessment as a result of an increase in the assessment rate effective April 1, 2005 and a 24.3% increase from \$1.33 million to \$1.65 million in employee benefits.

Year Ended December 31, 2004

For year ended December 31, 2004 there was a loss from operations of \$1.5 million compared to a loss from operations of \$1.1 million in the prior year. Total operating revenue of \$14.4 million for 2004 represented an increase of approximately 2.2% from \$14.1 million in the prior year. The increase in total operating revenue was due to somewhat higher per diem rates, offset by a slight decrease in ventilator bed and Medicare payor mix as a percentage of total payor mix and consistent overall occupancy.

Total operating expenses increased by approximately \$704,000 or approximately 4.6% from 2003 to 2004 and were attributable to usual year-to-year increases across most expense categories.

Distribution of Net Patient Service Revenue by Payor Source

The Institution maintains agreements with the New York State Medicaid program and the federal Medicare program, and it also receives payment from commercial insurance carriers for services rendered to residents covered by the carriers and from private pay residents. The following table sets forth the percentage of net patient service revenue by payor source for each year in the three one-year periods ended December 31, 2006:

	Year Ended December 31,		
	2004	2005	2006
Medicaid.....	89.5%	85.6%	80.1%
Medicare.....	6.3%	9.9%	13.5%
Private*.....	4.2%	4.5%	6.4%

** includes private insurance*

Source: The Institution

Government Reimbursement Programs

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

The Institution receives reimbursement payments for residential skilled nursing facility care from Medicaid, Medicare, and the resident’s resources (“private pay”). Medicare, a federal program, pays for residential services for a limited period of time, depending on the medical condition of the patient, frequently in connection with discharge and recovery from a hospital stay. If the patient continues to need residential care, he or she must exhaust private financial resources before applying for Medicaid, a State program.

Medicaid

If a resident is eligible for Medicaid, New York State reimburses the Institution for the care provided such residents under the Resource Utilization Groupings reimbursement methodology (“RUGS”). RUGS is a prospective payment system which pays facilities based upon the case mix of their residents. The case mix is determined through the classification of residents into 16 RUGS categories based upon their specific clinical characteristics and case needs. The facility reimbursement rate is then determined by formulas for evaluating four categories of costs: the direct costs for each RUGS category, indirect costs of providing care based on comparable facilities, non-comparable costs which are reimbursed on a cost basis and capital costs which are reimbursed on a

cost basis subject to limits. As of December 31, 2006, the Institution's average Medicaid daily rate for the Skilled Nursing Facility was \$242. The capital component of the Institution's Medicaid rate will increase by the amount of the additional annual capital-related costs, including interest expenses, associated with the Project. The methodology for determining the operating component of the Institution's Medicaid rate will not change as a result of the Project. Neither the capital cost component nor the operating component of the Institution's Medicaid reimbursement rate will be rebased as a result of the Project.

The Institution also receives a separate Medicaid rate for its ventilator beds which follows the same general methodology as with its other skilled beds; but with an enhanced case mix to recognize the significantly higher direct-care costs associated with ventilator care. As of December 31, 2006, the Institution's average Medicaid daily rate for its ventilator beds was \$552.

Medicare Reimbursement

Effective July 1998, a new Medicare payment system for skilled nursing facilities replaced the cost-based payment methodology with a prospective payment system ("PPS"). Under PPS, skilled nursing facilities are paid a base rate, adjusted for local wages and the patient's clinical characteristics. The average daily Medicare rate paid to the Institution in 2006 was \$408.

Private Pay

The Institution sets a single private pay rate for its residents annually. The rate is determined by a number of factors, including, but not limited to, its Medicaid and Medicare rates and the operating costs of the Institution. The Institution's current private pay rate for the Skilled Nursing Facility is \$300 per day.

Outstanding Indebtedness

Upon the issuance of the Series 2007 Bonds and the refinancing of a commercial loan with the proceeds thereof, the Series 2007 Bonds will be the only long term indebtedness of the Institution.

Litigation

There are no lawsuits or other proceedings pending, or to the knowledge of the officers and Directors of the Institution, threatened which could materially adversely affect the operations or financial condition of the Institution.

PART 10 - THE PROJECT

The Project consists of refinancing of a commercial loan that was incurred by the Institution following the redemption of the Authority's The Concord Nursing Home, Inc. Revenue Bonds, Series 1999 (the "Series 1999 Bonds"), and the payment of certain expenses incurred in connection with the issuance of the Series 2007 Bonds. Proceeds of the Series 1999 Bonds were used (i) to pay the costs of renovations and capital improvements to the Institution's then existing 123 bed nursing facility, (ii) to pay the costs to construct, furnish and equip a 17-bed unit for individuals who are ventilator dependent and to provide additional new space to be used for an Adult Day Health Care Program, and (iii) to refinance the Institution's portion of the outstanding New York State Housing Finance Agency Nursing Home and Health Care Project Revenue Bonds, Series 1998A.

PART 11 - 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. Holders of the Series 2007 Bonds should be aware that other potential risks and factors could adversely affect the Institution's ability to make payments on the Mortgage Note. 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 with respect to the PLC, certain payments under the Agreement, and certain amounts 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 AMORTIZATION PAYMENTS ON THE SERIES 2007 BONDS” due to various factors described therein.

Adequacy of Revenues

While the Institution is obligated under the Agreement to satisfy any deficiency with respect to debt service, the primary security for the Series 2007 Bonds is the PLC and moneys on deposit in various funds and accounts established pursuant to the Resolution. If the Institution defaults on the Mortgage Loan, and it is assigned to FHA, payment by FHA of mortgage insurance benefits will result in a prepayment of the PLC and, consequently, a redemption of all or a portion of the Series 2007 Bonds. There are certain risks which might prevent the Institution from obtaining sufficient revenues to meet all of its obligations, including its obligations under the Mortgage Note and the Agreement. Future revenues and expenses of the Institution are subject to conditions which may change to an extent that cannot be determined at this time. Some of the possible changes in future conditions and other risks are discussed below. This discussion of risk factors is not, and is not intended to be, exhaustive.

Reliance has been placed by the Authority and the Underwriter upon the underwriting criteria utilized by FHA in insuring the Mortgage and as evidence of the adequacy of the Institution’s revenues to maintain the Mortgaged Property and make the payments required under the Mortgage Note and the Mortgage. The Underwriter and the Authority have not made any independent evaluations of such revenues and make no representations as to the adequacy of such revenues to maintain the Project and to make payments required under the Mortgage Note and the Mortgage.

Early Redemption and Loss of Premium

Purchasers of Series 2007 Bonds, including those who purchase a Series 2007 Bond at a price in excess of its principal amount or who hold such a Series 2007 Bond trading at a price in excess of par, should consider the fact that the Series 2007 Bonds are subject to certain early redemptions at a redemption price equal only to their principal amount plus accrued interest to the redemption date without any redemption premium or a premium that may be less than such Holder’s original purchase price or the then market value of the Series 2007 Bonds. This could occur (in addition to those events described in the preceding paragraphs), for example, in the event the Mortgage Note is prepaid as a result of a default, there is a default under the Mortgage, or condemnation or insurance payments with respect to the Project are received, or the PLC is not delivered as currently contemplated. See “PART 3 - THE SERIES 2007 BONDS - Redemption of the Series 2007 Bonds”.

Event of Taxability

If the Institution does not comply with certain covenants set forth in the Agreement or if certain representations or warranties made by the Institution in the Agreement or in certain certificates of the Institution 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 any 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.

Claims and Losses

The operations of the Institution may be affected by increases in the incidence of tort claims against facilities for the aged and care providers in general and by increases in the dollar amount of damage recoveries. These may result in increased insurance premiums and in increased difficulty in obtaining commercial general liability insurance. It is not possible at this time to determine either the extent to which commercial general liability insurance coverage will continue to be available to the Institution or the premiums at which such coverage can be obtained.

Legislation and Regulations Governing Facilities for the Aged

The Institution must comply with federal, state and local regulations as they apply to facilities for the aged. Failure to comply with any federal, state and local regulations may have a material adverse effect on the operations of a facility. In addition, the Institution may be subject to efforts by governmental agencies to limit the cost of services provided by the Institution, to reduce the number of residents and to limit the ability of the Institution to undertake capital improvements to the Project or to provide new services. It is impossible to predict the effect of any such future legislation and regulation on the operations or financial condition of the Institution.

Regulatory Reviews and Audits

The Institution, like other health care institutions, is subject to regulatory review and audit on its governmental reimbursement. Based on the results of such reviews, the Institution may be required to repay previously received reimbursement. One such audit is the Medicare Recovery Audit Contact 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. The states under review for this demonstration project include New York, California and Florida. The Institution cannot determine at this time if it will be the subject of an audit or, if an audit is undertaken, whether it would result in a material repayment obligation.

The New York Attorney General commenced an informal, industry-wide inquiry in 2005 regarding amounts recognized as reserves, however denominated, on the institutional cost report and/or financial statement of New York's nursing facilities and hospitals. 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 Institution.

State Budget

New York State's 2007 – 2008 budget accomplishes the goal of decreasing the growth in statewide Medicaid spending. The enacted budget contains many restorations of cuts that were contained in the proposed budget. See "PART 7 – THE INSTITUTION –Government Reimbursement Programs".

The 2007-08 budget agreed to by Governor Spitzer and the Legislature extends the New York Health Care Reform Act of 1996 ("NYHCRA") through March 31, 2008. NYHCRA created a system of state-imposed assessments and surcharges on various categories of third party payors for healthcare services that fund annual state-operated pools for indigent care, healthcare initiatives, and professional education. Other funding for NYHCRA stems from conversion proceeds generated by the privatization of Empire Blue Cross/Blue Shield and revenues from cigarette taxes. The indigent care pool funds are allocated for distributions among hospitals on a formula basis to offset some of the costs of uncompensated hospital inpatient and outpatient care. The healthcare initiatives pool funds are allocated for numerous projects, including funding for subsidized healthcare insurance programs. The professional educational pool funds are allocated for distributions among hospitals with graduate medical education teaching programs to supplement reimbursement such teaching hospitals receive from non-Medicare and non-Medicaid managed care organizations. Members of the Obligated Group receive significant payments from such pools, and no assurances can be given that substantial changes in these programs will not occur subsequent to NYHCRA's expiration, nor that payments subsequent to its expiration will remain at levels comparable to the present level.

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the Legislature authorized the creation of a "Commission on Health Care Facilities in the Twenty-First Century" charged with studying the State's hospital and nursing home systems and making recommendations for closure, resizing, conversion, consolidation and restructuring. The Commission (commonly referred to as the "Berger Commission") was chaired by Stephen Berger, Chairman of Odyssey Investment Partners, LLC and former New York State Commissioner of Social Services. It was comprised of 18 statewide commissioners and six regional commissioners from each of the six regions in the State (Long Island, New York City, Hudson Valley, Northern, Central, and Western). In making recommendations, the Berger Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors as determined by the Commissioner of Health or the Berger Commission. In its final report released on November 28, 2006 (the "Final Report"), the Berger Commission's recommendations targeted nearly 50 hospitals for restructuring and nine hospitals for closure. If and when the recommendations are fully implemented, the Berger 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 Berger 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 set forth in the Final Report 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 Berger Commission, which, if successful, could affect implementation of some or all of the recommendations set forth in the Final Report.

Increased Costs and State-Regulated Reimbursement

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

The State has adopted for Medicaid, workers' compensation and no-fault insurance an inpatient hospital reimbursement system similar to the Medicare system. The financial viability of all health care facilities in the State is dependent, in part, upon, among other things, the ability and willingness of the State Legislature and the State Department of Health to establish reimbursement rates under this hospital reimbursement system sufficient to reimburse the Institutions at appropriate levels to meet their obligations. In recent years, a number of proposals to further limit or restrict the amounts provided for financing health care have been discussed and a number of related bills have been introduced in the State Legislature. In the future, similar proposals and bills, which could have an adverse impact on health care financing, may be adopted by the State Legislature.

Environmental Laws and Regulations

Providers of facilities for the aged are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. Among the type of regulatory requirements faced by such entities are (i) air and water quality control requirements, (ii) waste management requirements, (iii) specific regulatory requirements applicable to asbestos and polychlorinated biphenyls and (iv) requirements for providing sanitary conditions.

In its role as the owner and operator of facilities for the aged, the Institution may be subject to liability for investigating and remedying any hazardous substances that may have migrated off its property. As such, facilities for the aged operators are susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. There is no assurance that the Institution will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Institution.

At the present time, management of the Institution is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Institution, would have a material adverse effect on its operations or financial condition.

Possible Changes in Tax Status

As a non-profit tax-exempt organization, the Institution is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. 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 Internal Revenue Service, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

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 Institution's ability to finance its future capital needs and could have other adverse effects on the Institution that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Institution by requiring it to pay income taxes.

Enforceability of Remedies; Bankruptcy

The Series 2007 Bonds are payable and secured as described herein. The practical realization of value from the collateral described therein upon any default will depend upon the exercise of various remedies specified by the Agreement and the Mortgage. 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 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 Institution were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against that Institution and its property, including the commencement of a foreclosure proceeding under the Mortgage. The Institution would not be permitted or required to make payments of principal or interest under the Agreement and Mortgage 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 Resolutions from being applied in accordance with the provisions of the Resolution, including the application of such amounts to the payment of principal 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 Institution, which could affect the likelihood or timing

of obtaining such relief. The automatic stay may also extinguish the Mortgage Banker's continuing security interest arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Mortgage Banker or the Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Institution under the Mortgage Note and Agreement.

Labor Matters

Workforce shortages are affecting healthcare organizations at the local, regional and national level, in part due to the fact that a smaller number of students are considering careers in nursing and the allied health professions than in the past. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Institution's ability to control costs and its financial performance.

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

Health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals, nursing homes and other providers are becoming unionized, and many providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Institution. See "PART 9 - THE INSTITUTION" under the caption "Professional Staff and Other Employees".

Malpractice Insurance; Insurance

In recent years the number of malpractice lawsuits and the dollar amount of patient recoveries have increased nationwide, resulting in increases of insurance premiums. In some areas of the country malpractice insurance may not continue to be available, or it may only be available at such great cost as to render such insurance economically unavailable. Accordingly, although the Institution believes that the proposed coverage for the project facility will be adequate, there can be no assurance that the Institution will continue to be adequately insured. To the extent that insurance coverage maintained by the Institution is inadequate to cover judgments against it, the Institution will be forced to discharge such claims from its own funds. The Institution is not aware of any malpractice or other claims against it as of the date hereof in excess of insurance coverage or that would have a material adverse impact on the ability of the Institution to meet its obligations with respect to the Mortgage Note or which could materially adversely affect the operations or financial condition of the Institution.

Cost Increases

Cost increases without corresponding increases in revenue may result from, among other factors, increases in the salaries, wages and fringe benefits to employees, increases in costs associated with advances in medical technology or with inflation and future legislation which may prevent or limit the ability of the Institution to increase revenues from operating the facility.

Loss of Operating License

The New York State Department of Health could fail to renew the Institution's operating license.

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of the Institution:

1. Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies, energy and other expenses, given an inability to obtain corresponding increases in revenues;
2. Unionization, employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues;
3. Inability to control the diminution of residents' assets or insurance coverage with the result that the residents' charges are paid from governmental programs rather than private payments;
4. Litigation with contractors, residents, suppliers, and state or local governmental bodies; or
5. A shortage of qualified personnel.

PART 12 - 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 September 30, 2007, the Authority had approximately \$34.5 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority’s bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

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

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

Public Programs	Bonds Issued	Bonds Outstanding	Bonds and Notes Outstanding	Notes Outstanding
State University of New York				
Dormitory Facilities	\$2,120,821,000	\$873,355,000	\$ 0	\$873,355,000
State University of New York Educational and Athletic Facilities.....	11,757,912,999	5,062,203,960	0	5,062,203,960
Upstate Community Colleges of the State University of New York	1,392,050,000	592,935,000	0	592,935,000
Senior Colleges of the City University of New York.....	8,609,563,549	3,005,421,270	0	3,005,421,270
Community Colleges of the City University of New York.....	2,194,081,563	529,738,730	0	529,738,730
BOCES and School Districts	1,641,101,208	1,241,420,000	0	1,241,420,000
Judicial Facilities	2,161,277,717	738,632,717	0	738,632,717
New York State Departments of Health and Education and Other	3,318,115,000	2,107,400,000	0	2,107,400,000
Mental Health Services Facilities	5,682,130,000	3,671,255,000	0	3,671,255,000
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>	0	<u>827,890,000</u>
Totals Public Programs	<u>\$40,564,423,036</u>	<u>\$18,650,251,677</u>	0	<u>\$18,650,251,677</u>

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Notes Outstanding
Independent Colleges, Universities and Other Institutions	\$14,781,041,020	\$6,985,083,940	\$128,675,000	\$7,113,758,940
Voluntary Non-Profit Hospitals	12,398,189,309	7,655,195,000	0	7,655,195,000
Facilities for the Aged.....	1,960,585,000	1,042,950,000	0	1,042,950,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs.....	<u>\$29,234,815,329</u>	<u>\$15,683,228,940</u>	<u>\$128,675,000</u>	<u>\$15,811,903,940</u>
Grand Totals Bonds and Notes	<u>\$69,799,238,365</u>	<u>\$34,333,480,617</u>	<u>\$128,675,000</u>	<u>\$34,462,155,617</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At September 30, 2007, the Agency had approximately \$580 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 September 30, 2007 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding
Mental Health Services Improvement Facilities.....	\$3,817,230,725	\$ 0
Non-Public Programs	Bonds Issued	Bonds Outstanding
Hospital and Nursing Home Project Bond Program.....	\$ 226,230,000	\$ 3,930,000
Insured Mortgage Programs	6,625,079,927	541,824,927
Revenue Bonds, Secured Loan and Other Programs.....	2,414,240,000	34,635,000
Total Non-Public Programs.....	9,265,549,927	580,389,927
Total MCFFA Outstanding Debt.....	<u>\$13,082,780,652</u>	<u>\$580,389,927</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 expired on August 31, 2007 and by law he continues to serve until a successor shall be chosen and qualified.

SANDRA M. SHAPARD, Delmar.

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

ROMAN B. HEDGES, Delmar.

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

KEVIN R. CARLISLE, Averill Park.

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

Mr. Carlisle earned both a Bachelor's degree in Economics and a Master's degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

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

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

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

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

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

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

The principal staff of the Authority is as follows:

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

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

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

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

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

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

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

Claims and Litigation

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

Other Matters

New York State Public Authorities Control Board

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

Legislation

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

Environmental Quality Review

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

Independent Auditors

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

PART 13 - TAX MATTERS

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, and assuming compliance with the representations, certifications and covenants described in the immediately succeeding paragraph, interest on the Series 2007 Bonds is not included in gross income for federal income tax purposes. Furthermore, Bond Counsel is of the opinion that interest on the Series 2007 Bonds is not an “item of tax preference” for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2007 Bonds is included in “adjusted current earnings” for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Corporate purchasers of the Series 2007 Bonds should consult their tax advisors regarding the computation of any alternative minimum tax.

The Code establishes certain requirements which must be met at the time of, 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 included in gross income 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 bond proceeds and other moneys or properties, required ownership of a facility by an organization described in Section 501(c)(3) of the Code or a governmental unit, and the rebate to the United States of certain earnings in respect of investments. Noncompliance with such continuing requirements may cause the interest on the Series 2007 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007 Bonds irrespective of the date on which such noncompliance occurs. In the Resolution and the Agreement and accompanying documents, exhibits and certificates, the Authority and the Institution have made certain representations and certifications, and have covenanted to comply with certain procedures, designed to assure compliance with the requirements of the Code. In rendering the above-described opinion, Bond Counsel has assumed the accuracy of such representations and certifications and the continuing compliance by the Authority and the Institution with such covenants.

The Series 2007 Bonds maturing on February 15, 2030 (the “Premium Bonds”) are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner’s original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

Bond Counsel is also of the opinion that, under existing statutes, including the Act, interest on the Series 2007 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof.

Bond Counsel expresses no opinion regarding any other federal or state and local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2007 Bonds. The proposed form of the approving opinion of Bond Counsel is attached to this Official Statement as Appendix E.

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the Series 2007 Bonds should be aware that the accrual or receipt of tax-exempt interest on the Series 2007 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of collateral federal income tax consequences of acquiring or holding the Series 2007 Bonds include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the Series 2007 Bonds, (ii) interest on the Series 2007 Bonds earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the Series 2007 Bonds, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2007 Bonds. In addition, the Code denies the interest deduction for indebtedness incurred or continued by a taxpayer, including without limitation, banks, thrift institutions, and certain other financial institutions to purchase or carry tax-exempt obligations, such as the Series 2007 Bonds. All prospective purchasers of the Series 2007 Bonds should consult with their tax advisors in order to understand the implications of the Code as to these and other federal and state tax consequences, as well as any local tax consequences, of purchasing or holding the Series 2007 Bonds.

Certain requirements and procedures contained or referred to in the General Resolution and other relevant documents may be changed, and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Series 2007 Bond or the interest thereon if any such change occurs or actions are taken upon the advice or approval of bond counsel other than Harris Beach PLLC.

Other Considerations

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 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, regulations, administrative rulings, or court decisions, 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. Further no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decisions or 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 or marketability of the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding the forgoing matters.

On May 21, 2007, the United States Supreme Court agreed to review the decision of the Court of Appeals of Kentucky in *Davis v. Kentucky Dep't Of Revenue of the Finance and Admin. Cabinet*, 97S.W.3d557 (2007), which held that the United States Constitution prohibits disparate state tax treatment of interest on obligations issued by the State of Kentucky or its political subdivisions and obligations issued by other states or their

political subdivisions. If the Kentucky decision is affirmed by the United States Supreme Court, a state, including New York State, could be required to eliminate any disparity between the tax treatment of obligations issued by such state and its political subdivisions or instrumentalities and the tax treatment of obligations issued by other states and their respective political subdivisions or instrumentalities.

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

PART 14 - 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 Resolution and in the Series 2007 Bonds.

PART 15 - RATING

The Series 2007 Bonds are expected to be rated “AAA” by Standard and Poor’s Rating Services (“S&P”). An explanation of the significance of such rating should be obtained from S&P. There is no assurance that such rating will prevail for any given period of time or that such rating will not be changed or withdrawn by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2007 Bonds.

PART 16 - STATE, GNMA, HUD 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 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 Government National Mortgage Association, the Department of Housing and Urban Development or FHA.

PART 17 - COVENANT BY THE STATE

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

PART 18 - 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 Harris Beach PLLC, Bond Counsel, whose approving opinion will be delivered with the Series 2007 Bonds. The proposed form of Bond Counsel’s opinion is set forth in Appendix E hereto.

Certain legal matters will be passed upon for the Institution by its counsel, Windels Marx Lane & Mittendorf, LLP, for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, and for the Mortgage Banker by its counsel, Byrne Costello & Pickard, P.C.

There is not now pending any litigation seeking to restrain or enjoin 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 Resolution and the Agreement.

PART 19 - UNDERWRITING

Cain Brothers & Company LLC, as the Underwriter with respect to the issuance of the Series 2007 Bonds, has agreed, subject to certain conditions, to purchase the Series 2007 Bonds from the Authority at an aggregate purchase price of par 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 Underwriter will be obligated to purchase all such Series 2007 Bonds if any are purchased. The Underwriter will be receiving an underwriting fee of \$220,542 for its services.

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

PART 20 - CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the Institution has undertaken in a written 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 of its fiscal years, commencing December 31, 2007, for filing by DAC with each Nationally Recognized Municipal Securities Information Repository (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 9 — THE INSTITUTION” of this Official Statement (the “Annual Information”), together with the Institution’s annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted accounting standards; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to each Repository and to the State Information Depository when they become available.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Institution, DAC has undertaken in the Continuing Disclosure Agreement, on behalf of and as agent for the Institution and the Authority, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from the Institution, with each such Repository and to the State Information Depository. In addition, the Authority has undertaken, for the benefit of the Bondholders, to provide to DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 described below (the “Notices”). Upon receipt of Notices from the Authority, DAC will file the Notices to each such Repository or to the Municipal Securities Rulemaking Board (the “MSRB”), and to the State Information Depository, in a timely manner. With respect to the Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Institution has provided such information to DAC as required by the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by the Institution or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Institution, the

Holders of the Bonds or any other party. DAC has no responsibility for the Authority's failure to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Institution or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Institution and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement.

The Annual Information means annual information concerning the Institution which consists of financial and operating data of the type included in this Official Statement for the Institution, which shall include information as described in "PART 9 — THE INSTITUTION" herein relating to the following: (i) utilization statistics of the type set forth under the heading "Selected Utilization Data"; (ii) revenue and expense data of the type set forth under the headings "Financial Statements" and "Management Discussion of Financial Performance"; and (iii) sources of patient service revenue of the type set forth under the heading "Distribution of Net Patient Service Revenue by Payor Source".

The Notices include notices of any of the following events 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, for the benefit of the Holders of the Series 2007 Bonds, to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the Institution to provide the Annual Information and annual financial statements by the date required in the Institution's undertaking described above.

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

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

PART 21 - LEGALITY OF THE SERIES 2007 BONDS FOR INVESTMENT AND DEPOSIT

Under New York 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, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the Series 2007 Bonds.

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CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution or the Agreement and used in this Official Statement.

“Acquisition Account” means the account so authorized to be created in the Applicable Bond Proceeds Fund pursuant to the Resolution and so designated, created and established by the Applicable Series Resolution;

“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 of the State, as amended);

“Agreement” means each such Agreement to be executed by and among the Authority, the Institution and the Applicable Mortgage Banker, relating, among other matters, to the acquisition and sale of the Applicable GNMA Securities, to the making of loans to the Institution for the financing of the costs related to providing a Project and the security therefor and to the payment of certain fees and expenses;

“Amortization Payment” means, for any Bond Year, the principal amount initially set forth in a Bond Series Certificate to be payable for such Bond Year for the retirement of Term Bonds by redemption at par, as each such initially determined Amortization Payment may thereafter be adjusted and Bonds redeemed in accordance with the Resolution;

“Annual Administrative Fee” means an annual fee for the general administrative expenses and charges of the Authority in the amount or percentage and payable as stated in each Agreement;

“Applicable” means (i) with respect to any Bond Proceeds Fund, Acquisition Account, GNMA Securities Account, Interest Escrow Account, Arbitrage Rebate Fund, Expense Fund, Debt Service Fund, Debt Service Account, Equity Fund, Collateral Account or Redemption Account, 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 Collateral Account Requirement, the said Requirement established in connection with a Series of Bonds by the Resolution, the Applicable Series Resolution or the Applicable Bond Series Certificate, (iii) with respect to any Interest Escrow Account Requirement, the said Requirement established in connection with a Series of Bonds by the Resolution, the Applicable Series Resolution or the Applicable Bond Series Certificate, (iv) with respect to any Series Resolution, the Series Resolution relating to a particular Project, (v) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project for the Institution, (vi) with respect to any Agreement or the Building Loan Agreement, the Agreement or the Building Loan Agreement entered into relating to a particular Project for the Institution, (vii) 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, (viii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution, (ix) with respect to any Project, the Project being financed in connection with the issuance of a particular Series of Bonds, (x) with respect to any Supplemental Resolution, any such Resolution supplementing a particular Series Resolution, (xi) with respect to a Mortgage Banker, the Mortgage Banker identified in the Applicable Series Resolution, (xii) with respect to any GNMA Securities or Permitted Investments, the GNMA Securities or Permitted Investments pledged in connection with an Applicable Series of Bonds and (xiii) with respect to any PLC Delivery Date or CLC Maturity Date, such date designated for the Applicable GNMA Securities;

“Arbitrage Rebate Fund” means each such fund so authorized to be created by the Resolution and so designated, created and established by the Applicable Series Resolution;

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

“Authority Fee” means a fee payable to the Authority in connection with the issuance of a Series of Bonds in an amount and payable as set forth in the Applicable Agreement;

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

“Authorized Officer” means: (i) in the case of the Authority, the Chair, the Vice Chair, the Secretary and Assistant Secretaries, the Treasurer and Assistant Treasurers, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Construction, the Managing Director of Policy and Program Development, and the General Counsel, and, when used with reference to any act or document, any other person authorized by resolution or the by-laws of the Authority to perform such act or sign such document; (ii) in the case of the Institution, the Executive Director, the Chairperson, the President, any Vice President, the Secretary or the Treasurer of the Institution, and when used with reference to any act or document, any other person authorized by resolution of the Board of Trustees or the by-laws of the Institution, to perform such act or sign such document; (iii) in the case of a Mortgage Banker, the President, Executive Vice-President, any Senior Vice-President or any Vice-President or any other officer of the Mortgage Banker so designated in an Agreement and, when used with reference to any act or document, any other person authorized by resolution of the Board of Directors of such Mortgage Banker or the by-laws of the Mortgage Banker to perform such act or sign such document; and (iv) in the case of the Trustee, the President, any Vice President, any Assistant Vice President, any Trust Officer, any Assistant Secretary or any Assistant Trust Officer and, when used with reference to any act or document, any other person authorized to perform such act or sign such document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee;

“Available Moneys” means (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 Applicable Redemption Account or the Applicable Debt Service Account of the Debt Service Fund, (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/or interest on a Series of Bonds and sold to any party other than the Institution, its affiliates or any Insider (as such term is defined for Federal bankruptcy law purposes), (iii) moneys which have been on deposit in a separate subaccount with the Trustee, for a period of not less than at least one hundred twenty-three (123) consecutive 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, as amended from time to time, and no petition has been filed by or against the Authority or 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) any payments made in repayment of the GNMA Securities, (v) proceeds from the sale of a Series of Bonds by the Authority, provided the Institution has not purchased any Bonds of such Series upon original issuance, and (vi) all other amounts on deposit in any such Fund or Account as to which the 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 of the Institution or the Authority;

“Bond” or *“Bonds”* means any of the bonds of the Authority authorized and issued pursuant to the Resolution and to a Series Resolution;

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

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

“Bond Payment Date” means the dates established in a Bond Series Certificate on which interest, principal or Amortization Payments are due on the Applicable Series of Bonds;

“Bond Proceeds Fund” means each the fund so authorized to be created by the Resolution and so designated, created and established by the Applicable Series Resolution;

“Bond Series Certificate” means a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds of a Series in accordance with the delegation of power to do so under the Resolution or an Applicable Series Resolution;

“Bond Year” means a period of twelve consecutive months beginning on February 15 of any year and ending on February 14 of the next year, provided that the first Bond Year shall be the period beginning on the date of delivery of the Bonds and ending on the next succeeding February 14, unless otherwise provided in a Series Resolution or Bond Series Certificate;

“*Building Loan Agreement*” means the agreement, if any, by and between the Institution and the Applicable Mortgage Banker providing for the loan of moneys to the Institution for a Project, as the same may be amended;

“*Capital Addition*” means, with respect to an Applicable Series of Bonds, any capital addition to or capital enhancement of a Project, all or a portion of which was financed with proceeds of such Series of Bonds;

“*Cash Flow Statement*” means a cash flow analysis prepared by a Financial Consultant and approved by the Authority and provided to the Trustee, which demonstrates that amounts available to pay principal of, interest on and Amortization Payments of the Applicable Series of Bonds will be sufficient in each succeeding Bond Year to pay principal of and interest on all such Series of Bonds Outstanding coming due in such Bond Year and all annual fees and expenses of the Authority, the Trustee and the Applicable Mortgage Banker, and which includes all fundamental assumptions used in reaching such conclusions;

“*CLC*” means a fully modified pass-through mortgage-backed security in the form of a construction loan certificate that is issued by the Mortgage Banker prior to Final Endorsement which is (a) guaranteed by GNMA as to timely payment of interest only until maturity and timely payment of principal at maturity pursuant to Section 306(g) of the National Housing Act and the regulations promulgated thereunder, and (b) acquired by the Trustee, on behalf of the Authority, in the name of the Trustee as registered owner, in accordance with the provisions of and the manner set forth in the Agreement and in the Resolution;

“*CLC Maturity Date*” means the date, if any, specified in the Applicable Series Resolution or the Applicable Bond Series Certificate or such later date as may be permitted by the provisions of the Resolution;

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

“*Collateral Account*” means the account so authorized to be created in the Applicable Debt Service Fund pursuant to the Resolution and so designated, created 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 each Series of Bonds, initially such amount as shall be specified in the Bond Series Certificate and thereafter as of each calculation date, the amount, if any, by which (a) the aggregate principal amount of Bonds of the Applicable Series Outstanding plus an additional amount, if any, specified in the Applicable Bond Series Certificate, exceeds (b) the sum of (y) the principal amount of Applicable GNMA Securities on deposit in the Applicable GNMA Securities Account, and (z) the sum of amounts on deposit in the Applicable Acquisition Account, the Applicable Debt Service Account, but only amounts on deposit therein to be used for purposes of paying principal or Applicable Amortization Payments on such Bonds as determined in the then current Cash Flow Statement, and the Applicable Redemption Account (excluding, in each case, accrued interest on any investments in such funds);

“*Commencement of Amortization*” means the date established in the Applicable Mortgage Note on which the Institution will begin to repay principal on the Mortgage Loan as such date may be extended in accordance with the provisions of the Resolution;

“*Cost*” or “*Costs of the Project*” means costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with each Project or Capital Addition, including, but not limited to, (i) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project or a Capital Addition, (ii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project or a Capital Addition, which is not paid by a contractor or otherwise provided for, (iii) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of the Project or a Capital Addition, (iv) costs and expenses required for the acquisition and installation of equipment or machinery, (v) costs and expenses of the acquisition of the title or other interests in real property, including, but not limited to, easements, licenses and rights-of-way, (vi) all other costs which the Institution shall be required to pay for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project or a Capital Addition, (vii) any sums required to reimburse the Institution or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project or a Capital Addition (including interest on moneys borrowed from parties other than the Institution), (viii) interest on the Bonds prior to, during and for a reasonable period after the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of the Project or a Capital Addition, (ix) the costs and

expenses incurred in connection with the refinancing of any outstanding indebtedness constituting a lien on the Project or a Capital Addition, (x) costs and expenses incurred in connection with the issuance of the Applicable Series of Bonds, incurring the Mortgage Loan and providing for the issuance and delivery of the Applicable GNMA Securities; and (xi) fees, expenses and liabilities of the Authority incurred in connection with the Project, a Capital Addition or pursuant to the Applicable Agreement or the Resolution;

“Debt Service Account” means the account so authorized to be created in the Applicable Debt Service Fund pursuant to the Resolution and so designated, created and established by the Applicable Series Resolution;

“Debt Service Fund” means the fund so authorized to be created by the Resolution and so designated, created and established by the Applicable Series Resolution;

“Defeasance Security” means (a) a Government Obligation of the type described in clauses (i), (ii) or (iii) of the definition of Government Obligations, (b) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations, except that such Federal Agency Obligations shall be rated by at least two Rating Services (or other nationally recognized rating services) in the highest long-term rating category of such Rating Services and (c) an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the 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 maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two nationally recognized rating services, including any Rating Services, in the highest rating category for such Exempt Obligation; provided, however, that such term shall not include any interest in a unit investment trust or mutual fund;

“Equity Fund” means the fund so authorized to be created by the Resolution and so designated, created and established by the Applicable Series Resolution;

“Excess Earnings” means, with respect to a Series of Bonds, (i) the amount by which the earnings on the Gross Proceeds of such Series of the Bonds exceeds the amount which would have been earned thereon if such Gross Proceeds were invested at a yield equal to the yield on such Series of Bonds, as such yield is determined in accordance with the Code and (ii) amounts earned on the investment of such excess;

“Exempt Obligation” means (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, meets the Minimum Rating Criteria and (ii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations; which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, such obligations meet the Minimum Rating Criteria for at least two Rating Services;

“Expense Fund” means the fund so authorized to be created by the Resolution and so designated, created and established by the Applicable Series Resolution;

“Expense Fund Requirement” means the amount established in the applicable Bond Series Certificate;

“Federal Agency Obligation” means (i) an obligation issued by any agency or instrumentality of the United States of America, approved by the Authority, and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, meets the Minimum Rating Criteria, (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by any agency or instrumentality of the United States of America, approved by the Authority, and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, meets the Minimum Rating Criteria, (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 Secretary of Housing and Urban Development of the United States, acting by and through the Federal Housing Commissioner, his agents or an authorized representative;

“*FHA Commitment*” means, with respect to a Series of Bonds, the commitment issued by FHA to the Applicable Mortgage Banker, as the same may be amended, to insure the Insured Loan in accordance with FHA rules and regulations;

“*FHA Documents*” means, with respect to a Series of Bonds, the Mortgage Note, the Mortgage, the Regulatory Agreement, the Building Loan Agreement, if any, as well as any security agreement and all other documents required in connection with the endorsement of a Mortgage Note for FHA Insurance;

“*FHA Insurance*” means the insurance provided by FHA with respect to a Mortgage Note;

“*Final Endorsement*” means the final endorsement of a Mortgage Note for FHA Insurance under the National Housing Act;

“*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 or GNMA collateralized tax-exempt financings similar to the Bonds;

“*GNMA*” means the Government National Mortgage Association, a corporate instrumentality of the United States of America within the Department of Housing and Urban Development, and any successor or other agency or instrumentality of the United States which is authorized by federal law to guarantee the payment of GNMA Securities and whose guarantees are secured by the pledge of the full faith and credit of the United States;

“*GNMA Guaranty Agreement*” means any one or more Guaranty Agreements entered into, or to be entered into, between each Mortgage Banker and GNMA relating to the Applicable GNMA Securities, and any modification or amendment to such agreements;

“*GNMA Securities*” means, as the context may indicate, CLCs or the PLC issued by the Mortgage Banker pursuant to Section 306(g) of the National Housing Act to finance the Applicable Project in accordance with the Applicable Agreement and the Applicable FHA Documents, which Mortgage Loan is insured by FHA;

“*GNMA Securities Account*” means the account so authorized to be created in the Applicable Bond Proceeds Fund pursuant to the Resolution and so designated, created and established by the Applicable Series Resolution;

“*Government Obligation*” means (i) an obligation issued by 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) 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;

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

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

“*Initial Endorsement*” means the initial endorsement of a Mortgage Note for FHA Insurance pursuant to the FHA Commitment;

“*Institution*” means the private, not-for-profit corporation, duly incorporated and existing under the laws of the State of New York, the corporate name of which is Concord Nursing Home, Inc., and any duly qualified successor thereto;

“*Insured Loan*” means a loan of moneys made to the Institution from time to time evidenced by the Applicable Mortgage Note and secured by the Applicable Mortgage;

“*Interest Escrow Account*” means the account so designated, created and established in the Applicable Bond Proceeds Fund pursuant to the Resolution and the Applicable Series Resolution;

“*Interest Escrow Account Requirement*” means such amount as shall be initially determined by the Authority in the Applicable Bond Series Certificate and, as of any date of determination thereafter, the aggregate of the difference for the period from the date of determination to the Interest Payment Date next succeeding the then anticipated Applicable PLC Delivery Date between (A) the sum of (1) the interest payable on Applicable CLCs then on deposit in the Applicable GNMA Securities Account or to be delivered in connection with the initial advance under the Mortgage Loan, (2) the earnings to be realized on any Applicable Permitted Investments then held in the Applicable Acquisition Account and (3) amounts then on deposit in the Applicable Debt Service Account and (B) the sum of the interest to accrue on the Bonds of the Applicable Series to such date;

“*Interest Escrow Period*” means the period between the date commencing with the delivery of a Series of Bonds and ending on the date when the Applicable Interest Escrow Account Requirement is \$-0-;

“*Interest Payment Date*” means the dates set forth in the Applicable Series Resolution or Bond Series Certificate for the payment of interest on a Applicable Series of Bonds;

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

“*Letter of Credit*” means one or more irrevocable letters of credit issued in favor of the Trustee for deposit in the Applicable Interest Escrow Account or the Applicable Collateral Account which is issued by a Qualified Financial Institution in the respective amount specified in the Bond Series Certificate;

“*Minimum Rating Criteria*” means the rating by the Rating Services, (i) with respect to an entity to which the term is being applied, the rating accorded to the entity’s senior unsecured obligations or claims paying ability on its letters of credit or financial guaranty contracts or (ii) with respect to an obligation to which the term is being applied, that shall be no lower than the second highest rating category of such Rating Services without regard to subcategory designations;

“*Mortgage*” means the mortgage granted by the Institution on a Project, granting a lien on the mortgaged property, as security for the payment of the Applicable Mortgage Note, as such Mortgage may be amended;

“*Mortgage Banker*” means any corporation which may be appointed to act as Mortgage Banker pursuant to the Applicable Series Resolution; provided that each such corporation or its successor is, and continues to be, duly qualified to act as a mortgagee under the FHA Insurance program and to issue and service GNMA Securities and further provided that such corporation agrees to all liabilities and all responsibilities of the Mortgage Banker required pursuant to the terms of the Applicable Agreement, the GNMA Guaranty Agreement, the other applicable FHA Documents and documents related thereto;

“*Mortgage Loan*” means the loan made to the Institution by a Mortgage Banker in connection with the issuance of Bonds in order to finance a Project;

“*Mortgage Note*” means the note delivered by the Institution evidencing the Insured Loan, which note is insured by FHA Insurance;

“*National Housing Act*” means the National Housing Act of 1934, as amended;

“*Outstanding*” means, as of any date of determination thereof, all Bonds of a Series authenticated and delivered under the Resolution and the Applicable Series Resolution except: (i) any Bond cancelled by the Trustee at or before such date; (ii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; and (iii) any Bond deemed paid under the provisions of the Resolution;

“*Pass-Through Rate*” means the interest rate on the GNMA Securities;

“*Permitted Collateral*” means (i) Government Obligations described in clauses (i) or (ii) of the definition of Government Obligations, (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations, (iii) commercial paper that is (a) issued by a domestic corporation whose unsecured senior debt meets the

Minimum Rating Criteria, (b) rated in the highest short term rating category by the Rating Services, and (c) matures within two hundred seventy (270) days after its date of issuance, or (iv) contracts of financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company whose unsecured senior debt or claims paying ability meets the Minimum Rating Criteria;

“Permitted Investments” means any of the following:

- (i) Government Obligations;
- (ii) Federal Agency Obligations;
- (iii) Exempt Obligations;
- (iv) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;
- (v) Collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured or uncollateralized long term debt obligations, or obligations fully secured by a letter of credit, contract, agreement or surety bond issued by it, meet the Minimum Rating Criteria, and (b) are fully collateralized by Permitted Collateral; and
- (vi) Investment Agreements that are fully collateralized by Permitted Collateral;

“PLC” means a fully modified pass-through mortgage-backed security in the form of a permanent loan certificate issued by the Mortgage Banker at or after Final Endorsement which is (a) guaranteed by GNMA as to timely payment of principal and interest pursuant to Section 306(g) of the National Housing Act and the regulations promulgated thereunder, and (b) acquired by the Trustee on behalf of the Authority, in the name of the Trustee as registered owner;

“PLC Delivery Date” means the date initially established in the Applicable Agreement, as the same may be extended pursuant to the Resolution;

“Project” means the financing or refinancing of the facilities and improvements described in the Agreement;

“Project Account” means the account so authorized to be created in the Applicable Bond Proceeds Fund pursuant to the Resolution and so designated, created and established by the Applicable Series Resolution;

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

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured debt at the time an investment with it is made meets the Minimum Rating Criteria;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, or an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, in each such case, whose senior unsecured debt at the time an investment with it is made meets the Minimum Rating Criteria;

(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 debt at the time an investment with it is made meets the Minimum Rating Criteria;

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

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meets the Minimum Rating Criteria;

“Rating Services” means Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services, and/or Fitch Ratings, as the case may be, which has assigned a rating to an Applicable Series of Bonds at the request of the Authority, or their respective successors and assigns;

“Record Date” means, unless the Series Resolution or a Bond Series Certificate authorizing a Series of Bonds provides otherwise, the fifteenth (15th) day (whether or not a business day) of the calendar month which immediately precedes an Interest Payment Date;

“Redemption Account” means the account so authorized to be created in the Debt Service Fund by the Resolution and so designated, created and established by the Applicable Series Resolution;

“Regulatory Agreement” means the Regulatory Agreement between the Institution and FHA relating to the operation of a Project and the insuring by FHA of advances of funds secured by a Mortgage;

“Repositories” means the “nationally recognized municipal securities information repositories,” as such term is used in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, or similar term under any successor rule;

“Resolution” means the Bond Resolution of the Authority authorizing the Bonds as the same may from time to time be amended or supplemented by a Supplemental Resolution or Resolutions;

“Serial Bonds” means all Bonds which are determined by the Bond Series Certificate to mature on a certain date and which are not subject to redemption prior to maturity by the payment of Amortization Payments;

“Series” means all of the Bonds authenticated and delivered pursuant to the Resolution and applicable Series Resolution or applicable Bond Series Certificate authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Amortization Payments, or other provisions;

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

“Series 2007 Bonds” means the Authority’s GNMA Collateralized Revenue Bonds (Concord Nursing Home, Inc. Project) Revenue Bonds, Series 2007, authorized to be issued under the Resolution and the Authority’s Series 2007 Resolution Authorizing Up To \$20,000,000 Series 2007 Bonds, adopted July 25, 2007;

“State” means the State of New York;

“Supplemental Resolution” means any resolution of the Authority amending or supplementing the Resolution, any Supplemental Resolution, any Series Resolution or the Bonds, adopted and becoming effective in accordance with the terms of the Resolution;

“Term Bonds” means all Bonds which are determined by the Bond Series Certificate to mature on a certain date and which are subject to redemption prior to maturity by the payment of Amortization Payments, it being determined that such Certificate may provide for one or more maturities of Term Bonds; and

“Trustee’s Annual Fee” means the annual fee charged by the Trustee for performance of certain of its obligations hereunder covering the normal administration of the trust, including the maintenance of the trustee’s records and the duties and functions of the Trustee under the provisions of the Resolution.

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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Concord Nursing and Rehabilitation Center, Inc.

Financial Statements

December 31, 2006 and 2005

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Independent Auditors' Report

The Board of Supervisors Concord Nursing and Rehabilitation Center, Inc.

We have audited the accompanying statements of financial position of Concord Nursing and Rehabilitation Center, Inc. (the Center) as of December 31, 2006 and 2005 and the related statements of operations and changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Center'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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Center'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, as well as 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 Concord Nursing and Rehabilitation Center, Inc. as of December 31, 2006 and 2005 and the results of its operations, changes in its net assets (deficiency) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

Harrison, New York
July 20, 2007

Concord Nursing and Rehabilitation Center, Inc.

Statements of Financial Position

December 31,

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 850,211	\$ 851,084
Assets limited as to use, current portion	470,000	435,000
Accounts receivable, net	3,488,894	2,508,382
Due from third party payors	194,073	198,503
Inventory	23,561	23,561
Prepaid expenses and other current assets	170,635	94,538
Restricted cash, residents' funds	<u>275,374</u>	<u>274,056</u>
Total Current Assets	5,472,748	4,385,124
Assets limited as to use, net of current portion	1,918,129	1,610,879
Land, building and equipment, net	14,912,775	15,957,987
Deferred refinancing fees, net	<u>286,212</u>	<u>70,681</u>
	<u>\$ 22,589,864</u>	<u>\$ 22,024,671</u>
 LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current liabilities		
Current portion of long-term debt	\$ 470,000	\$ 435,000
Accounts payable and accrued expenses	5,475,069	3,498,948
Accrued salaries and related benefits	552,222	534,718
Accrued interest	551,106	564,700
Due to third party payors	757,679	801,886
Funds held for residents	<u>275,374</u>	<u>274,056</u>
Total Current Liabilities	8,081,450	6,109,308
Long-term debt, net of current portion	<u>16,715,000</u>	<u>17,185,000</u>
Total Liabilities	24,796,450	23,294,308
Unrestricted net assets (deficiency)	<u>(2,206,586)</u>	<u>(1,269,637)</u>
	<u>\$ 22,589,864</u>	<u>\$ 22,024,671</u>

See notes to financial statements

Concord Nursing and Rehabilitation Center, Inc.

Statements of Operations and Changes in Net Assets (Deficiency)

December 31,

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Net patient service revenue	\$ 15,478,242	\$ 15,963,934
Investment income	35,491	31,535
Other revenue	<u>202,162</u>	<u>4,816</u>
Total Revenue	<u>15,715,895</u>	<u>16,000,285</u>
OPERATING EXPENSES		
Professional care of patients	7,222,628	7,136,450
General services	2,352,682	2,560,177
Administrative services	1,778,401	1,945,396
Non-departmental expenses	<u>5,359,115</u>	<u>5,171,099</u>
Total Expenses	<u>16,712,826</u>	<u>16,813,122</u>
Change in Net Assets from Operations	(996,931)	(812,837)
Non-operating revenue		
General contributions	<u>59,982</u>	<u>47,622</u>
Change in Net Assets	(936,949)	(765,215)
UNRESTRICTED NET ASSETS (DEFICIENCY)		
Beginning of year	<u>(1,269,637)</u>	<u>(504,422)</u>
End of year	<u>\$ (2,206,586)</u>	<u>\$ (1,269,637)</u>

See notes to financial statements

Concord Nursing and Rehabilitation Center, Inc.

Statements of Cash Flows

Years Ended December 31,

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (936,949)	\$ (765,215)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,106,495	1,120,679
Bad debts	300,000	240,000
Realized gain on investments	(7,187)	(3,854)
Changes in operating assets and liabilities		
Accounts receivable	(1,280,512)	(721,620)
Due from third party payors	4,430	186,178
Prepaid expenses and other current assets	(76,097)	27,190
Accounts payable and accrued expenses	1,976,121	389,062
Accrued salaries and related expenses	17,504	7,935
Accrued interest	(13,594)	(12,813)
Due to third party payors	<u>(44,207)</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>1,046,004</u>	<u>467,542</u>
Cash flows from investing activities		
Purchases of buildings and equipment	(54,554)	(94,000)
Funding of assets limited as to use	<u>(335,063)</u>	<u>35,437</u>
Net Cash Used for Investment Activities	<u>(389,617)</u>	<u>(58,563)</u>
Cash flows from financing activities		
Increase in deferred refinancing fees	(222,260)	-
Payments on long-term debt	<u>(435,000)</u>	<u>(410,000)</u>
Net Cash Used for Financing Activities	<u>(657,260)</u>	<u>(410,000)</u>
Change in Cash and Cash Equivalents	(873)	(1,021)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>851,084</u>	<u>852,105</u>
End of year	<u>\$ 850,211</u>	<u>\$ 851,084</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,129,400	\$ 1,155,025

See notes to financial statements

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

1. Organization

Concord Nursing and Rehabilitation Center, Inc. (the Center) is a not-for-profit, skilled nursing facility, located in Brooklyn, New York and organized under the provisions of Article 28-A of the New York State Public Health Law and the Not-for-Profit Corporation Law. The Center operates 123 geriatric skilled nursing beds, a 17-bed unit for ventilator-dependent residents and a 24-registrant adult day health care program.

The Center is organized as a not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Presentation

Resources are classified for accounting and reporting purposes into net asset classes, according to donor-imposed restrictions. Unrestricted net assets are those whose use is not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met within the same year as received.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase. Cash equivalents at December 31, 2006 and 2005 consisted primarily of money market funds.

Investments

Investments in equity securities with readily determinable market values and all debt securities are reported at their fair value.

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Inventory

Inventory of food and supplies is valued at cost. Cost is determined by the first-in, first-out method.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements. Amounts required to meet current liabilities of the Center are reported as current assets.

Residents' Funds

Residents' funds are held by the Center on behalf of the residents. Such funds represent allowances received by residents as well as other residents' funds deposited with the Center for safekeeping. These funds are disbursed by the Center at the request of, or on behalf of, residents for their personal use.

Land, Building and Equipment

Items capitalized as part of land, building and equipment, are stated at cost. Maintenance and repairs of a routine nature are charged against revenue while those that extend the life of existing properties are capitalized.

Depreciation is provided over the estimated useful lives of each class of depreciable asset and is computed using a straight-line basis. The estimated lives by asset class are as follows:

Land improvements	15 years
Building and improvements	10-40 years
Equipment	5-20 years

Amortization

Deferred refinancing costs are being amortized using the straight-line method over the term of the related debt.

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Net Patient Service Revenue

The Center has agreements with third party payors that provide for payments to the Center at amounts different from its established rates. Payments are generally prospectively determined per-diem amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients and third party payors for services rendered, including retroactive adjustments under reimbursement agreements with third party payors.

3. Assets Limited as to Use

Assets limited as to use, stated at fair value, are required to be set aside under the terms of the indenture agreement and in accordance with third party payor agreements. The composition of assets limited as to use at December 31 is set forth in the following tables:

	2006	2005
Cash and cash equivalents	\$ 1,596,669	\$ 1,260,676
U.S. Treasury obligations	791,460	785,203
	2,388,129	2,045,879
Less current portion of long-term debt	470,000	435,000
	\$ 1,918,129	\$ 1,610,879

The bond indenture and third party agreement funds consist of the following at December 31:

	2006	2005
Board designated debt service funds	\$ 792,488	\$ 786,426
Board designated construction funds	505	505
Operating escrow funds	1,595,136	1,258,948
	\$ 2,388,129	\$ 2,045,879

Investment income and gains for assets limited as to use and cash and cash equivalents are comprised of the following for the years ending December 31:

	2006	2005
Interest income	\$ 28,304	\$ 27,681
Realized gains	7,187	3,854
	\$ 35,491	\$ 31,535

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

4. Accounts Receivable, Net

The Center provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectibility of specific accounts. The allowance for doubtful accounts was \$665,000 and \$365,000 at December 31, 2006 and 2005.

5. Land, Building and Equipment

Land, building and equipment at December 31, are as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 745,000	\$ 745,000
Land improvements	63,431	63,431
Building and building improvements	20,605,360	20,605,360
Equipment	<u>3,105,537</u>	<u>3,050,983</u>
	24,519,328	24,464,774
Accumulated depreciation	<u>(9,606,553)</u>	<u>(8,506,787)</u>
	<u>\$ 14,912,775</u>	<u>\$ 15,957,987</u>

Depreciation and amortization expense for 2006 and 2005 was \$1,099,766 and \$1,113,950.

6. Deferred Refinancing Fees

Deferred refinancing fees of \$110,466 associated with the sale of bonds were capitalized and are being amortized by the straight-line method over a period of approximately 16 years. Amortization of such costs was \$6,729 for 2006 and 2005.

7. Long Term Debt and Renovation Project

Long term debt consists of \$19,245,000 Dormitory Authority of the State of New York (DASNY) Revenue Bonds, Series 2000, dated January 1, 2000. The bonds are secured by the Center's pledge of certain payments, a mortgage, a security interest in the gross receipts of the Center and by certain funds and accounts. The bonds are fixed rate, tax-exempt debt, secured by a Bank of America, N.A. (the Bank), irrevocable, direct-pay rolling letter of credit extending to February 9, 2007.

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

7. Long Term Debt and Renovation Project *(continued)*

In October 2006, the Bank notified DASNY that it did not intend to renew the letter of credit past the February 9, 2007 termination date. As a consequence and in accordance with the loan documents, on January 24, 2007 the letter of credit was drawn and the bonds were called. Simultaneously, the Center entered into a term loan with the Bank at a rate of interest equal to "Prime plus 4%". Subsequently, the Bank term loan was replaced on February 23, 2007 by an 18-month bridge loan from Residential Funding Company, LLC. The bridge loan is an "interest-only" loan carrying a variable interest rate of "30-day LIBOR plus 4%" with a principal amount of \$17,806,750. The interest rate is reset each month.

The bridge loan in part was made in contemplation of replacing the Center's permanent financing with long term, tax exempt bonds secured by insurance provided through the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). In June 2007 the Center received the FHA Commitment to Insure; and the process to refinance the bridge loan is presently underway.

Interest expense on all debt for 2006 and 2005 was \$1,132,921 and \$1,142,212.

8. Net Patient Services Revenue

The Center has agreements with third party payors that provide for payments for services rendered by the Center. A summary of the payment arrangements with the major third party payors follows:

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are at prospectively determined per diem rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. In addition, a portion of the reimbursement rate is based on the capital related costs of the Center.

Medicare

Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Third party payors retain the right to review and propose adjustments to reimbursement amounts received by the Center. Provision is made in the financial statements for anticipated adjustments that may vary from such revisions.

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

8. Net Patient Services Revenue *(continued)*

In the normal course of business, the Center requests revisions to reimbursement amounts received under third party payor agreements. No amounts are recorded unless the Center is reasonably assured that such revision is granted.

During 2005, The Center received funding from the Medicaid distressed facility pool in the amount of approximately \$250,000. The amount for 2006 applicable to the Center has not been determined by Medicaid and, therefore, no amount has been recorded in these financial statements.

During 2005, the Center received a settlement from Medicaid in the amount of approximately \$236,000 for a dental services appeal that covered the rate years 1994 through 2005. Subsequent Medicaid rates have been adjusted to include reimbursement based on this approved appeal.

During 2006, the Center received Medicaid rates retroactive to September 2004 based on audited case mix scores. Based on the revised rates, it was determined that the Center owed Medicaid approximately \$1,000,000. The Center had established in prior years a liability for case mix audits of approximately \$600,000. The difference has been recorded as part of Medicaid contractual allowance in 2006.

The Center is currently undergoing a routine capital component audit by Medicaid. It is unknown at this time if an amount, if any, may be payable to either Medicaid or the Center based on this audit. As a result, no amount has been recorded in these financial statements for a possible retroactive rate change.

Revenue from the Medicaid and Medicare programs accounted for approximately 94% and 96% of the Center's net patient revenue for the years ended 2006 and 2005. The current Medicaid and Medicare 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. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Center is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes that it is in compliance with all applicable laws and regulations.

The Center also has entered into payment agreements with commercial insurance carriers. The basis for payment to the Center under these agreements generally is prospectively determined per-diem rates.

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

9. Pension

The Center provides a profit sharing plan to its nonunion employees who meet the eligibility requirements. Plan expense was \$40,000 each year for the 2006 and 2005.

In addition, the Center contributes to the Local 1199 National Pension Fund for Hospital and Health Care Employees pursuant to a collective bargaining agreement. Pension expense was \$145,727 and \$102,126 for 2006 and 2005.

10. Concentration of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash and accounts receivable.

The Center places its cash with various financial institutions and limits the amount of credit exposure by any one financial institution. At times, the cash balance may be in excess of the FDIC insurance limit.

The Center grants credit without collateral to its patients, most of whom are insured under third party agreements. The mix of receivables from patients and third party payors at December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Medicaid	56%	63%
Medicare	26%	31%
Self-pay and other	<u>18%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

11. Contingencies

The Center is involved in litigation arising in the normal course of business. Management estimates that such matters will be resolved without material adverse effect on the Center's future financial position or results from operations.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions. At this time, the Center is not aware nor have they been notified of any pending regulatory inquiries.

Concord Nursing And Rehabilitation Center, Inc.

Notes to Financial Statements

12. New York State Cash Receipts Assessment

An assessment was imposed on substantially all nursing home cash receipts effective April 1, 2002 as part of the New York State Health Care Work Force Recruitment and Retention Act of 2002. Effective April 1, 2005 the 5% assessment was increased to 6%. Included in accounts payable and accrued expense is approximately \$1,930,000 and \$1,593,000 representing the obligation for the cash assessment due at December 31, 2006 and 2005.

Medicaid rates were increased to reimburse nursing homes the portion of the assessment related to Medicaid cash receipts. Revenue recognized approximated \$669,000 and \$685,000 for 2006 and 2005.

In February 2005, the Center borrowed \$250,000 from the Operating Escrow Fund to pay the February to July 2003 cash assessment. This loan was approved by the State of New York Department of Health to be repaid in equal monthly installments of \$15,000 over a 16 month period, with a final installment of \$10,000. At December 31, 2006, the Center has repaid \$165,000 of this loan.

Concord Nursing and Rehabilitation Center, Inc.

Supplemental Information

December 31, 2006 and 2005

Concord Nursing and Rehabilitation Center, Inc.

Schedules of Patient Service Revenue

Years Ended December 31,

	<u>2006</u>	<u>2005</u>
PATIENT SERVICE REVENUE		
Medicaid	\$ 11,725,487	\$ 13,030,970
Medicare	2,092,378	1,587,588
Private and managed care	<u>983,658</u>	<u>715,777</u>
Total Patient Service Revenue	14,801,523	15,334,335
 Adult day health care revenue		
Medicaid	<u>676,719</u>	<u>629,599</u>
Net Patient Service Revenue	<u>\$ 15,478,242</u>	<u>\$ 15,963,934</u>

See independent auditors' report

Concord Nursing and Rehabilitation Center, Inc.

Schedules of Expenses

Year Ended December 31, 2006
(with summarized totals for 2005)

	2006			2005
	Salaries	Other	Total	Total
PROFESSIONAL CARE OF PATIENTS				
Nursing units	\$ 2,673,595	\$ 2,020,405	\$ 4,694,000	\$ 4,344,395
Ventilator unit	606,883	312,446	919,329	1,148,146
Adult day health care	177,571	131,697	309,268	266,821
Laboratory and radiology	-	18,525	18,525	21,177
Physician services	-	186,275	186,275	183,800
Activities	188,195	31,585	219,780	181,243
Pharmacy	-	348,044	348,044	491,479
Dental services	-	28,666	28,666	28,242
Physical therapy	-	117,038	117,038	106,525
Occupational therapy	-	143,634	143,634	122,285
Speech therapy	-	19,013	19,013	21,858
Social services	118,976	909	119,885	121,744
Medical records	98,666	505	99,171	98,735
Total Professional Care of Patients	<u>\$ 3,863,886</u>	<u>\$ 3,358,742</u>	<u>\$ 7,222,628</u>	<u>\$ 7,136,450</u>
GENERAL SERVICES				
Patient food services	\$ 516,966	\$ 404,381	\$ 921,347	\$ 962,275
Plant operations and maintenance	118,249	481,087	599,336	820,325
Housekeeping	437,429	80,926	518,355	471,007
Laundry and linen	-	168,351	168,351	163,164
Security	-	145,293	145,293	143,406
Total General Services	<u>\$ 1,072,644</u>	<u>\$ 1,280,038</u>	<u>\$ 2,352,682</u>	<u>\$ 2,560,177</u>
ADMINISTRATIVE SERVICES				
Accounting	\$ 173,691	\$ 500,613	\$ 674,304	\$ 799,689
Administration	358,991	626,328	985,319	1,028,569
Admitting	44,623	2,931	47,554	43,329
Communications	23,381	47,843	71,224	73,809
Total Administrative Services	<u>\$ 600,686</u>	<u>\$ 1,177,715</u>	<u>\$ 1,778,401</u>	<u>\$ 1,945,396</u>
NON-DEPARTMENTAL EXPENSES				
Employee benefits	\$ -	\$ 1,901,327	\$ 1,901,327	\$ 1,654,675
Depreciation and amortization	-	1,106,495	1,106,495	1,120,679
Interest expense	-	1,132,921	1,132,921	1,142,212
New York State cash receipts assessment	-	701,869	701,869	815,230
Insurance	-	216,503	216,503	198,303
Bad debts	-	300,000	300,000	240,000
Total Non-departmental Expenses	<u>\$ -</u>	<u>\$ 5,359,115</u>	<u>\$ 5,359,115</u>	<u>\$ 5,171,099</u>

See independent auditors' report

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**SUMMARY OF CERTAIN PROVISIONS
OF THE AGREEMENT**

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SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

The following is a brief summary of certain provisions of the Agreement. Such summary does not purport to be complete and reference is made to the Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Covenants of the Mortgage Banker

The Mortgage Banker represents and warrants with respect to the Project that, (a) it has been and remains duly qualified to act as a mortgagee under the FHA insurance program of the National Housing Act, including particularly Section 232/223(f) thereof; (b) it has been and remains duly authorized and qualified to issue and service the GNMA Securities; (c) the Mortgage Note was endorsed by the Secretary of Housing and Urban Development acting by and through the Federal Housing Commissioner for insurance pursuant to Section 232/223(f) of the National Housing Act and (d) the Mortgage Banker has and will undertake to do all things necessary, within its powers, to maintain such FHA Insurance in full force and effect during the life of the Agreement.

Nothing contained in the Agreement shall be construed so as to alter or diminish the obligations or duties of the Mortgage Banker to GNMA under the GNMA Guaranty Agreement, or the obligations or duties of the Mortgage Banker to FHA as Mortgagee under the Mortgage. The Mortgage Banker further agrees that it will not amend or supplement the Mortgage or the Mortgage Note (except as permitted by FHA and GNMA) subsequent to the respective date of each such document in any manner which shall be inconsistent with provisions of the Agreement or might otherwise adversely affect the security for or the payment of the principal and interest on the Series 2007 Bonds, without the prior written approval of the Authority, which approval shall not be unreasonably withheld.

(Section 5)

Mutual Agreements of the Parties

The Authority, the Mortgage Banker and the Institution hereby mutually agree that each will, within the respective legal powers of each, undertake to do all things required, respectively, of each of them to ensure that the GNMA Securities, the FHA Documents, the FHA Insurance and the Agreement will remain in full force and effect during the life of the Agreement. The parties agree that they will perform their obligations hereunder in an expeditious manner. Furthermore, the parties hereto hereby approve of the Resolution adopted by the Authority in connection with the issuance of the Series 2007 Bonds and hereby agree to do all things within their respective powers to enable the Authority to comply with all requirements and covenants of the Resolution, Series Resolution and the Bond Series Certificate.

(Section 6)

Application of Series 2007 Bond Proceeds

(a) The Authority hereby agrees to authorize and use its best efforts to issue, sell and deliver its Series 2007 Bonds, in accordance with the terms of the Resolution and Series Resolution, in an aggregate principal amount not to exceed \$20,000,000. The proceeds of the Series 2007 Bonds shall be applied as follows: (i) into the Acquisition Account of the Bond Proceeds Fund, an amount equal to the face amount of the Mortgage Note, (ii) into the Equity Fund, the amount set forth in the Bonds Series Certificate, if any, (iii) into the Debt Service Account of the Debt Service Fund, an amount equal to the amount of interest as set forth in the Bond Series Certificate, (iv) into the Interest Escrow Account, the amount set forth in the Bond Series Certificate, and (v) into the Expense Fund, the amount set forth in the Bond Series Certificate.

(b) The Institution agrees that, upon the written request of the Authority and as a condition to the issuance of the Bonds, it shall deliver to the Authority a certificate of an Authorized Officer of the Institution satisfactory to the Authority setting forth and representing (i) the amount of any pledges, gifts and grants received which are required to be used to pay any item which is a Cost of the Project or a Capital Addition; (ii) that all of

such amount will have been spent on the Project or Capital Addition as of the date of delivery of the Bonds, deposited pursuant to subdivision (c) below or otherwise applied in accordance with the provisions of the Agreement or in a manner acceptable to the Authority; (iii) that such pledges, gifts and grants shall not be reimbursed from the proceeds of the sale of the Bonds; (iv) whether the Institution reasonably expects to receive while the Bonds are Outstanding any additional pledges, gifts or grants required to be used to pay any item which is a Cost of the Project or a Capital Addition; and (v) such other matters, if any, as may be required by the Authority to determine whether issuance of the Bonds will comply with the requirements of the Code.

(c) The Institution shall, at or prior to the issuance of the Bonds, deliver to the Trustee for deposit in the Acquisition Account of the Bond Proceeds Fund an amount of money equal to the amount of any pledges, gifts and grants required to be used to pay any item which is a Cost of the Project or a Capital Addition, which pledges, gifts or grants have been theretofore received by the Institution and which have not been expended for such Project or Capital Addition. If while any Bonds are Outstanding the Institution receives any pledge, gift or grant required to be used to pay any item which is a Cost of the Project or a Capital Addition, the Institution shall notify the Authority thereof. If the Project or the Capital Addition has not been completed, the Institution shall either: (i) expend the amount of such gift or grant as a Cost of the Project or a Capital Addition and reduce the amount of its requests for disbursements submitted pursuant to the Agreement by the amount of such gift or grants, or (ii) to the extent not inconsistent with the terms of such pledge, gift or grant, deliver to the Trustee the amount of any such gift or grant for deposit in the Acquisition Account. If the Project and all Capital Additions have been completed, the amount of any such gift or grant shall be delivered to the Trustee for deposit in the Redemption Fund and applied in accordance with the Resolution.

(Section 7)

Cost Overruns

If applicable, the Institution shall provide when due any moneys required for completing the Project in excess of the moneys in the Acquisition Account and the Project Account.

(Section 9)

Certain Series 2007 Bond Expenses

(a) The Institution shall also pay or deliver, as the case may be, at or prior to the delivery of the Series 2007 Bonds: (i) to the extent not funded with proceeds of the Series 2007 Bonds, to the Authority for deposit in the Expense Fund an amount representing the portion of the Authority Fee due and payable; (ii) to the extent not funded with proceeds of the Series 2007 Bonds, to the Authority for deposit in the Expense Fund, an amount, in a certified or official bank or cashier's check payable in New York Clearing House funds, equal to the compensation to the underwriting syndicate which purchases the Series 2007 Bonds from the Authority in the amount set forth in the purchase contract between the representatives of such syndicate and the Authority relating to the Authority's sale of the Series 2007 Bonds; (iii) to the extent not funded with proceeds of the Series 2007 Bonds, to the Authority for deposit in the Expense Fund, an additional amount estimated by the Authority to pay all administrative, printing, legal and other incidental expenses incurred or to be incurred by the Authority and the Mortgage Banker in connection with the issuance of the Series 2007 Bonds and the financing of the Costs of completing the Project or a Capital Addition; (iv) to the Authority, for deposit in the Interest Escrow Account, Available Monies or a Letter of Credit or a combination thereof in the amount of the Interest Escrow Account Requirement, if any, or such other collateral, in either case, as shall be required pursuant to the terms of the Bond Series Certificate, (v) to the Authority for deposit in the Collateral Account, Available Monies or a Letter of Credit or a combination thereof in the amount of the Collateral Account Requirement, if any, as shall be required pursuant to the terms of the Bond Series Certificate, and (vi) to the Authority for deposit in the Equity Fund, Available Monies or a Letter of Credit or a combination thereof in such amount, if any, as shall be required pursuant to the terms of the Bond Series Certificate.

(b) The Institution also agrees to pay the fees, costs and expenses of any counsel or financial consultants retained by it with respect to the authorization, delivery and issuance of the Series 2007 Bonds, and the transactions associated therewith.

(c) All payments required to be made by the Institution pursuant to the Agreement shall be made from its general funds or other such funds legally available therefor.

(Section 10)

Financial Liability of Institution

The Institution hereby unconditionally agrees to make the following payments, from its general funds or from any moneys legally available therefor:

(a) To the Mortgage Banker, the monthly payments required by the FHA Documents at the time and in the amounts required thereby;

(b) To the extent that the payments received by the Trustee on the GNMA Securities, together with other available moneys received by the Trustee pursuant to the Resolution, are not sufficient to pay, when due, principal, premium, if any, and interest on the Series 2007 Bonds, to the Trustee, on behalf of the Authority, the balance of the amount necessary, upon written notification by the Authority or the Trustee, to pay such principal, premium, if any, and interest on the Series 2007 Bonds;

(c) The Institution shall pay, to the extent not available from other monies, (in semiannual installments on February 15 and August 15 of each year, commencing February 15, 2007), the Annual Administrative Fee. The Institution shall pay promptly to the Trustee the Trustee's Annual Fee, together with any annual fee of the Trustee not included in the Trustee's Annual Fee, upon receipt of written notice with respect thereto, to the extent that moneys in the Expense Fund are insufficient therefor. In addition, the Institution shall reimburse the Authority and the Trustee, upon thirty (30) days' written notice, for all expenditures (except general administrative expenses or overhead) reasonably incurred by the Authority or the Trustee by reason of the issuance of the Bonds and the performance of the Agreement (including without limitation, (i) any indemnification due under other provisions of the Agreement, and (ii) any fees and expenses incurred in the preparation of Cash Flow Statements prepared from time to time at the direction of the Authority, the Trustee or the Mortgage Banker) in accordance with the Resolution and not compensated or otherwise reimbursed by the Trustee's Annual Fee or the Annual Administrative Fee. Notwithstanding anything in the Agreement or in the Resolution to the contrary, the aggregate fees and charges to be received by the Authority from the Institution shall not equal or exceed that amount, if any, which would cause the interest on the Bonds to be taxable as interest on "arbitrage bonds" under the Code. The continuing obligation to pay the Annual Administrative Fee and other fees and expenses of the Authority shall continue to accrue until the Bonds have been paid in full or have become due and moneys for their payment have been irrevocably set aside with the Trustee for such purpose, notwithstanding any prior defeasance pursuant to the Resolution; provided that, in the event of defeasance through the issuance of refunding bonds by the Authority, appropriate adjustment shall be made to avoid duplication of the Annual Administrative Fee.

The Authority agrees that to the extent the payments required pursuant to subparagraph (c) above have been paid in full, it shall repay, or cause to be repaid, to the Institution, the amounts on deposit in the Expense Fund in accordance with the Resolution.

To the extent the Cash Flow Statements referred to in the Resolution demonstrate that a deficiency would exist in the Acquisition Account or the Interest Escrow Account upon an extension of the CLC Maturity Date, if applicable, or the PLC Delivery Date requested by the Mortgage Banker, then the Institution shall deposit Available Moneys or a Letter of Credit to the Acquisition Account or the Interest Escrow Account, as the case may be, in the amount of such deficiency. If the Institution shall fail to make such deposit of Available Moneys or Letters of Credit, then the Mortgage Banker may make or cause to be made such deposit, which deposit by the Mortgage Banker and the costs associated therewith shall be immediately reimbursed by the Institution; provided, however, that failure to make such reimbursement shall not in any way release the Mortgage Banker from its obligations hereunder.

The financial obligations of the Institution required by the Agreement shall be in addition to all other obligations set forth elsewhere in the Agreement and any other document executed by or on behalf of the Institution in connection with or related to the Mortgage Note or the Mortgage. The obligations of the Institution to make the payments (other than payments required under the Mortgage Note) or cause the same to be made under the

Agreement, and to otherwise perform under such documents shall be complete and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Mortgage Banker, the Trustee or any Series 2007 Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, any defects in the Project, failure of the Institution to occupy or use the Project, any declaration or finding that the Series 2007 Bonds are or the Resolution is invalid or unenforceable or any other failure or default by the Authority, the Mortgage Banker or the Trustee; provided, however, that nothing in the Agreement shall be construed to release the Authority, the Mortgage Banker or the Trustee from the performance of any agreements on their respective parts in the Agreement contained or any of their other duties or obligations, and in the event any of such parties shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover its damages for non-performance.

The Agreement and the obligations of the Institution to make payments hereunder (other than payments required under the Mortgage Note) are general obligations of the Institution.

For the purpose of enabling the Institution to make or cause to be made the payments required by item (c) above in due time and manner, an Authorized Officer of the Authority shall furnish the Institution with statements of the due date, purpose and amount of such payments. The failure to furnish such statements shall not excuse non-payment of such amounts payable under the Agreement at the time and in the manner provided by the Agreement; provided, however, that failure by the Institution to pay to the Authority when due amounts payable, other than the amounts payable under item (b) above, shall not be deemed an event of delinquency under the Agreement until a statement has been furnished and the Institution has failed to pay within thirty (30) calendar days after the Authority's mailing of such statement. The Authority hereby agrees to give the Mortgage Banker notice of the Institution's failure to pay within ten (10) calendar days after the mailing of such statement. All amounts payable to the Mortgage Banker under item (a) above shall be paid in accordance with the terms of the FHA Documents and no other statement need be made to the Institution in connection with such payments.

(Section 11)

Sale of GNMA Securities

In connection with the issuance of the Series 2007 Bonds, the aggregate amount of GNMA Securities to be sold and delivered is not to exceed \$20,000,000; provided, however, that this amount may be reduced to a lesser amount as shall be represented by the Mortgage Note as endorsed by FHA as required at Final Endorsement.

The Authority hereby agrees to require the Trustee to withdraw from the Acquisition Account the principal amount due for the purchase of the CLCs, if applicable, and from the Debt Service Fund, and, if necessary, the Interest Escrow Account, the amount of accrued interest on such CLCs from the dated date(s) of the CLCs to the date of delivery thereof to the Trustee, and pay the same to the Mortgage Banker; provided that no withdrawal shall be required to be made from the Interest Escrow Account in the month preceding a Bond Payment Date to the extent that such withdrawal would cause a deficiency in the amount available to pay principal and interest due on the Series 2007 Bonds on such Bond Payment Date. The Mortgage Banker hereby agrees, against receipt from the Trustee of such amount, to deliver to the Trustee, on behalf of the Authority, all GNMA Securities issued in the name of the Trustee, on behalf of the Authority.

The Mortgage Banker hereby agrees to give the Trustee and the Authority at least two (2) days prior written notice that it is ready to deliver the specified GNMA Security

Terms of GNMA Securities. The PLC will bear interest at the rate of 5.37% percent per annum from the PLC Delivery Date, unless, subject to the terms and conditions of the paragraph below subtitled "*Reduction in Mortgage Note Interest Rate*", such rate is reduced upon approval of the Authority and upon delivery of a revised Cash Flow Statement incorporating the lower rate to the Trustee, the Mortgage Banker and the Rating Services. All GNMA Securities acquired subsequent to the date of the delivery of the Series 2007 Bonds shall be dated the first day of the month in which such GNMA Securities are issued and delivered and shall bear interest from such date. Accrued interest for 30 days shall be paid to the Trustee, acting on behalf of the Authority, on such GNMA Securities commencing on the fifteenth day of the month following the month in which said GNMA Securities were issued and on the fifteenth day of each month thereafter.

The GNMA Securities shall have the additional following terms and conditions:

A. The GNMA Securities shall be registered in the name of the Trustee. The Mortgage Note shall bear interest at the rate of 5.62%, unless, subject to the terms and conditions of the paragraph below subtitled "Reduction in Mortgage Note Interest Rate", such rate is reduced upon approval of the Authority and upon delivery of a revised Cash Flow Statement incorporating the lower rate to the Trustee, the Mortgage Banker and the Rating Services. The Mortgage Note shall be payable on the basis of a 360-day year and shall be insured by FHA pursuant to Section 232/223(f) of the National Housing Act. The Mortgage Note shall provide that amortization payments of principal will commence beginning the earlier of December 1, 2007.

B. All CLCs shall mature on the CLC Maturity Date. All CLCs shall have monthly payments of interest only. The PLC shall have monthly payments of principal and interest, the last scheduled payment of which shall be within 360 months after the commencement of amortization payments on the Mortgage Note.

C. The GNMA Securities so acquired shall be fully payable in any coin or currency of the United States of America in accordance with their terms.

D. Payment of interest on CLCs shall commence no later than 45 days from the dated date of such CLCs and continue on the fifteenth day of each month thereafter until the maturity date of the CLCs or issuance of the PLC, whichever occurs earlier. Interest on the PLC shall commence to accrue on the dated date of the PLC and shall be payable no later than 45 days from the dated date of such PLC and continue on the fifteenth day of each month thereafter for the duration of the PLC.

To the extent applicable, upon Final Endorsement the Authority shall direct the Trustee to deliver to the Mortgage Banker or its designee all outstanding CLCs held by the Trustee against delivery of the PLC. The Mortgage Banker shall first use the amounts delivered pursuant to clause (ii) of this paragraph to effect a proportionate prepayment of the Mortgage Note and promptly (a) give notice to the Authority and the Trustee of the principal amount of the Mortgage Note prepayment and (b) transfer to the Trustee an amount equal to the amount of the Mortgage Note prepayment (so that an equivalent principal amount of the Series 2007 Bonds shall, pursuant to the Bonds Series Certificate, be redeemed), and second deliver the PLC to the Trustee promptly upon the receipt thereof and undertake a final settlement of amounts due to the Trustee in the event that the principal amount of the PLC is less than the aggregate principal amount of the CLCs being exchanged therefor. The PLC shall be in a principal amount equal to the principal outstanding on the Mortgage Note as approved at Final Endorsement. All transfers of CLCs and PLCs shall be made in accordance with the electronic transfer or other transfer provisions designated by GNMA for GNMA Securities. The Trustee shall deposit the PLC in the GNMA Securities Account. To the extent applicable, the Mortgage Banker shall pay at the CLC Maturity Date, as such date may have been extended, thereof the principal of any CLCs then outstanding. The Authority shall notify the Rating Services upon the delivery of the PLC.

The principal amount to be paid each month on the PLC shall be an amount equal to the amount of each monthly installment of principal scheduled to be paid on the Mortgage Note, plus any prepayments of principal. The PLC does not constitute a liability of, or evidence any recourse against, the Mortgage Banker, but is based on and backed by the Insured Loan, and recovery may be made from GNMA in the event of any failure of timely payment as provided for in the PLC and the GNMA Guaranty Agreement. Each monthly installment of interest or principal and interest on the GNMA Securities may be subject to adjustment by reason of any prepayment of the GNMA Securities. If payments on the Mortgage Note are recast in accordance with the next paragraph, the monthly payments on the GNMA Securities shall be similarly adjusted.

Reduction in Mortgage Note Interest Rate. The Mortgage Banker will agree to reductions from time to time, if any, in the interest rate on the Mortgage Note upon or after Final Endorsement if each such reduction is reflected in a revised Cash Flow Statement delivered to the Mortgage Banker; provided that the Mortgage Banker

shall be obligated to agree to such reduction only if the GNMA Securities issued or to be issued by the Mortgage Banker in connection with the Insured Loan have been purchased by the Trustee or are to be purchased by the Trustee upon issuance thereof in accordance with the Resolution; provided further that, if the Trustee has not purchased or will not be purchasing all of the GNMA Securities issued or to be issued in connection with the Insured Loan, the Mortgage Banker will use its best efforts to obtain any GNMA approvals necessary to facilitate a reduction in the Mortgage Note that is otherwise acceptable to the Mortgage Banker.

Unless the Institution otherwise advises the Mortgage Banker, the Authority and the Trustee in writing, all principal payments received by the Mortgage Banker on the Mortgage Note shall be deemed to be scheduled or required repayments (not prepayments) of principal on the Mortgage Note. Prior to Final Endorsement, such principal payments constituting scheduled or required repayments shall be retained by the Mortgage Banker and shall be applied to the purchase of the GNMA Securities on the CLC Maturity Date or the PLC Delivery Date. Following the Final Endorsement, the Mortgage Banker shall pay such amounts to the Trustee on the GNMA Securities as scheduled repayments thereon. Upon any prepayment of principal by the Institution under the Mortgage Note or upon any redemption or purchase in lieu of redemption of Series 2007 Bonds pursuant to the Resolution the amortization of the Mortgage Note shall be promptly recast subject to approval by FHA and GNMA. For purposes of the Mortgage Note, Mortgage, Agreement and Resolution, recasting means that succeeding required monthly payments due on the Mortgage Note after any such event shall be reduced to approximately equal amounts sufficient to pay the Mortgage Note over the remaining term thereof.

(Section 12)

Project Cost; Prepayments

(a) The Institution estimates that the total Cost of the Project and related expenses is approximately \$20,304,092, of which an amount not to exceed \$18,773,600 will be expended thereon from proceeds of the Insured Loan, approximately \$930,489 will be expended thereon from additional proceeds of the sale of the Series 2007 Bonds and approximately \$600,003 has been or will be paid by the Institution from its own funds.

(b) The Institution agrees that, with respect to any prepayment of the Mortgage Loan, the Institution will make all prepayments in accordance with the terms of the Mortgage Note and that payment of any prepayment premium or penalty shall be made in Available Moneys.

(c) The Mortgage Banker hereby agrees to remit any prepayments received by the Mortgage Banker on the Mortgage Note (including any premium), in accordance with GNMA Regulations no later than the 15th day of the following month or, if the 15th day is not a business day, on the next business day after receipt by the Mortgage Banker to the Trustee as prepayment of the GNMA Securities.

(d) If the available amounts in the funds and accounts established under the Resolution are insufficient for the payment of the Redemption Price of the Series 2007 Bonds called for redemption, including accrued interest on such Series 2007 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.

(Section 13)

Use of Project; Maintenance of Revenues

The Institution agrees that the Project shall be occupied or used only as a “facility for the aged” as defined in the Act.

Subject to applicable statutes and regulations, the Institution agrees to conduct its affairs and the operations of the Project so that all revenues derived from the operation of the Project, together with the general funds or any other moneys legally available to the Institution, shall provide moneys sufficient at all times: (i) to make the payments to the Authority, the Trustee and the Mortgage Banker required by the Agreement, the Mortgage Note, and Mortgage and the other FHA Documents; and (ii) to pay all expenses of operating and maintaining the Project and to pay all other obligations of the Institution as the same become due and payable.

(Section 14)

Compliance With Governmental Requirements

The Institution shall comply with all Governmental Requirements with respect to the Project, or any part thereof, and the construction, operation, maintenance, repair and replacement thereof and as required by the Mortgage and the other FHA Documents 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 in this paragraph to the contrary notwithstanding, the Institution shall have the right to contest the validity of any Governmental Requirements 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 and the Mortgage Banker of the Institution's intention to contest such Governmental Requirement and, if an Authorized Officer of the Authority requests, shall furnish to the Authority a surety bond, moneys or other security, satisfactory to an Authorized Officer of 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 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 any time the Project or any part thereof, to which such contested Governmental Requirement relates, would in the reasonable judgment of an Authorized Officer of the Authority be in substantial danger by reason of the Institution's noncompliance with such Governmental Requirement of being sold, attached, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would impair (i) the interests or security of the Authority hereunder, under the Resolution or the Mortgage; (ii) the ability of the Authority to enforce its rights hereunder or thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations hereunder, under the Resolution or under the Series Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations hereunder or under the FHA Documents.

(Section 15)

Information on Institution; Indemnity

For so long as the Series 2007 Bonds shall remain Outstanding, the Institution agrees to provide the Authority each year the financial information described in the Agreement at the times required by the Agreement. In addition, the Institution agrees, whenever requested by an Authorized Officer of the Authority or the Mortgage Banker, to provide and certify or cause to be provided and certified such information concerning the Institution, its finances and other topics as the Authority considers necessary or desirable, to enable the Authority to complete and publish an official statement or placement memorandum relating to the Series 2007 Bonds, the security therefor at the time when the Series 2007 Bonds are to be offered for sale, and such additional information as the Authority from time to time considers reasonably necessary or desirable to enable it to make any reports or obtain any approvals required by law, governmental regulation or the Resolution in order to issue the Series 2007 Bonds or to effect any of the transactions contemplated hereby, by the Resolution or by the Series Resolution.

The Institution agrees, to the extent permitted by law, to indemnify and hold harmless the Authority, and the Mortgage Banker, any present or future member, officer, official, director, employee, counsel, consultant and agent of the Authority or the Mortgage Banker (all such parties being herein collectively called the "Indemnified Parties"), with respect to the Institution and the Project, the Mortgage Note, the Mortgage or the other FHA Documents, against any and all losses, claims, damages, liabilities or expenses whatsoever, joint or several, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) are caused by, arise out of or are based upon any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact relating to the Institution and the Project, the Mortgage Note, the Mortgage, or the other FHA Documents made, provided or certified by the Institution or any agent thereof and contained in the Preliminary Official Statement relating to the Series 2007 Bonds or the Official Statement relating to the Series 2007 Bonds or placement memorandum of the Authority or any amendment thereof or supplement thereto, to the extent such

amendment or supplement relates to the above topics approved by an Authorized Officer of the Institution or caused by, arising out of or based upon any omission or alleged omission from such official statements or placement memorandum, or any amendment thereof or supplement thereto, of any material fact relating to the Institution, the Project, the Mortgage Note, the Mortgage or the other FHA Documents necessary in order to make the statements made therein in light of the circumstances under which they were made therein not misleading. In case any action shall be brought against one or more of the Indemnified Parties based on such official statements or placement memorandum, or any amendment thereof or supplement thereto, and in respect of which indemnity may be sought against the Institution, those Indemnified Parties seeking indemnity shall promptly notify the Institution in writing, and the Institution shall promptly assume the defense thereof, including the employment of counsel, the payment of all expenses and the right to negotiate and consent to settlement. Any one or more of the Indemnified Parties shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Indemnified Parties unless the employment of such counsel has been specifically authorized in writing by an Authorized Officer of the Institution. The Institution shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Institution or if there be a final judgment for the plaintiff in any such action with or without consent, the Institution agrees to indemnify and hold harmless the Indemnified Parties from and against any loss or liability by reason of such settlement or judgment.

(Section 16)

Tax-Exempt Status of Institution

The Institution represents that: (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect; (iii) such letter or other notification has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; (vi) it is exempt from federal income taxes under Section 501(a) of the Code; and (vii) it is not a "private foundation" as defined by Section 509(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 exempt 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 unrelated to the charitable purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

The Institution warrants, represents and covenants that (i) at least ninety-seven percent (97%) of the net proceeds of the Series 2007 Bonds shall not be used in the trade or business of any person other than an organization described in Section 501(c)(3) of the Code or a governmental unit and (ii) all property acquired, constructed or renovated with moneys derived from the net proceeds of Bonds will be owned (within the meaning of the Code) by an organization described in Section 501(c)(3) of the Code or a governmental unit

(Section 18)

Securities Acts Status of Institution

The Institution represents that, as of the date of the Agreement, it is an organization organized and operated: (i) exclusively for health care or charitable purposes; (ii) not for pecuniary profit; and (iii) such that no part of the net earnings inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and of the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act nor enter into any agreement which shall adversely affect such status as set forth in such items (i), (ii) and (iii).

(Section 19)

Maintenance of Institution's Corporate Existence

The Institution agrees that it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with, acquire or merge into another corporation or permit one or more corporations to consolidate with, acquire or merge into it; pro-vided, however, that if no event of

default specified hereunder shall have occurred and be continuing and prior written notice thereof is given to the Trustee, the Institution may, with the prior written consent of the Mortgage Banker, the Authority and FHA, (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with, be acquired by or merge into another organization or corporation which qualified under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, (ii) permit one or more such organizations or corporations to consolidate with, acquire or merge into it, or (iii) acquire all or substantially all of the assets of one or more such organizations or corporations, provided (a) that such consolidation, acquisition or merger does not in the opinion of counsel satisfactory to the Authority adversely affect the exclusion of interest on the Outstanding Bonds from gross income for federal income tax purposes or the validity or enforceability of the FHA Insurance or the GNMA Securities, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, and (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution under the Agreement, the Mortgage Note, the Building Loan Agreement, if applicable, and the Mortgage and furnishes to the Authority a certificate to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Agreement and shall meet the requirements of the Act.

(Section 20)

Maintenance of the Mortgage Banker's Corporate Existence

The Mortgage Banker agrees that it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with, be acquired by or merge into another corporation or permit one or more corporations to consolidate with, acquire or merge into it and will not assign its rights and duties under the Agreement; provided, however, that if no event of default by the Mortgage Banker specified hereunder shall have occurred and be continuing and prior written notice thereof is given to the Authority and the Trustee, the Mortgage Banker may consolidate with, be acquired by or merge into another corporation organized and existing under the laws of one of the states of the United States of America or the District of Columbia, or permit one or more such domestic corporations to consolidate with, acquire or merge into it, or sell or otherwise transfer to another such domestic corporation all or substantially all of its assets as an entirety and hereafter dissolve, provided (i) that the surviving, resulting, or transferee corporation or assignee, as the case may be, is incorporated under the laws of the State of New York or qualified to do business in the State of New York; (ii) that the surviving, resulting or transferee corporation or assignee, as the case may be, assumes in writing all of the obligations of and restrictions on the Mortgage Banker under the Agreement, the GNMA Securities, and the GNMA Guaranty Agreement, as appropriate, and any other agreement or document entered into by or binding upon the Mortgage Banker in connection with the Mortgage Note or Mortgage or the issuance of the GNMA Securities; (iii) that the consummation of the transaction will not adversely affect the exclusion of interest on the Bonds then Outstanding from gross income for federal income tax purposes; (iv) that the surviving, resulting or transferee corporation or assignee is fully qualified to act as the eligible mortgagee in connection with the FHA Insurance of the Mortgage Note for the Project and as the issuer-servicer of the GNMA Securities; (v) that immediately after the consummation of the transaction, and after giving effect thereto, the surviving, resulting or transferee corporation or assignee, as the case may be, will have a net worth, as determined by GNMA, in an amount not less than the minimum amount required by GNMA to be an issuer and servicer of GNMA Securities; and (vi) that as of the date of such consolidation, acquisition, merger, sale, transfer or assignment, the Authority and the Trustee shall be furnished with (a) an opinion of independent counsel (satisfactory to the Authority and not objected to by the Trustee) that there has been compliance with items (i), (ii), (iii) and (iv) above, (b) an opinion of an independent certified public accountant opining as to the compliance with item (v) above, and (c) a certificate, dated the effective date of such consolidation, acquisition, merger, sale, transfer or assignment, signed by an Authorized Officer of the Mortgage Banker and of the surviving, resulting or transferee corporation, as the case may be, to the effect that immediately after the consummation of the transaction, and after giving effect thereto, to their knowledge no such event of default exists under the Agreement and no event exists which, with notice or lapse of time or both, would become an event of default. Throughout the term of the Agreement, the Mortgage Banker shall continue to be duly authorized to do business in the State of New York.

(Section 21)

Control; Use; Restriction on Sale, Lease or Encumbrances Licensure

Except as otherwise provided in the Agreement or the FHA Documents, the Institution shall have sole, exclusive and full control of and responsibility for the Project, including, but not limited to, the operation of the Project, the supervision of the activities conducted therein, and the maintenance, repair and replacement thereof and of the fixtures, furniture and equipment therein. The Institution agrees that any service rendered in its facilities shall at all times be rendered without regard to race, creed, color, sex or national origin. The Institution shall operate, or cause the operation of, the Project in accordance with all licensure and other requirements of the Department of Health of the State to the extent that such licensure and other requirements apply to the Project.

The Institution further agrees that, except as otherwise provided in the Agreement, it will not sell, lease or otherwise dispose of or encumber the Project and the property, furnishings and equipment therein.

The Institution covenants that it shall not transfer, sell, encumber or convey any interest in the Project or any part thereof or interest therein, including development rights, without complying with the Governmental Requirements and obtaining the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Institution to comply with all terms and conditions of such consent, and (ii) an opinion of Bond Counsel stating that the change will not have an effect on the status of the taxability of the interest on the Bonds for federal income tax purposes; provided, however, an opinion of Bond Counsel shall not be required if the transfer, sale, encumbrance or conveyance of such interest, when aggregated with all of the then existing private use of the Project or the Mortgaged Property, will not cause the private use of the Project or the Mortgaged Property to exceed two percent (2%) of the square footage thereof. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit into the Debt Service Fund an amount not to exceed the amount of Bonds Outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority.

(Section 22)

Restrictions on Religious Use

The Institution agrees that, so long as (i) any part of the Project shall exist and (ii) the Institution or any person who claims any such part of the Project pursuant to a voluntary grant or conveyance by the Institution shall have any interest in such part of the Project, no part of the Project shall be used for 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 free exercise of any religion by persons who occupy a part of the Project or their invitees. The Authority and its agents may conduct such inspections as the Authority deems necessary to ensure that no such use is made of any part of the Project. The Institution warrants that it will comply in full with these requirements and that the instrument containing such restriction provides that such restriction may be enforced at the insistence of the Authority, the Attorney General of the State of New York or any taxpayer of the State of New York, by a proceeding in any court or competent jurisdiction, by injunction, mandamus or by other appropriate remedy.

(Section 23)

Maintenance, Repair and Replacement

Except as otherwise provided in the FHA Documents, the Institution agrees that throughout the term of the Agreement: (i) it shall, at its own expense, hold, operate and maintain the Project and its equipment in a careful, prudent and economical manner and as required by the Mortgage and Regulatory Agreement, and keep the Project, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and shall from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of the Project may be properly and advantageously conducted; (ii) except as expressly permitted by the Mortgage and Regulatory Agreement, it shall not make any change or alteration of a structural nature in or to the Project without the prior written consent of the Mortgage Banker; (iii) it shall have the right to remove or replace any type of equipment, furniture or fixtures of the Project it deems desirable or necessary, provided that to the extent any such equipment, furniture or fixtures are replaced with other equipment, furniture or fixtures, the latter shall become subject to the Mortgage; and (iv) it shall pay at its own expense all extraordinary costs of maintaining, repairing and replacing the Project and its equipment, except insofar as funds are made available therefor from insurance proceeds received pursuant to the Agreement.

The Institution shall, when requested in writing by the Authority or the Mortgage Banker, render reports to the Authority and the Mortgage Banker on all repairs, replacements and maintenance made annually to the Project by the Institution.

In connection with the operation, maintenance, repair and replacement of the Project, the Institution shall comply with all Governmental Requirements, any requirement relating to the Project of an insurance company writing insurance on the Project and any such requirement relating to the Project as is contained in the Mortgage and documents related thereto.

(Section 24)

Covenant as to 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 be required to insure itself with respect to the Project against those forms of risks normally associated with the operations of similar facilities in the State of New York, upon the written recommendation of the Insurance Consultant and in such amounts and with such deductible provisions as recommended by such Consultant. Subject to the requirements of FHA and the FHA Documents, no provision of the Agreement shall be construed to prohibit the Institution from self-insuring the Project 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 or the holder of the Mortgage Note.

The Institution may purchase additional insurance on the Project for amounts considered adequate by the Institution against direct physical loss or damage from other perils under forms normally available in the State of New York.

The policies procured by the Institution and held by the Mortgage Banker shall be open to inspection by the Trustee and the Authority at all reasonable times, and a list describing such policies shall be furnished by the Institution to such parties as soon as possible after delivery of the Series 2007 Bonds and annually on or before each August 10 thereafter, in each case as of the preceding June 30, together with a certificate of an Authorized Officer of the Institution certifying that such insurance meets all the requirements of the Agreement. Neither the Trustee, the Authority nor the Mortgage Banker shall have any other responsibilities with respect to any such insurance except as the Mortgage Banker may be required, at the request of an Authorized Officer of the Authority, to provide copies of such policies and certificates to the Authority for the records.

The Institution agrees to give the Mortgage Banker, the Authority and the Trustee written notice of any change in any insurance or insurance policy required by the Agreement or Mortgage at least sixty (60) days prior to such change unless a lesser period of notice is expressly approved in writing by an Authorized Officer of the Authority.

On or prior to the date of the delivery of the Series 2007 Bonds, the Institution may designate an Insurance Consultant, who may be an insurance broker or an insurance agent with whom the Institution, the Mortgage Banker or the Authority transacts business. The Institution may replace such Insurance Consultant and appoint a new Insurance Consultant by giving the Mortgage Banker 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 Mortgage Banker 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 an Authorized Officer of the Authority or the Mortgage Banker, a report relating to the Institution's compliance with the requirements of the Agreement. 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 Authority and the Mortgage Banker

(Section 25)

Damage or Condemnation

In the event that any part of the Project is destroyed or damaged by fire or other casualty or taken by eminent domain, all proceeds of insurance or condemnation awards shall be payable to the Mortgage Banker and shall be

applied by the Mortgage Banker, at its election, to the repair or restoration of the Project or prepayment of the indebtedness evidenced by the Mortgage Note in accordance with the provisions of the Mortgage.

(Section 26)

Taxes and Assessments

The Institution agrees to pay: (i) all taxes and governmental charges of any kind whatsoever, including ad valorem taxes that may be lawfully assessed or levied against or with respect to the Project and any equipment or furnishings therein; (ii) all utility and other charges incurred or imposed for the operation, maintenance, use, occupancy, up-keep and improvement of the Project; and (iii) all assessments and charges of any kind whatsoever lawfully made by any governmental body for public improvements that may be assessed against the Project as required by the Mortgage; provided, however, that the Institution may, at its expense, after written notice to the Mortgage Banker, in good faith, contest any such taxes, charges and assessments as provided in the Mortgage. Notwithstanding the foregoing, the Mortgage Banker in its sole discretion, after notice in writing to the Institution, may pay (such payment to be made under protest if so requested by the Institution) any such charges, taxes and assessments if, in the reasonable judgment of the Mortgage Banker, the Project or the Mortgaged Property, or any part thereof, would be in substantial danger by reason of the Institution's failure to pay such charges, taxes and assessments 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 Mortgage Banker, the Trustee or FHA thereunder, under the Resolution, under the Series Resolution or under the Mortgage; (ii) the ability of the Mortgage Banker or the Authority to enforce its rights thereunder; (iii) the ability of the Mortgage Banker or Authority to fulfill the terms of any covenants or perform any of its respective obligations hereunder, under the Resolution or under the Series Resolution; or (iv) the ability of the Institution to fulfill the terms of the covenants or perform any of its obligations hereunder or under the Mortgage, and the Institution agrees to reimburse the Mortgage Banker for any such payment, with interest thereon from the date payment was made by the Mortgage Banker at a rate equal to the prevailing prime interest rate per annum to the date of reimbursement, but no less than the interest rate stated in the Mortgage Note.

(Section 27)

Funding of the Collateral Account and the Interest Escrow Account

In the event that a deposit is required to be made to the Collateral Account or the Interest Escrow Account established under the Resolution and the Series Resolution, the Institution agrees to satisfy such required deposits with Available Monies or Letters of Credit (as defined in the Resolution and the Series Resolution). To the extent that the Institution satisfies such obligation with Letters of Credit, it shall also cause to be provided 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. To the extent that the Institution satisfies such obligation with Available Monies, any amounts in excess of the required deposit shall be returned to the Institution.

In the event the Authority determines that upon an acceleration of the Bonds pursuant to the Resolution or the defeasance of the Bonds, pursuant to the Resolution, the timely payment of the principal of and interest on the Bonds has been paid or is fully provided for (such determination to be based upon cash-flows prepared by a Financial Consultant) without recourse to one or more of the Letters of Credit posted pursuant to the Resolution or to any Available Monies provided by the Institution, it shall provide written notification to such effect to the Mortgage Banker and the Trustee and the Trustee shall return the applicable Letters of Credit or Available Monies to or upon the order of the Institution.

(Section 28)

Events of Default and Remedies

The following events are herein referred to as "Events of Default" under the Agreement: (a) if GNMA or the Mortgage Banker, or both, fail to pay or prepay, or cause to be paid or prepaid, the principal of, premium, if any, and interest on the GNMA Securities to the Trustee, when the same shall become due and payable, either at maturity or by acceleration or otherwise; (b) if as a result of a default by the Mortgage Banker under the GNMA Guaranty Agreement, GNMA shall effect and complete the extinguishment of the Mortgage Banker's interest in the Mortgage,

unless GNMA shall, concurrently with the extinguishment of the Mortgage Banker's interest in the Mortgage, become or find another person qualified to become the Mortgage Banker; (c) if there shall occur an event of default by the Institution under the FHA Documents which is continuing, as a result of which the Mortgage Banker commences either foreclosure proceedings or an assignment of the Mortgage to FHA in accordance with Section 232/223(f) of the National Housing Act, as amended; (d) if either CLCs are not issued by the Mortgage Banker on a timely basis or the PLC is not acquired by the PLC Delivery Date; or (e) as a result of an Event of Delinquency (as such term is defined in the Agreement) with respect to any payment or performance required by the Mortgage Banker or the Institution pursuant to the Agreement, whether or not declared, continuing or cured, the Authority shall be in default pursuant to the Resolution.

Upon the occurrence of an Event of Default which is continuing, the Authority may, in addition to any remedies described above, withhold any or all further performance under the Agreement, and may apply any moneys then on deposit in the Acquisition Account to the payment of Series 2007 Bonds pursuant to the Resolution.

The Institution and the Mortgage Banker hereby agree that any injury to the Authority and the Trustee resulting from an Event of Delinquency or Event of Default hereunder would be irreparable and that the damages caused hereby would be difficult to ascertain and that, therefore, the Authority and the Trustee shall be entitled to maintain an action for specific performance under the Agreement against the defaulting party.

(Section 31)

Termination of Agreement, Mortgage and Mortgage Note

When none of the Series 2007 Bonds are Outstanding and provided all other obligations of the Institution and the Mortgage Banker hereunder have been fully and duly discharged, the Agreement and the liabilities of the Institution and the Mortgage Banker hereunder, except as specifically provided in the Agreement, or any successor entity as may be permitted in accordance with the Agreement, shall terminate. Upon such termination: (i) an Authorized Officer of the Authority shall (a) surrender or cause the Trustee to surrender the PLC as required by the Mortgage Banker pursuant to GNMA program requirements, (b) execute and deliver such other documents as may be reasonably requested by the Institution or the Mortgage Banker, as the case may be, to evidence the discharge (except as set forth above) of their respective liabilities to the Authority under the Agreement, and (c) after first deducting any moneys due to the Authority, the Trustee and any paying agent for the Series 2007 Bonds for the fees and expenses incurred or occurring in relation to the Project or the Series 2007 Bonds, direct the Trustee to pay any surplus moneys, Permitted Investments and the income and gain accrued thereon held by the Trustee in the Funds and Accounts held under the Resolution to the Institution; and (ii) an Authorized Officer of the Mortgage Banker shall, if appropriate, execute and deliver such documents as may be necessary, or reasonably requested by the Institution, to evidence the discharge of the Institution's liabilities to the Mortgage Banker under the Agreement and the FHA Documents, it being understood and agreed that the terms and conditions of the FHA Documents shall not be deemed discharged or terminated until fully satisfied, in accordance with the terms of such documents and may survive termination of the Agreement. Termination of the liabilities under the FHA Documents shall be in accordance with the terms and conditions thereof, to which reference is made hereby.

(Section 35)

Arbitrage; Rebate Calculations; No Arrangement to Purchase Bonds

(1) The Institution, the Mortgage Banker and the Authority covenant that they shall take no action, nor approve the Trustee's taking any action or making any investment or use of the proceeds of Bonds, which would cause the Bonds or any Series of Bonds to be "arbitrage bonds" within the meaning of Section 148 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.

(2) The Authority 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 Institution and its agents and representatives, any of whom may make copies thereof.

Upon written request therefor from the Institution, the Authority shall as soon as practicable provide the Institution with a copy of any such document, report or computation. The Authority shall also provide the Institution with a copy of all documents or reports filed with the Department of Treasury of the United States of America relating to the rebate of Excess Earnings.

(3) To the extent any consultant is retained to prepare any document, report or calculation to calculate the rebate requirement, the Institution shall pay such fees and expenses.

(4) The Institution (or any related person, as defined in Section 103(b)(6)(C) of the Internal Revenue Code of 1954, as amended prior to the Tax Reform Act of 1986) shall not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority.

(Section 45)

Amendments to Agreement

The Agreement may be amended by an instrument in writing signed by the parties hereto and, if such amendment occurs after the issuance of any of the Bonds, filed with the Trustee, in accordance with the provisions of the Resolution.

(Section 49)

FHA and GNMA Regulations Controlling

To the extent that any provision in the Agreement shall be inconsistent or in conflict with the provisions of the National Housing Act as amended, FHA regulations, the GNMA regulations, the GNMA I Mortgage-Backed Securities Guide, the GNMA Securities, the GNMA Guaranty Agreement or the FHA Documents, as the case may be, the provisions of the National Housing Act as amended, FHA regulations, the GNMA regulations, the GNMA I Mortgage-Backed Securities Guide, the GNMA Securities, the GNMA Guaranty Agreement or the FHA Documents, as the case may be, shall control. No provision of the Agreement or of any instruments referred to in the Agreement shall alter the non-recourse nature of the Mortgage Banker's obligations under the GNMA Securities.

(Section 53)

**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION**

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution pertaining to the Series 2007 Bonds. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A or in the body of this Official Statement.

Resolution and Bonds Constitute a Contract

In consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued under the Resolution by those who shall hold the same from time to time: (i) the Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the holders from time to time of such Bonds; (ii) the pledges and assignments made in the Resolution and the Applicable Series Resolution and the covenants and agreements set forth in the Resolution to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the holders of any and all of the Outstanding Bonds of the Applicable Series, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds of the Applicable Series over any other thereof except as expressly provided in or permitted by the Resolution; (iii) the Authority covenants that it will cause, except as otherwise provided in the Resolution, to be paid to and deposited directly with the Trustee and pledges and assigns to the Trustee and grants the Trustee a security interest in all proceeds from the sale of Bonds of the Applicable Series issued hereunder, all Applicable GNMA Securities and other investments purchased from such proceeds, and the interest earned and the gains realized therefrom, all funds and accounts established by the Resolution (except for the Applicable Arbitrage Rebate Fund, the Applicable Equity Fund and the Applicable Collateral Account of the Bond Proceeds Fund once the Collateral Account Requirement is reduced to \$0), any Applicable Letters of Credit and all other moneys to be pledged and assigned to the Trustee as security for the payment of the principal of and redemption premiums, if any, and interest on the Bonds of the Applicable Series, and for the performance of all other covenants and agreements of the Authority contained in the Resolution; (iv) such pledge of the Authority shall be valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of Bonds of the Applicable Series issued, all Applicable GNMA Securities and other investments purchased from such proceeds, and the interest earned and the gains realized therefrom, and all funds and accounts established hereby and by the Applicable Series Resolution (except for the Applicable Arbitrage Rebate Fund, the Applicable Equity Fund and the Applicable Collateral Account of the Bond Proceeds Fund once the Collateral Account Requirement is reduced to \$0), which are pledged under the Resolution shall immediately be subject to the lien of such pledge against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof without any physical delivery thereof or further act, and no instrument by which such pledge is created nor any financing statement need be recorded or filed, and (v) the Bonds of the Applicable Series shall be special obligations of the Authority payable solely from the proceeds of Bonds and the moneys received by the Trustee with respect to the Applicable GNMA Securities and the funds and accounts and investments created or designated in the Resolution and in the Applicable Series Resolution, all to the extent pledged to or held by the Trustee, and as otherwise provided by the Resolution.

(Section 1.02)

Option of Authority to Assign Certain Rights and Remedies to the Trustee and Assignment of the Mortgage.

With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued hereunder and under the Applicable Series Resolution by those who shall hold or own the same from time to time, the Resolution and the Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of an Applicable Series, as security for the payment of the principal or Redemption Price of and interest on the Outstanding Bonds of such Series and for the performance of each other obligation of the Authority under the Resolution, the Authority, at its sole option, may grant, pledge and assign to the Trustee (i) any or all of the Authority's estate, right, title, interest and

claim in, to and under the Applicable Agreement, together with all rights, powers, privileges, options and other benefits of the Authority under such Applicable Agreement, including, to the extent provided for under the terms of the Applicable Agreement, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the Resolution) all payments and other security now or hereafter payable to or receivable by the Authority under such Agreement, and (ii) the right to make all waivers and agreements in the name and on behalf of the Authority, as agent and attorney-in-fact, and to perform all other necessary and appropriate acts under such Agreement, subject to the following conditions: (a) that the Bondholders shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; and (b) that, unless and until the Trustee shall, in its discretion, when a default under such Agreement shall have occurred and be continuing, so elect, by instrument in writing delivered to the Authority, the Institution and the Applicable Mortgage Banker (and then only to the extent that the Trustee shall so elect), the Trustee shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions contained in such Applicable Agreement to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision in which event the Trustee shall be responsible for such actions), it being understood that the Authority is to remain liable for the observance and performance of all the conditions and covenants in such Agreement as it is required to observe and perform, all to the extent provided in the Resolution.

(Section 1.03)

Authorization of Bonds and Purposes for Which Bonds May Be Issued

The aggregate principal amount of Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as provided in the Resolution.

Bonds may be issued at any time and from time to time to provide funds, together with other moneys to be provided by the Institution, to (a) acquire any GNMA Securities on or subsequent to the date of delivery of any Series of Bonds in accordance with an Agreement enabling the Institution to finance or refinance a Project or obtain additional financing to complete a Project and pay costs of issuance of such Series of Bonds, (b) pay for any Capital Additions, and (c) refund all or a portion of Bonds of any Series issued hereunder. Pending such acquisition of GNMA Securities, funds in the Acquisition Account may be invested in an Investment Agreement. Upon the initial advance for the acquisition by the Trustee, on behalf of the Authority, in the name of the Trustee as registered owner, of the Applicable GNMA Securities (other than any CLCs which may be outstanding on the date of the delivery of the Bonds initially issued under the Resolution), funds will be made available, pursuant to an Agreement, to the Institution through and by the Mortgage Banker to provide for the financing of the Project.

(Section 2.01)

Selection of Bonds to Be Redeemed

(a) Prior to the redemption of less than all of the Bonds of an Applicable Series (other than from Amortization Payments), the Authority shall direct the Trustee as to which maturities of such Series and the amount of each such maturity to which funds available for such redemption shall be applied. The Authority shall give such direction in accordance with a revised Cash Flow Statement which gives effect to such redemption. Except as set forth in the Applicable Series Resolution or the Applicable Bond Series Certificate, the Bonds of a Series to be redeemed (other than Bonds to be redeemed from Amortization Payments) shall be selected (and the Applicable Amortization Payments shall be adjusted) so that the resulting decrease in the debt service on the Bonds of such Series in each six-month period ending on an Interest Payment Date is proportional, as nearly as practicable, to the decrease in payments on the Applicable GNMA Securities. The Authority also shall (i) deliver or cause to be delivered to the Repositories a revised schedule of Amortization Payments based on such revised Cash Flow Statement, (ii) cause the Applicable Collateral Account Requirement to be recalculated as of the date of such redemption and (iii) promptly provide or cause the Trustee to provide a copy of the revised Cash Flow Statement and recalculated Collateral Account Requirement to the Rating Services.

(b) If less than all Bonds of a particular maturity shall be redeemed, the Trustee shall assign to each Bond Outstanding of the maturity to be redeemed a distinctive number for each unit of the principal amount of such fully registered Bond equal to \$5,000 and the Bonds to be redeemed shall be selected by the Trustee by such method as it shall

deem fair and appropriate, in its discretion, from the maturity to be redeemed, and the numbers assigned to such Bonds then Outstanding and to be redeemed in unit amounts of \$5,000, shall equal the principal amount of the Bonds to be redeemed.

(c) The Bonds to be redeemed shall be the Bonds which were assigned the numbers so selected; provided, however, that only so much of the principal amount of each such Bond shall be redeemed as shall equal the denomination or whole multiple thereof. For the purposes of the provisions relating to the selection of Bonds to be redeemed, Bonds which have theretofore been selected for redemption shall not be deemed Outstanding.

(Section 3.02)

Notice of Redemption

When Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Bonds in the name of the Authority, which notice shall specify: (i) the Bonds to be redeemed; (ii) the redemption date; (iii) the Redemption Price; (iv) the numbers, any CUSIP number and other distinguishing characteristics of the Bonds to be redeemed; (v) that such Bonds will be redeemed at the principal corporate trust office of the Trustee, and (vii) that no representation is made as to the correctness of the CUSIP number either as printed on any Bond or as contained in such notice and that an error in a CUSIP number as printed on any 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 Bond to be redeemed, the Redemption Price thereof, together with interest accrued to the redemption date, and that after such date, payment having been made or provided therefor, interest thereon shall cease to accrue. The Trustee shall mail a copy of such notice, postage prepaid, not less than thirty (30) days prior to the redemption date, or, if the Applicable Bond Series Certificate shall establish a shorter period in the case of an Extraordinary Mandatory Redemption, not less than fifteen (15) days prior to the redemption date, in either case to the registered owners of any Bonds which are to be redeemed, at their last known addresses appearing on the registration books, but failure of any such owner to receive such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of the Bonds with respect to which such notice has been given in accordance with the Resolution. The Trustee shall promptly certify to the Authority that it has mailed or caused to be mailed such notice to such registered owners, and such certificate shall be conclusive evidence that such notice was given in the manner required hereby.

Any notice of redemption, other than a notice for Special Redemption or Extraordinary Mandatory Redemption, may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such 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 of, premium, if any, and interest on such Bonds are not received by the Trustee on or prior to the redemption date, 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.

No notice of redemption need be given for Bonds to be paid at maturity.

(Section 3.03)

Purchase of Bonds in Lieu of Redemption

Whenever Bonds are to be purchased at the election of the Institution, written notice thereof and of the Bonds of the Series and maturity to be so purchased having been given by the Institution to the Authority and the Trustee, the Trustee shall select the particular Bonds of such Series and maturity to be so purchased in the same manner as provided in the Resolution for the selection of Bonds to be redeemed in part. Promptly thereafter the Trustee shall give notice of the purchase of such Bonds at the times and in the manner provided in the Series Resolution authorizing such Bonds or the Bond Series Certificate related thereto. The Trustee shall not give such notice unless prior to the date such notice is given the Institution has caused to be delivered to the Trustee the written consent to such purchase of the Authority. All such purchases may be subject to such conditions established by the Institution and shall be subject to the further condition that funds for the payment of the purchase price therefor constituting Available Moneys is available on the date set for such purchase. Notice of purchase having been given in the manner required by the Series Resolution authorizing the Bonds to be so purchased or the Bond Series Certificate relating thereto, then, if sufficient Available Moneys to pay the purchase

price of such Bonds is held by the Trustee, the purchase price of the Bonds or portions thereof so called for purchase shall become due and payable on the date set for purchase, upon presentation and surrender of such Bonds (other than Book Entry Bonds) to be purchased at the office or offices specified in such notice, and, in the case of Bonds presented by other than the registered owner, together with a written instrument of transfer duly executed by the registered owner or his duly authorized attorney. Payment of the purchase price of other than Book Entry Bonds shall be made, upon the request of the registered owner of one million dollars (\$1,000,000) or more in principal amount of Bonds to be so purchased, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has prior to the purchase date directed in writing the Trustee to wire such purchase price. Bond so purchased shall continue to be considered outstanding and each such purchased Bond that is not a Book Entry Bond shall be registered in the name or at the direction of the Institution.

(Section 3.05)

Establishment of Funds and Accounts

Unless otherwise provided by the Applicable Series Resolution, the following Funds and separate Accounts within Funds are hereby created and shall be established, held and maintained by the Trustee for the benefit of the Applicable Series of Bonds separate from any other funds established and maintained pursuant to any other Series Resolution:

Bond Proceeds Fund:
Acquisition Account;
GNMA Securities Account;
Interest Escrow Account;
Project Account
Debt Service Fund:
Debt Service Account;
Collateral Account;
Redemption Account;
Equity Fund
Expense Fund; and
Arbitrage Rebate Fund.

(Section 4.01)

Application of Moneys in the Bond Proceeds Fund

As provided in the Applicable Series Resolution or Applicable Bond Series Certificate, the Trustee shall deposit in the Applicable Acquisition Account: subject to the provisions of paragraph(a)(i) below, all or a portion of the proceeds of the Applicable Series of Bonds or the Applicable Investment Agreement acquired with the proceeds of such Series Bonds and any amounts received from the Institution for such purpose pursuant to the Applicable Agreement.

(a) (i) All moneys in the Applicable Acquisition Account shall be applied by the Trustee for the following purposes but not necessarily in the following priority:

(A) The Trustee shall purchase CLCs and/or the PLC on behalf of the Authority in accordance with the provisions set forth below, in the name of the Trustee as registered owner.

(I) On each date upon which the Trustee acquires from the Applicable Mortgage Banker a CLC representing a Mortgage Loan advance previously funded by the Applicable Mortgage Banker, the Trustee shall transfer from the Applicable Acquisition Account to the Applicable Mortgage Banker an amount equal to 100% of the principal amount of such CLC. Accrued and unpaid interest on such CLC at the Pass-Through Rate shall be paid simultaneously by the Trustee to the Mortgage Banker from amounts in the Applicable Debt Service Account.

(II) (1) On the date on which the Trustee acquires from the Mortgage Banker the PLC, the Trustee shall remit to the Mortgage Banker from funds on deposit in the Applicable Acquisition Account, (y) if the Trustee then holds any CLCs, an amount equal to the difference between 100% of the aggregate original principal amount of all CLCs theretofore acquired by the Trustee and the current balance on the

PLC or (z) if the Trustee then holds no CLCs, an amount equal to the principal amount of the PLC. Accrued and unpaid interest on the PLC at the Pass-Through Rate shall be paid from the Interest Escrow Account.

(2) In the event the principal balance of the PLC as of the PLC Delivery Date is less than the aggregate principal amount of all CLCs theretofore acquired by the Trustee, the Trustee shall only exchange the CLCs held by it for the PLC if the Applicable Mortgage Banker causes to be paid to the Trustee, an amount equal to the difference between the then-current outstanding principal balance of the PLC as of the PLC Delivery Date and the aggregate principal amount of the CLCs theretofore acquired by the Trustee, which amount shall be transferred to the Applicable Debt Service Account.

(B) The Trustee shall, on the business day immediately after the earlier of the CLC Maturity Date and the PLC Delivery Date, taking into account any extensions thereof, transfer to the Applicable Redemption Account all amounts on deposit in the Applicable Acquisition Account for application to the mandatory redemption of Bonds in accordance with the Applicable Series Resolution or the Applicable Bond Series Certificate. Notwithstanding the foregoing, however, the Trustee shall transfer from the Applicable Acquisition Account to the Applicable Debt Service Account, an amount equal to the amount, if any, received by the Applicable Mortgage Banker with respect to scheduled amortization on the applicable Mortgage Note prior to the delivery of the Applicable GNMA Security to the Trustee.

(C) Following (x) an event of default hereunder and upon redemption of the Bonds, (y) an event of default which is continuing on the Applicable Mortgage Note and Applicable Mortgage and the assignment thereof to FHA, or (z) prepayment of the Applicable Insured Loan pursuant to FHA's direction that the Mortgage Note be prepaid in whole or in part, pursuant to FHA's determination that prepayment will avoid a mortgage insurance claim and is therefore in the best interest of the federal government, then in any such event, but only to the extent amounts in the Applicable Acquisition Account are no longer needed to purchase CLCs or the PLC as directed by the Applicable Mortgage Banker, the Trustee shall transfer to the Applicable Redemption Account all amounts on deposit in the Applicable Acquisition Account for application to mandatory redemption of the Applicable Series of Bonds.

(ii) The Applicable PLC Delivery Date shall be extended to a revised PLC Delivery Date (but not beyond the Applicable CLC Maturity Date) and the transfer and redemption described in subparagraph (i) above will not be made if (A) the Applicable Mortgage Banker has requested such extension, (B) the Rating Services has confirmed that the rating on the Applicable Series of Bonds will not be suspended, reduced or withdrawn as a result of such extension, (C) the Trustee has received no later than two business days preceding the current Applicable PLC Delivery Date a Cash Flow Statement showing that the amounts or Letters of Credit on deposit, or Available Moneys or Letters of Credit to be deposited pursuant to the Applicable Agreement, in the Applicable Interest Escrow Account, are at least equal to the Interest Escrow Account Requirement, after giving effect to such revised PLC Delivery Date and (D) any additional Available Moneys or Letters of Credit to be deposited in the Interest Escrow Account in accordance with the Cash Flow Statement referred to in (C) above is deposited therein.

(iii) The Applicable CLC Maturity Date shall be extended (but in no event beyond the date designated in the Applicable Bond Series Certificate) if the conditions in the preceding paragraph for extending the Applicable PLC Delivery Date to the same date are satisfied and (A) the Applicable Mortgage Banker has requested and GNMA has consented to the extension, (B) the Rating Services has confirmed that the rating on the Applicable Series of Bonds will not be suspended, reduced or withdrawn as a result of such extension and (C) the Applicable Mortgage Banker agrees that in submitting the CLCs to GNMA in exchange for the PLC, it will use its best efforts to follow any applicable submission schedule issued by GNMA from time to time to ensure delivery of the PLC in the same month as the CLCs mature.

(iv) All investment income on any Applicable Investment Agreement shall be transferred two (2) days prior to each Interest Payment Date to the Applicable Debt Service Account.

(b) GNMA Securities Account. The Trustee shall deposit in the Applicable GNMA Securities Account all Applicable CLCs acquired subsequent to the date of the delivery of the Applicable Series of Bonds. After the acquisition by the Trustee of all Applicable CLCs, if any, the Trustee, as the registered owner, shall be obligated after Final

Endorsement in accordance with the directions of the Authority to exchange such CLCs for the Applicable PLC in accordance with the Agreement and the Resolution and such PLC shall be deposited in the Applicable GNMA Securities Account.

Notwithstanding anything contained in the Resolution to the contrary, in the event that the proceeds of an insurance or condemnation award on the Applicable Mortgage Note are received by the Mortgage Banker as a prepayment on such Mortgage Note and are passed through to the Trustee, as holder of the Applicable CLCs, prior to Final Endorsement and issuance of the Applicable PLC, the Trustee is hereby directed to sell and deliver Applicable CLCs on deposit in the Applicable GNMA Securities Account to the Mortgage Banker equal in amount to such proceeds at par plus accrued interest, if any, to the pass through date of repurchase. Such moneys so received in exchange for such CLCs shall be deposited in the Applicable GNMA Securities Account and transferred forthwith to the Applicable Redemption Account for application in accordance with the Resolution in order to effect an Extraordinary Redemption pursuant to the Applicable Series Resolution or Applicable Bond Series Certificate (but only to the extent that such moneys constitute Available Moneys).

All interest and principal (but not prepayments of principal and premiums, if any) received by the Trustee on account of Applicable GNMA Securities shall be promptly deposited in the Applicable GNMA Securities Account and immediately transferred to the Debt Service Account. So long as any Applicable GNMA Securities are on deposit in the Applicable GNMA Securities Account, if the Trustee does not receive a regularly scheduled monthly payment on such GNMA Securities by the 15th day of the month or, if the 15th day is not a business day, on the next business day, then the Trustee shall notify the Applicable Mortgage Banker and GNMA of such missed payment and shall request payment from GNMA in accordance with the terms of the GNMA Securities. All prepayments of principal and premiums received by the Trustee on account of GNMA Securities shall promptly be deposited in the Applicable GNMA Securities Account and immediately transferred to the Applicable Redemption Account.

The Trustee shall not sell any GNMA Securities on deposit in the Applicable GNMA Securities Account at less than the face value of such GNMA Securities without consent of 100% of the Holders of the Applicable Series of Bonds Outstanding; provided, however, that the Trustee may undertake such sales without the consent of Bondholders if the Trustee has received a revised Cash Flow Statement that takes into account the proposed sale of GNMA Securities at less than face value. Notwithstanding any other provision of the Resolution, the provisions described in this paragraph may not be amended without the consent of 100% of the Holders of Bonds Outstanding.

(c) Interest Escrow Account. The Trustee shall deposit Available Moneys or the Applicable Letter of Credit provided for the Interest Escrow Account Requirement in the Applicable Interest Escrow Account and shall take such actions with respect thereto (including investment of any Available Moneys) as may be set forth in the Applicable Bond Series Certificate. The Trustee shall also deposit any Available Moneys or Letters of Credit received pursuant to the Applicable Agreement into the Applicable Interest Escrow Account to satisfy any deficiency in such Account. During the Interest Escrow Period, to the extent that the moneys transferred to the Applicable Debt Service Account pursuant to the Resolution are insufficient to pay interest on or principal of (including Applicable Amortization Payments, if any), the Bonds and any applicable fees and charges (including but not limited to the Annual Administration Fee, the Dissemination Fee, the Rebate Analyst's Fee or the Trustee's Annual Fee) when due, the Trustee shall, in a timely manner such that payments from the Applicable Debt Service Account can be made in accordance with the terms of the Resolution, transfer funds on deposit in such account or draw on the Applicable Letter of Credit on deposit in the Applicable Interest Escrow Account in accordance with the terms thereof (and if a draw is not honored under the principal Letter of Credit on deposit in the Interest Escrow Account, then a draw shall promptly be made on the Letter of Credit, if any, securing payment on such principal Letter of Credit) and transfer such moneys from the Interest Escrow Account to the Applicable Debt Service Account. In any event, at least fifteen (15) days prior to the expiration of any such Letter of Credit, unless such Letter of Credit has been renewed or the Interest Escrow Account Requirement on such expiration date would be zero, the Trustee shall draw the full amount of the Letter of Credit and deposit the proceeds to the Applicable Interest Escrow Account.

The Trustee is authorized to release the Letter of Credit or cash held on deposit in the Applicable Interest Escrow Account at any time on or after the Bond Payment Date following the Applicable PLC Delivery Date and the end of the Interest Escrow Period after the application of any amounts described in the preceding paragraph provided the Trustee has

first received a certificate of an Authorized Officer of the Authority stating that based on Cash Flow Statements provided to the Authority and the Rating Services, the Applicable Interest Escrow Account Requirement has been reduced to \$-0-.

(d) Project Account. As soon as practicable after the delivery of a Series of Bonds, the Trustee shall deposit in the Project Account the amount required to be deposited therein pursuant to the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series. The Trustee shall also deposit in the Project Account the amounts, if any, paid to it by the Institution pursuant to the terms of the Agreement and any amounts on deposit in the Interest Escrow Account in excess of the Interest Escrow Account Requirement.

(i) Except as otherwise provided in the Resolution and in any applicable Series Resolution or Bond Series Certificate, moneys deposited in the Project Account shall be used only to pay or reimburse the Costs of a Capital Addition with respect to such Series of Bonds. For purposes of internal accounting, the Project Account may contain one or more further subaccounts, as the Authority or the Trustee may deem proper.

(ii) Payments or reimbursement for Costs of each Capital Addition shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority, substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Institution naming the Applicable Capital Addition in connection with which payment is to be made and describing in reasonable detail the purpose for which moneys were or are to be used and the amount thereof, and further stating that such purpose constitutes a necessary part of such Capital Addition.

(iii) Upon receipt by the Trustee of a certificate relating to the completion of a Capital Addition, the moneys, if any, then remaining in the Project Account relating to such Capital Addition, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of the Capital Addition in connection with such Capital Addition which are then unpaid, shall either remain in the Project Account to pay or reimburse the Cost of another Capital Addition or, at the direction of an Authorized Officer of the Authority, be transferred by the Trustee to the Arbitrage Rebate Fund in the amount set forth in such direction.

(Section 4.03)

Application of Moneys in the Debt Service Account and the Collateral Account

Moneys in the Applicable Debt Service Account and the Applicable Collateral Account shall be applied as follows:

(a) Debt Service Account.

(i) The Trustee shall deposit in the Applicable Debt Service Account as received: (A) an amount of the proceeds from the Applicable Series of Bonds equal to the interest, if any, accruing on such Bonds from the date thereof until the date of delivery; (B) all payments received from the Applicable Acquisition Account, the Applicable GNMA Securities Account or the Applicable Interest Escrow Account in accordance with the Resolution; (C) capitalized interest, if any, in the amount set forth in the Applicable Bond Series Certificate; and (D) all payments received from the Institution to cure an interest deficiency pursuant to the Applicable Agreement.

(ii) Accrued and unpaid interest on any Applicable GNMA Security upon purchase thereof from the Applicable Mortgage Banker shall be paid from the Applicable Debt Service Account. If funds on deposit are insufficient to pay such accrued and unpaid interest, the Trustee shall transfer to the Applicable Debt Service Account funds on deposit, or funds from a draw on the Applicable Letter of Credit, in the Interest Escrow Account in the manner provided in the Resolution (the "Accrued Interest Deficiency Transfer"). In the event of any Accrued Interest Deficiency Transfer, following the receipt of the next succeeding payment of interest on Applicable GNMA Securities, the Trustee shall transfer to the Applicable Interest Escrow Account an amount equal to the Accrued Interest Deficiency Transfer to remain on deposit therein or to be paid to the Qualified Financial Institution issuing the Letter of Credit in the Applicable Interest Escrow Account to reinstate the full amount of such Letter of Credit.

(iii) Two (2) business days prior to each Bond Payment Date, the Trustee shall calculate the following:

(A) the total amount of interest to come due on all Outstanding Bonds of the Applicable Series on such Bond Payment Date;

(B) the total principal amount of Bonds of each Applicable Series Outstanding that shall mature (or be payable in respect of Amortization Payments) on such Bond Payment Date;

(C) the total amount required to be transferred from the Applicable Debt Service Account to the Applicable Expense Account pursuant to the Resolution on such Bond Payment Date; and

(D) the balance of moneys and investments, if any, held in the Applicable Debt Service Account on the computation date which will mature (or otherwise be payable to the Trustee) on or before such Bond Payment Date, valued at their principal amount, plus interest accrued thereon.

(iv) (A) If there is insufficient money under (a)(iii) above to pay interest on, or principal of (including Applicable Amortization Payments, if any), the Applicable Series of Bonds then due and to make the required transfer from the Applicable Debt Service Fund to the Applicable Expense Fund, the Trustee shall immediately notify the Authority, the Institution and the Applicable Mortgage Banker, and the Trustee shall deposit, into the Applicable Debt Service Account, the amounts necessary to cure such deficiency from the Applicable Interest Escrow Account; and

(B) If a deficiency remains after giving effect to the transfer described in (a)(iv)(A) above, the Trustee shall immediately notify the Authority, the Institution and the Applicable Mortgage Banker, and the Trustee shall deposit into the Applicable Debt Service Account the amounts necessary to cure such deficiency from the Applicable Expense Fund, the Applicable Equity Fund, if any, and, to the extent received by the Trustee, Available Moneys of the Institution.

(v) (A) On each Bond Payment Date, the Trustee and paying agent shall pay, or cause to be paid, from the Applicable Debt Service Account, first, a sum equal to the interest due on such Bond Payment Date, and second, an amount equal to the amount of principal or Amortization Payments due on such Bond Payment Date; and

(B) After paying or causing to be paid the amount described in (a)(v)(A) above, the Trustee shall transfer to the Applicable Expense Fund on such Bond Payment Date an amount equal to the sum of the Annual Administration Fee, the Dissemination Fee, if any, the Rebate Analyst's Fee, if any, and the Trustee's Annual Fee then due and payable and such amount as may be necessary to maintain a balance of \$10,000 in the Expense Fund after the payment of the foregoing.

(vi) Immediately following Final Endorsement of any Applicable Mortgage Note with respect to which CLCs have been purchased by the Trustee, the Trustee shall determine in accordance with a Cash Flow Statement, the amount then on deposit in the Applicable Debt Service Account, after giving effect to any transfers to the Debt Service Account from the Applicable Acquisition Account and from the Applicable GNMA Securities Account, which will be required, together with amounts to be received on the Applicable PLC prior to the next Bond Payment Date, to pay interest on and maturing principal of Bonds on such Bond Payment Date and, to the extent there are amounts on deposit in the Applicable Debt Service Account in excess of the amount so required shall transfer any such remaining amounts to the Applicable Redemption Account to be applied to the Special Redemption of Bonds pursuant to the Resolution. The provisions described in this paragraph shall not apply to any Mortgage Loan that is financed with a PLC only.

Collateral Account.

To the extent that the Applicable Bond Series Certificate shall establish a Collateral Account Requirement greater than \$0, the Institution shall cause to be deposited with the Trustee Available Moneys or a Letter of Credit in the Applicable Collateral Account and the Trustee shall take such actions with respect thereto as may be set forth in such Applicable Bond Series Certificate. To the extent the Bonds are subject to Special Redemption in whole or to Extraordinary Redemption in whole pursuant to the Resolution and other sources of moneys are insufficient therefor, then the Trustee shall transfer amounts in the Applicable Collateral Account or, if such amounts are insufficient, the Trustee shall, in a timely manner such that the Redemption Price can be paid in accordance with the terms of the Resolution, draw on the Applicable Letter of Credit on deposit in the Applicable Collateral Account in accordance with the terms thereof

(and if a draw is not honored under the principal Letter of Credit on deposit in the Applicable Collateral Account, then a draw shall promptly be made on the Letter of Credit, if any, securing payment on such principal Letter of Credit), and deposit such amounts to the Applicable Redemption Account to fund the amount of such deficiency.

In any event, at least thirty (30) days prior to the expiration of any Letter of Credit, unless such Letter of Credit has been renewed or the Applicable Collateral Account Requirement on such expiration date would be zero, the Trustee shall draw the full amount of the Letter of Credit and deposit the proceeds to the Applicable Collateral Account. The Trustee is authorized to release the Letter of Credit or cash held on deposit in the Applicable Collateral Account at any time provided the Trustee has first received a certificate of an Authorized Officer of the Authority stating that based on Cash Flow Statements provided to the Authority and the Rating Services, the Applicable Collateral Account Requirement has been reduced to \$-0-.

(Section 4.04)

Application of Moneys in the Redemption Account

(a) There shall be deposited in the Applicable Redemption Account (i) all payments transferred from the Applicable GNMA Securities Account pursuant to the Resolution, (ii) all moneys and investments in the Applicable Acquisition Account transferred pursuant to the Resolution, (iii) amounts transferred from the Applicable Debt Service Account and the Applicable Collateral Account pursuant to the Resolution, (iv) all amounts transferred from the Applicable Equity Fund pursuant to the Resolution, (v) all moneys provided by the Institution to the Trustee for deposit in the Applicable Redemption Account on or before the Applicable PLC Delivery Date; provided that any moneys provided by the Institution pursuant to this clause (v) shall constitute Available Moneys, and (vi) all moneys provided by the Applicable Mortgage Banker to the Trustee for deposit in the Applicable Redemption Account on or before the Applicable PLC Delivery Date attributable to a prepayment by the Institution of the Applicable Mortgage Note.

(b) The Trustee shall call for redemption, on each date on which Bonds are subject to redemption in accordance with the Resolution and the Applicable Bond Series Certificate, from moneys in the Applicable Redemption Account, such amount of Bonds of an Applicable Series then so subject to redemption as, with the Redemption Price including accrued interest and all necessary and proper expenses incurred in connection therewith, will exhaust the Applicable Redemption Account as nearly as possible. Such redemption shall be made in accordance with and at the Redemption Prices specified in or pursuant to any Series Resolution.

(c) Moneys in the Applicable Redemption Account may be applied by the Trustee to the purchase of Bonds of an Applicable Series at purchase prices approved by an Authorized Officer of the Authority not exceeding the Redemption Price applicable on the next date on which such Bonds are redeemable in accordance with the Applicable Bond Series Certificate (other than by Amortization Payments), plus accrued interest due, in such manner as an Authorized Officer of the Authority may direct in accordance with the priority of selection of the Applicable Bonds established by the Resolution, the Applicable Bond Resolution or the Applicable Bonds Series Certificate, which purchase shall be of Bonds selected in accordance with the instructions of an Authorized Officer of the Authority.

(Section 4.06)

Arbitrage Rebate Fund

The Trustee shall deposit to the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee hereunder at such times and in such amounts as set forth in such directions or in the Applicable Tax Certificate.

Moneys on deposit in each Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer 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 an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be deposited in the Applicable Debt Service Account in accordance with the directions of such Authorized Officer.

Subject to the terms of the Applicable Tax Certificate, 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 Series of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee hereunder 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 4.08)

Application of Moneys in Certain Funds for Retirement of Bonds

If at any time the amounts held in the Applicable Funds held by the Trustee under the Resolution are sufficient to effect defeasance and the release of the pledge of the Applicable GNMA Securities in accordance with the Resolution, the Trustee shall so notify the Authority and the Applicable Mortgage Banker. If such amounts are sufficient, the Authority may request the Trustee to redeem all Bonds of the Applicable Series Outstanding or to invest all funds held by the Trustee as provided in the Resolution) for the purpose of providing funds for redemption of all Bonds of the Applicable Series Outstanding or to take such other action as the Authority may direct. The Trustee shall, upon receipt of any such request or direction in writing by the Authority, proceed, as promptly as possible, to comply with such request or direction.

(Section 4.09)

Investment of Funds and Accounts

(a) (1) Moneys held hereunder by the Trustee in any fund or account established under the Resolution, shall, if permitted by law, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested and the Authority in issuing such direction shall take into consideration the dates and times when such moneys will be required for the purposes of the Resolution), in (i) Government Obligations, or (ii) Federal Agency Obligations or (iii) Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Services applicable to funds held hereunder, any other Permitted Investment; provided, however, that, each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution; and provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

(2) Permitted Investments purchased as an investment of moneys in any fund or account held by the Trustee under provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

(3) In computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, each Permitted Investment shall be valued at par or the market value thereof, plus accrued interest, whichever is lower.

(4) Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, present for redemption or exchange any investment held by the Trustee pursuant hereto and the proceeds thereof may be reinvested as provided in the Resolution. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant hereto whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority, and the Institution, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account hereunder and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments shall include the par value, if any, the cost and the current

market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(5) No part of the proceeds of any Series of Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

(Section 4.10)

Liquidation of Investments

The Trustee is authorized to liquidate any investment, including any portion of the Investment Agreement in an Acquisition Account, to acquire GNMA Securities.

Investments held pursuant to the Resolution shall be liquidated at the request of the Authority when necessary to effect any payment pursuant to the Resolution and other moneys are not available therefor or when an “event of default” (as defined in the Resolution) has occurred and is continuing under the Resolution and by selling the same at public or private sale in a commercially reasonable manner; provided, however, that should defeasance be effected in accordance with the provisions of the Resolution, or the Bonds of an Applicable Series are subject to redemption in whole in accordance with the Resolution, the Trustee may transfer any Applicable GNMA Securities still held by it to the Applicable Mortgage Banker, and all other investments and moneys to the Institution, as provided in the Resolution.

The Trustee is also authorized to liquidate investments or otherwise realize upon any Letter of Credit held in an Interest Escrow Account, an Equity Fund and a Collateral Account in order to make transfers pursuant to the Resolution.

(Section 4.11)

Application of Moneys in the Equity Fund

Unless otherwise provided in the Applicable Bond Series Certificate, the Trustee shall deposit in the Applicable Equity Fund an amount which, when combined with the amounts on deposit in the Applicable Interest Escrow Account and the Applicable Debt Service Account, is at least equal to the maximum amount which may be required on any date of determination to pay interest shortfalls on the Bonds of an Applicable Series for the period from the date of delivery of such Series of Bonds to the date or dates set forth in the Applicable Bond Series Certificate. Such amount shall be funded with Available Moneys. In the event that the PLC shall not be delivered by the date set forth in the Applicable Bond Series Certificate (unless such date shall, at the discretion of the Authority, be extended based on Cash Flow Statements demonstrating that the extension will not adversely affect the timely payment of the principal of and interest on the Bonds of the Applicable Series Outstanding), amounts in the Applicable Equity Fund shall be transferred to the Applicable Redemption Account for application as provided therein. In the event that the PLC is delivered by the date set forth in such Bond Series Certificate (unless such date shall be so extended by the Authority), any moneys in the Applicable Equity Fund not needed to pay interest on the Bonds of the Applicable Series on any first Interest Payment Date, as confirmed by Cash Flow Statements provided to the Authority and the Rating Services, shall promptly be returned to the Institution after such Interest Payment Date.

(Section 4.14)

Payment of Principal and Interest

The Authority covenants to pay or to cause to be paid, but solely from the sources provided in the Resolution, the principal or Redemption Price of and interest on every Bond on the date and at the places and in the manner mentioned in the Bonds according to the true intent and meaning thereof.

(Section 5.01)

Enforcement of Duties and Obligations of the Institution

The Authority shall cause the Institution and the Mortgage Bankers to fully perform all duties and acts and fully comply with the covenants of the Institution and the Mortgage Bankers, respectively, required by the Applicable Agreement in the manner and at the times provided therein; provided, however, that the Authority may delay or defer enforcement of one or more provisions thereof if it determines such delay or deferment of enforcement is in the best

interests of the holders of the Applicable Bonds. The Authority hereby agrees to give notice to the Trustee of the occurrence of any event of default or delinquency by the Institution or a Mortgage Banker under an Agreement of which the Authority has actual knowledge.

(Section 5.03)

Title to Assets Pledged

Except as otherwise provided in the Resolution, the Authority will not make, do, execute or suffer any act or thing whereby its interest in and title to any GNMA Securities, Securities or other moneys, assets, payments or revenues pledged and assigned hereunder will or might be impaired, changed, transferred or encumbered in any manner whatsoever.

(Section 5.04)

Rights under GNMA Securities

The Authority agrees to enforce all covenants and obligations of the issuer of the GNMA Securities which are, from time to time, held in a GNMA Securities Account, and all security afforded by the guarantee thereof by GNMA and the United States of America, and the Authority agrees that, in its own name, it shall enforce all such covenants, obligations and security for and on behalf of the Bondholders and shall take all such actions as may be required under Federal law and regulations for realizing upon the security afforded by the GNMA Securities, the GNMA guarantee thereof and the guarantee by the United States of America of the performance by GNMA on its guarantee, including surrender of GNMA Securities upon prepayment of the principal amount thereof in accordance with the terms thereof. Notwithstanding the foregoing, in accordance with the Agreement, the Authority may direct the Trustee to consent to (a) a reduction in the interest rate borne by the PLC, and (b) an extension in the maturity date of the CLCs or an increase in the interest rate born by the CLCs after the initial PLC Delivery Date, in either case, upon receipt by the Authority of the following:

- (i) A request of the Applicable Mortgage Banker or the Institution to any such reduction or extension, which request shall specify the reasons therefor;
- (ii) Cash Flow Statements demonstrating that the requested reduction or extension will not adversely affect the timely payment of the principal of and interest on the Bonds of the Applicable Series Outstanding, including but not limited to, any Mandatory Sinking Fund Installment or Amortization Payment;
- (iii) To the extent the Cash Flow Statements referred to in the preceding clause (ii) demonstrate that a deficiency would exist in the Applicable Acquisition Account if an intended extension in the maturity date of the Applicable CLCs were to occur, then the deposit of Available Moneys by the Institution to the Applicable Acquisition Account of the amount of such deficiency; and
- (iv) Written assurance from the Rating Services, which assurance shall be based upon a submission 30 days prior to the requested assurance date, to the effect that such reduction or extension will not adversely affect the rating then assigned to the Applicable Bonds.

In the event the Authority so directs the Trustee to consent to an extension in the maturity date of the Applicable CLCs pursuant to (b) above, the Trustee shall follow the Authority's instructions concerning any actions that may need to be taken with respect to the CLCs in order to effect such extension in the maturity date.

(Section 5.05)

Accounts and Audits

The Authority will keep or cause to be kept proper books or records and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries shall be made of all financial transactions relating to the GNMA Securities, Securities and other assets and funds pledged and assigned hereunder, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority or the Trustee, as the case may be, shall be subject to the inspection of any Bondholder or his representative duly authorized in writing. The Trustee shall annually prepare a report which shall be furnished to the Authority and to the Institution. Such report shall include at least: a statement of all funds (including investments thereof) held by such Trustee and the Authority pursuant to the provisions of the Resolution and of the Series Resolution. A copy of such report

regarding an Applicable Series shall, upon receipt of a written request therefor, and payment of any reasonable fee or charge made in connection therewith, be furnished to the registered owner of a Bond of an Applicable Series or any beneficial owner of a Book-Entry Bond requesting the same.

(Section 5.06)

Creation of Liens

The Authority, so long as any Bonds of an Applicable Series shall be Outstanding, shall not create or cause to be created any lien or charge on the Applicable GNMA Securities, Applicable Securities or other moneys held pursuant to the Resolution other than as permitted hereby.

(Section 5.07)

Property Held in Trust

All GNMA Securities, Permitted Investments and moneys held by the Trustee or by any paying agent at any time pursuant to the terms of the Resolution shall be and hereby are assigned, transferred and set over unto the Trustee and any paying agent in trust for the purposes and under the terms and conditions of the Resolution and the Applicable Agreement. Other than as permitted by the Resolution, the Trustee shall not sell the Applicable GNMA Securities without the consent of one hundred percent (100%) of the holders of the Applicable Series of Bonds until there are no longer any Bonds of the Applicable Series Outstanding.

(Section 6.04)

Filing of Financing Statements

The Trustee is hereby authorized to and shall promptly file in the appropriate office all financing statements and continuation statements and shall file in a timely manner all continuation statements necessary to continue the effectiveness of the filing of any financing statements.

(Section 6.15)

Events of Default

Each of the following constitute Events of Default under the Resolution and under the Applicable Series Resolution if:

(a) With respect to the Applicable Series of Bonds, payment of the principal of any such Bonds shall not be made when the same shall become due and payable at the stated maturities thereof and when the Bonds are scheduled to be paid or redeemed by application of Amortization Payments; or

(b) With respect to the Applicable Series of Bonds, payment of an installment of interest shall not be made when the same shall become due and payable on any Interest Payment Date; or

(c) if the Authority files a petition under Chapter 9 of the United States Bankruptcy Code; or

(d) the Authority shall default in the due and punctual performance of the covenants contained in the Resolution and, as a result thereof, the interest on the Bonds of an Applicable Series shall no longer be excludable from gross income under Section 103 of the Code; or

(e) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Applicable Bonds or any Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for sixty (60) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in aggregate principal amount of Bonds of the Applicable Series Outstanding; provided, that if such default is of such nature that it can be corrected within a reasonable time (as agreed to by the Trustee), but not within such 60-day period, the same shall not constitute an event of default hereunder so long as the Trustee determines that the Authority has commenced prompt corrective action and is diligently pursuing same.

(Section 7.01)

Acceleration of Maturity

Upon the happening and continuance of such an event of default specified in (a) or (b) under the caption “Event of Default”, then the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds of the Applicable Series Outstanding shall, give notice of the occurrence thereof in writing to the Authority and the Applicable Mortgage Banker, further stating that the Trustee may, after the expiration of thirty (30) days from the giving of such notice, declare the principal of all Bonds of the Applicable Series Outstanding to be immediately due and payable. After the expiration of thirty (30) days from the giving of such notice, unless the event of default shall be fully cured, the Trustee may and upon the written request of the holders of not less than twenty-five percentum (25%) in principal amount of the Bonds of the Applicable Series Outstanding shall, by a notice in writing to the Authority, declare the principal of all the Bonds of the Applicable Series Outstanding to be due and payable immediately, whereupon such principal shall become and be immediately due and payable, anything in the Bonds or in the Resolution to the contrary notwithstanding. At any time after the principal of the Bonds of the Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the holders of not less than twenty-five percentum (25%) in principal amount of the Bonds of the Applicable Series not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences if the event of default shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(Section 7.02)

Enforcement of Remedies

Upon the happening and continuance of any event of default, then the Trustee may proceed, and upon the written request of the holders of not less than twenty-five percentum (25%) in principal amount of the Bonds of the Applicable Series Outstanding shall proceed (subject to the provisions of the Resolution relating to obligations of the Trustee), to protect and enforce its rights and the rights of the holders of the Bonds of the Applicable Series under the laws of the United States or the State of New York or under the Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained in the Resolution or the Applicable GNMA Securities or in aid or execution of any power granted in the Resolution or the Applicable GNMA Securities, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

(Section 7.03)

Priority of Payments After Default

If at any time the moneys held by the Trustee under the Resolution shall not be sufficient to pay the principal of or Amortization Payments, redemption premium, if any, and interest on the Bonds of the Applicable Series as the same become due and payable (either by their terms or by acceleration of maturity under the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution, shall be applied as follows:

(a) Unless the principal of all the Bonds of the Applicable Series shall have become due and payable either by their terms, by redemption or by a declaration of acceleration, all such moneys shall be applied:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds of the Applicable Series, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

SECOND: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds of the Applicable Series which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Resolution) with interest upon such Bonds from the respective dates upon which they shall have become due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds of the Applicable Series due on any particular due date, together with such interest, then to the payment

ratably, according to the amount of principal or Amortization Payments due on such date, to the persons entitled thereto, without any discrimination or preference; and

THIRD: To the payment of the interest on and the principal or Amortization Payments of the Bonds of the Applicable Series as the same become due and payable.

(b) If the principal of all the Bonds of the Applicable Series shall have become due and payable, either by their terms, by redemption or by a declaration of acceleration, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of the Applicable Series over any other Bond of the Applicable Series, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference.

(c) If the principal of all the Bonds of the Applicable Series shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled then, subject to the provisions of paragraph (b) above in the event that the principal of all the Bonds of the Applicable Series shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

For the purposes priority of payments after default, the due dates of principal of, Amortization Payments and interest on Bonds of the Applicable Series which have been changed pursuant to the Resolution shall be deemed to be such dates as so changed.

Whenever moneys are to be applied by the Trustee pursuant to the provisions relating to the priority of payments after default, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately application of the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be a Bond Payment Date (unless the Trustee shall deem another date more suitable)) on which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the holder of any unpaid Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

(Section 7.05)

Majority of Bondholders May Control Proceedings

Anything in the Resolution to the contrary notwithstanding, the holders of a majority in principal amount of the Bonds of the Applicable Series Outstanding shall have the right, subject to the provisions of the Resolution relating to the obligations of the Trustee, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder, provided such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 7.07)

Restrictions Upon Action by Individual Bondholder

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust hereunder or for any other remedy hereunder unless such holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the holders of not less than twenty-five percentum (25%) in principal amount of the Bonds of the Applicable Series Outstanding shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to

exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy hereunder. It is understood and intended that no one or more holders of the Bonds secured by the Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right hereunder except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Resolution and for the benefit of all holders of such Bonds of the Applicable Series Outstanding.

Nothing contained in the Resolution shall affect or impair, or be construed to affect or impair the right of the holder of any Bond (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Resolution for the equal and ratable benefit of all holders of Bonds of the Applicable Series.

Except as otherwise expressly provided therein, nothing in an Applicable Agreement, express or implied, is intended or shall be construed to confer upon any person, firm or corporation, other than the Authority, the Institution, the Applicable Mortgage Banker and the Trustee, any right, remedy or claim, legal or equitable, under or by reason of the Applicable Agreement or any provision of the Resolution, the Agreement and all of its provisions being intended to be and being for the sole and exclusive benefit of the Authority, the Institution, the Applicable Mortgage Banker and the Trustee.

(Section 7.08)

Waiver and Non-Waiver

No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein. Every power and remedy given by the Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee may, and upon written request of the holders of not less than twenty-five percentum (25%) of the principal amount of the Bonds of the Applicable Series Outstanding shall, waive any default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Resolution or before the completion of the enforcement of any other remedy under the Resolution; but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

(Section 7.11)

Notice as to Event of Default

The Trustee shall mail written notice to Bondholders of the Applicable Series of the occurrence of any event of default within thirty (30) days after the event of default shall have occurred. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail any such notice.

(Section 7.12)

Modification and Amendment without Consent

The Authority may adopt at any time or from time to time a Supplemental Resolution supplementing the Resolution or supplementing any Supplemental or Series Resolution so as to modify or amend such Resolutions. Such Supplemental Resolution may be for one or more of the following purposes and shall become fully effective in accordance with its terms upon the filing with the Trustee of a copy of such Supplemental Resolution certified by an Authorized Officer of the Authority:

(a) To add to the covenants and agreements of the Authority contained in the Resolution, other covenants and agreements thereafter to be observed relative to the application, custody, use and disposition of the proceeds of any Bonds of the Applicable Series;

(b) To surrender any right, power or privilege reserved to or conferred upon the Authority by the Resolution;

(c) To confirm, as further assurance, any pledge or other security interest under and the subjection to any lien or pledge created or to be created by the Resolution or to subject additional moneys, property or collateral to the pledge and lien of the Resolution, and to identify the same more precisely;

(d) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(e) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution in any other respect, with respect to any Applicable Series of Bonds, provided that such modifications shall not be effective, with respect to any Applicable Series of Bonds, until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution shall cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) To amend a Series Resolution previously adopted by the Authority to provide for the issuance of additional bonds under such Series Resolution for the purpose of financing a Capital Addition or completion of the Project funded with Bonds issued pursuant to such Series Resolution, which additional bonds may be secured on a parity with any Outstanding Bonds issued under such Series Resolution; provided, however, that such additional bonds may only be issued upon compliance with the provisions of the Resolution relating to the issuance of an Applicable Series of Bonds, and provided further that Cash Flow Statements shall be prepared.

(Section 8.02)

Supplemental Resolutions Effective With Consent of Bondholders

(a) At any time or from time to time but subject to the conditions or restrictions contained in the Resolution, a Supplemental Resolution of the Authority amending or supplementing the Resolution, any Supplemental Resolution, any Series Resolution or any Bonds may be adopted modifying any of the provisions of the Resolution, of any Supplemental Resolution of, any Series Resolution or of the Bonds or releasing the Authority from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained. However, no such Supplemental Resolution shall be effective until after the filing with the Trustee of a copy of such Supplemental Resolution certified by an Authorized Officer of the Authority and unless such Supplemental Resolution is approved or consented to by or on behalf of Bondholders in accordance with and subject to the provisions of the Resolution.

Any such modification which affects all Series of Bonds Outstanding shall require the consent or approval of the holders obtained as provided in the Resolution of at least a majority in principal amount of all Bonds Outstanding. Any such modification which affects less than all Series of Bonds Outstanding shall require the consent or approval of the holders obtained as provided in Article IX of at least a majority in principal amount of all Bonds Outstanding of each Applicable Series of Bonds so affected (other than any modification that will extend the maturity of any Bonds, which modification shall require the consent or approval of the holders of one hundred percentum (100%) in principal amount of the Bonds for which the maturity is to be extended); provided, however, that if such modification shall, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any computation of Bonds Outstanding under the Resolution. In computing such required percentage there shall be excluded from such consent and from the Bonds of an Applicable Series Outstanding, any Bonds owned or held by or for the account of the Authority or the Institution.

(b) Notwithstanding the provisions of paragraph (a) above, and except as otherwise provided in the Resolution, no such modification changing any terms of redemption of Bonds, due date of principal of or interest on Bonds or making any reduction in principal or Redemption Price of and interest on any Bond shall be made without the consent of

the affected Bondholder, nor shall any modification of any rights or obligations of the Trustee be made without the consent of such Trustee.

(c) No Supplemental Resolution shall be adopted by the Authority, except as provided in the Resolution, (i) reducing the percentage of consent of Bondholders required for any modifications of the Resolution or diminishing the pledge of GNMA Securities, Permitted Investments and other moneys securing the Bonds, or (ii) affecting the rights, duties and immunities of any Trustee hereunder without the consent of the Trustee.

(Section 8.04)

Consent of Holders of Bonds

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted to correct ambiguities with the consent of the Trustee to take effect when and as provided in the Resolution. Upon the adoption of such Supplemental Resolution, a copy thereof, certified by an Authorized Officer of the Authority, shall be filed with the Trustee for the inspection of the Bondholders. A copy of such Supplemental Resolution (or summary thereof) together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Authority to Bondholders of the Applicable Series at the addresses shown on the books maintained by the Trustee as registrar. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with such Trustee the written consents (in form satisfactory to the Trustee) of the percentage of holders of Bonds of the Applicable Series Outstanding specified in the Resolution accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee, which shall be placed on file, that it examined such proof and that such proof is sufficient, shall be conclusive that the consents have been given by the holders of the Bonds described in such certificate or certificates of the Trustee. Any consent shall be binding upon the holder of the Bonds giving such consent and on any subsequent holder of such Bonds (whether or not such subsequent holder has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder by filing revocation with the Trustee prior to the date when the notice provided for is first published. The fact that consent has not been revoked may likewise be proved by a certificate of the Trustee which shall be placed on file. At any time after the holders of the required percentage of Bonds shall have filed their consent to the Supplemental Resolution and such Supplemental Resolution shall have been consented to by the Trustee (if such consent is required) a notice shall be given to the Bondholders of the Applicable Series by the Authority by mailing such notice to Bondholders of the Applicable Series (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in the Resolution), not more than ninety (90) days after the holders of the required percentage of Bonds shall have filed their consents to the Supplemental Resolution. The Authority shall file with the Trustee proof of giving such notice. Such notice shall state in substance that the Supplemental Resolution (which may be referred to as a resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentage of Bonds and shall be effective as provided in the Resolution. A record, consisting of the papers required or permitted by the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Upon such publication, such Supplemental Resolution making such amendment or modification shall become effective and conclusively binding upon the Authority, the Trustee, and the holders of all Bonds.

(Section 9.03)

Defeasance

(a) If the Authority shall pay or cause to be paid to the holders of all the Bonds of an Applicable Series the principal or Redemption Price thereof and interest thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of any Applicable GNMA Securities, Applicable Permitted Investments or moneys hereby pledged and all other rights granted hereby to such Series of Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Trustee shall deliver all Applicable GNMA Securities to the Applicable Mortgage Banker or such other party as may be directed by the Institution, and to the Institution, all other investments, including Permitted Investments and moneys then held by it pursuant to the Resolution which are not required: (1) for the payment or redemption of Bonds of the Applicable Series not theretofore surrendered for such payment or redemption, (2) for the payment of the fees and costs required to be paid pursuant to the Applicable Agreement, (3) for the reimbursement to the issuer of any Applicable Letter of Credit of any amounts drawn thereunder and not theretofore

reimbursed, and (4) for the discharge and satisfaction of any other obligations owed under the Applicable Agreement, the Resolution, the Applicable Mortgage Note and any agreement related to the Project with the Mortgage Banker as certified by the Mortgage Banker or the Authority, to the Trustee.

(b) Bonds for the payment or redemption of which moneys shall then be held by the Trustee alone or together with any paying agent (through deposit by the Authority of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, and whether by virtue of the occurrence of optional redemption, shall be deemed to have been paid within the meaning and with the effect expressed in the Resolution. All Outstanding Bonds of the Applicable Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Resolution, if: (i) there shall have been deposited with the Trustee, as appropriate, either moneys or Available Moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and other amounts payable or to become payable under the Resolution; (ii) there shall have been deposited with the Trustee sufficient moneys or investments satisfactory to the Trustee to pay the estimated costs and expenses of the Trustee, the Authority and any paying agents until the earlier of the maturity or prior redemption of the Bonds of the Applicable Series unless arrangements satisfactory to such parties shall have been made; and (iii) in the event that such Bonds are not by their terms subject to redemption within the next sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper a notice to the holders of such Bonds that the deposit required by (i) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on such Bonds and, if such Bonds are not to be redeemed prior to maturity, stating whether the Authority reserves the right to redeem such Bonds in accordance with the terms of the Master Resolution and the Applicable Series Resolution. Neither Defeasance Securities or moneys or Available Moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on such Bonds; provided that (y) any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be and (z) that the Authority may direct the Trustee to sell the Defeasance Securities and apply the proceeds of such sale, together with moneys also held by the Trustee for the payment of such Bonds, to the purchase of other Defeasance Securities that meet the requirements of (i) above. Any excess proceeds from the sale of or income or interest earned from such reinvestment shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge.

(c) For the purpose of ascertaining the Amortization Payments to be made in connection with a defeasance, the Amortization Payments set forth in the Bond Series Certificate initially delivered by the Authority, as the same may be amended as a result of prepayments under the Mortgage Note, shall be utilized.

Any moneys held by any Trustee or any paying agent in trust for the payment and discharge of any of the Bonds which remain unclaimed for three (3) years after the later of the date when all of the Bonds have become due and payable or the date of deposit of such moneys shall be repaid by the Trustee and any paying agent to the Authority as its absolute property and free from trust, and the Trustee and any paying agent shall thereupon be released and discharged; provided, however, that, before being required to make any such payment to the Authority, the Trustee or any paying agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 10.03)

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**FORM OF APPROVING OPINION
OF BOND COUNSEL**

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[FORM OF APPROVING OPINION OF BOND COUNSEL]

[Date of Closing]

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

\$18,690,000
Dormitory Authority of the State of New York
GNMA Collateralized Revenue Bonds
(Concord Nursing Home, Inc. Project), Series 2007

Ladies and Gentlemen:

We have examined a record of proceedings relating to the sale and issuance of \$18,690,000 aggregate principal amount of GNMA Collateralized Revenue Bonds, (Concord Nursing Home, Inc. Project), Series 2007 (the "Series 2007 Bonds") of the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof (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. Capitalized terms used herein without other definition have the meanings set forth in the Resolutions (hereinafter defined).

The Series 2007 Bonds are issued under and pursuant to (i) the Constitution and laws of the State of New York, particularly the Act, (ii) the Authority's GNMA Collateralized Revenue Bond Resolution (Concord Nursing Home, Inc. Project) duly adopted by the Authority on July 25, 2007 (the "Bond Resolution"), and (iii) the Authority's Concord Nursing Home, Inc. Series Resolution Authorizing Up To \$20,000,000 of GNMA Collateralized Revenue Bonds (Concord Nursing Home, Inc. Project), Series 2007, duly adopted by the Authority on July 25, 2007 (the "Series 2007 Resolution"; such resolution, together with the Bond Resolution, are herein collectively referred to as the "Resolutions") and a Bond Series Certificate (the "Bond Series Certificate") delivered by an Authorized Officer of the Authority pursuant to the Resolutions setting forth certain terms of the Series 2007 Bonds.

The Series 2007 Bonds are being issued for the purposes set forth in the Resolutions. The Series 2007 Bonds are separately secured from all other Series of Bonds which may be issued upon the terms and conditions and for the purposes set forth in the Resolutions.

The Series 2007 Bonds are dated their date of closing, shall mature on August 15 and February 15 in the years and principal amounts and shall bear interest, payable February 15, 2008 and semi-annually thereafter on each August 15 and February 15, at the respective rates per annum as set forth in the Bond Series Certificate.

The Series 2007 Bonds are issuable in the form of fully registered bonds in the denominations of \$5,000 or any integral multiple thereof. The Series 2007 Bonds shall be lettered and numbered “R-” from one upward in order of issuance.

The Series 2007 Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions as set forth in the Resolutions and in the Bond Series Certificate executed on behalf of the Authority in connection with the issuance of the Series 2007 Bonds.

The Authority has entered into an Agreement by and among Concord Nursing Home, Inc. (the “Institution”) and Capmark Finance Inc. (the “Mortgage Banker”) dated as of July 25, 2007 (the “Agreement”), providing, among other things, for loans to the Institution for the purposes permitted thereby and by the Resolutions. Pursuant to the Agreement, the Trustee, at the direction of the Authority, will purchase a GNMA Security in the form of a Permanent Loan Certificate (the “PLC”) from the Mortgage Banker using proceeds of the Series 2007 Bonds in an amount approximately equal to the amount of each mortgage loan advance made by the Mortgage Banker. The PLC to be received by the Trustee is an interest bearing certificate on which the timely payment of principal and interest is guaranteed in accordance with the terms thereof by GNMA. This guarantee by GNMA is further backed by the full faith and credit of the United States of America. The PLC to be acquired by the Trustee is pledged as security for the payment of the principal of and the interest on the Series 2007 Bonds.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements which must be met subsequent to the issuance and delivery of the Series 2007 Bonds in order that interest thereon be and remain not included in gross income for Federal income tax purposes under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use and investment of bond proceeds and other moneys or property, required ownership of the facilities financed with the Series 2007 Bonds by an organization described in Section 501(c)(3) of the Code or governmental unit, and the rebate to the United States of certain earnings in respect of investments. In the Resolutions, the Agreement, the Tax and Arbitrage Certificate, dated the date hereof (the “Tax Certificate”) of the Authority and the Institution, the Authority and the Institution have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure satisfaction of the requirements of the Code.

In rendering the opinions set forth in paragraph 5 herein, we have assumed the accuracy of certain factual certifications of, and continuing compliance with, the covenants, representations, warranties, provisions and procedures set forth in the Resolutions, the Agreement and the Tax Certificate by the Authority and the Institution. In the event of the inaccuracy or incompleteness of any of the certifications made by the Authority or the Institution, or the failure by the Authority or the Institution to comply with the covenants, representations, warranties, provisions and procedures set forth in the Resolutions, the Agreement and the Tax Certificate, interest on the Series 2007 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of the original execution and delivery of the Series 2007 Bonds, regardless of the date on which the event causing such inclusion occurs. We render no opinion as to the non-inclusion in gross income of interest on the Series 2007 Bonds for purposes of federal income taxation on or after the date on which any change occurs or action is taken or omitted under the Resolutions, the Agreement or the Tax Certificate or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Harris Beach PLLC. In addition, we have not undertaken to determine, or to inform any person, whether any actions taken, or not taken, or events occurring, or not occurring, after the date of issuance of the Series 2007 Bonds may affect the tax status of interest on the Series 2007 Bonds. Further, although interest on the Series 2007 Bonds is not included in gross income for purposes of federal income taxation, receipt or accrual of the interest may otherwise affect the tax liability of a holder of a Series 2007 Bond depending upon the tax status of such holder and such holder’s other items of income and deduction. Except as stated in paragraphs 5 and 6 herein, we express no opinion as to any other federal or state and local tax consequences of the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 Bonds.

We have also examined one of the Series 2007 Bonds as executed and authenticated.

Based upon the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Bonds, including the Series 2007 Bonds, thereunder.
2. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect, and constitute legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.
3. The Series 2007 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2007 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.
4. The Authority has the right and lawful authority and power to enter into the Agreement and the Agreement has been authorized and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.
5. Under existing statutes, regulations, administrative rulings and court decisions, and assuming compliance with the Tax Certificate, interest on the Series 2007 Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code. We are also of the opinion that interest on the Series 2007 Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; we note, however, that interest on the Series 2007 Bonds is included in “adjusted current earnings” for purposes of calculating the federal alternative minimum tax liability, if any, of certain corporations.
6. Under existing statutes, including the Act, interest on the Series 2007 Bonds is exempt from personal income taxes imposed by the State of New York and any of its political subdivisions.

The Series 2007 Bonds maturing on February 15, 2030 (the “Premium Bonds”) are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner’s original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

The foregoing opinions are qualified only to the extent that the enforceability of the Resolutions, the Agreement and the Series 2007 Bonds may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other laws heretofore or hereafter enacted and judicial decisions relating to or affecting the enforcement of creditors’ rights or remedies or contractual obligations generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

In rendering the foregoing opinions we have made a review of such legal proceedings as we have deemed necessary to approve the legality and validity of the Series 2007 Bonds. In rendering the foregoing opinions we have not been requested to examine any document or financial or other information concerning the Authority or the Institution other than the record of proceedings referred to above, and we express no opinion as to the adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2007 Bonds.

Respectfully submitted,

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