

NEW ISSUE

Moody's: A2
Standard & Poor's: BBB+
 (See "Ratings" herein)



\$11,000,000

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HIGHLAND HOSPITAL OF ROCHESTER
REVENUE BONDS, SERIES 2010

Dated: Date of Delivery **Due: July 1, as shown below**

Payment and Security: The Highland Hospital of Rochester Revenue Bonds, Series 2010 (the "Series 2010 Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority"), payable solely from, and secured by a pledge of (i) certain payments to be made under the Loan Agreement dated as of May 12, 2010 (the "Loan Agreement") between Highland Hospital of Rochester (the "Hospital" or "Highland") and the Authority, (ii) all funds and accounts (except the Arbitrage Rebate Fund) established under the Authority's Highland Hospital of Rochester Revenue Bond Resolution, adopted May 12, 2010 (the "Resolution") and the Series Resolution authorizing the Series 2010 Bonds (the "Series 2010 Resolution"), adopted May 12, 2010 and (iii) payments to be made pursuant to an obligation (the "Series 2010 Obligation"), issued by the Hospital pursuant to a Master Trust Indenture, dated as of June 1, 2005, as supplemented (the "Master Indenture"), by and between the Hospital and Manufacturers and Traders Trust Company, as Master Trustee.

The Hospital's obligations under the Loan Agreement and the Series 2010 Obligation are general obligations of the Hospital. The Loan Agreement requires the Hospital to pay, in addition to the fees and expenses of the Authority and the Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, or Redemption Price, if any, of and interest on the Series 2010 Bonds, each as of the close of business on the fifteenth day of the month next preceding an interest payment date. The principal or Redemption Price of the Series 2010 Bonds will be payable at the principal corporate trust office of Manufacturers and Traders Trust Company, Buffalo, New York, the Trustee and Paying Agent or, with respect to Redemption Price, at the option of a holder of at least \$1,000,000 in principal amount of the Debt Service Reserve Fund Requirement for the Series 2010 Bonds will be deposited into the Debt Service Reserve Fund.

The Series 2010 Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2010 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due January 1, 2011 and each July 1 and January 1 thereafter) will be payable by check or draft mailed to the registered owners of the Series 2010 Bonds at their addresses as shown on the registration books held by the Trustee or, at the option of a holder of at least \$1,000,000 in principal amount of Series 2010 Bonds, by wire transfer to the holder of such Series 2010 Bonds, each as of the close of business on the fifteenth day of the month next preceding an interest payment date. The principal or Redemption Price of the Series 2010 Bonds will be payable at the principal corporate trust office of Manufacturers and Traders Trust Company, Buffalo, New York, the Trustee and Paying Agent or, with respect to Redemption Price, at the option of a holder of at least \$1,000,000 in principal amount of Series 2010 Bonds, by wire transfer to the holder of such Series 2010 Bonds as more fully described herein.

The Series 2010 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 2010 Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payments of the principal, Purchase Price and Redemption Price of and interest on the Series 2010 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement to beneficial owners is the responsibility of DTC participants. See "PART 3 - THE SERIES 2010 BONDS - Book-Entry Only System" herein.

Redemption or Purchase: *The Series 2010 Bonds are subject to redemption or purchase in lieu of optional redemption prior to maturity as more fully described herein.*

Tax Matters: In the opinion of Bond Counsel, under current law and assuming compliance with certain tax covenants described herein, interest on the Series 2010 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2010 Bonds may be included in the calculation of certain taxes as described in "PART 11 - TAX MATTERS" herein. Bond Counsel is also of the opinion that under current law, interest on the Series 2010 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York and the City of Yonkers). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds.

\$3,505,000 Serial Bonds									
Due		Interest		CUSIP	Due		Interest		CUSIP
July 1,	Amount	Rate	Yield	Number ⁽¹⁾	July 1,	Amount	Rate	Yield	Number ⁽¹⁾
2012	\$350,000	2.00%	2.05%	649905V78	2017	\$395,000	3.75%	4.11%	649905W44
2013	355,000	2.00	2.52	649905V86	2018	410,000	4.00	4.35	649905W51
2014	365,000	2.25	2.92	649905V94	2019	430,000	4.125	4.56	649905W69
2015	370,000	3.00	3.37	649905W28	2020	445,000	4.25	4.72	649905W77
2016	385,000	3.25	3.77	649905W36					
\$3,180,000 5.00% Term Bonds Due July 1, 2026, Yield 4.95%* CUSIP Number 649905W85 ⁽¹⁾									
\$4,315,000 5.20% Term Bonds Due July 1, 2032, Yield 5.20% CUSIP Number 649905W93 ⁽¹⁾									

* Priced to the first par call on July 1, 2020.

The Series 2010 Bonds are offered when, as, and if issued and received by the Underwriter. The offer of the Series 2010 Bonds may be subject to prior sale, or withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Sidley Austin, LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Hospital by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Phillips Lytle LLP, New York, New York. The Authority expects to deliver the Series 2010 Bonds in definitive form in New York, New York, on or about June 25, 2010.

RBC Capital Markets

June 16, 2010

(1) CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2010 Bonds. Neither the Authority nor the Underwriter are responsible for the selection or uses of the CUSIP numbers and no representation is made as to their correctness on the Series 2010 Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2010 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such Series 2010 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 2010 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Hospital or the Underwriter to give any information or to make any representations with respect to the Series 2010 Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the Hospital or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2010 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Hospital and other sources that the Authority believes are reliable. Neither the Authority nor the Underwriter guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority or the Underwriter.

The Hospital has reviewed the parts of this Official Statement describing the Hospital, Principal and Interest Requirements, the Project, Estimated Sources and Uses of Funds, Certain Bondholders' Risks, Obligations under the Master Indenture and Other Indebtedness, Continuing Disclosure and Appendix B. As a condition to delivery of the Series 2010 Bonds, the Hospital will certify that as of the date of this Official Statement and of delivery of the Series 2010 Bonds, such parts do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Hospital makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities law, but the Underwriter does not guarantee the accuracy or completeness of such information.

References in this Official Statement to the Act, the Resolution, the Series 2010 Resolution, the Loan Agreement, and the Master Indenture do not purport to be complete. Refer to the Act, the Resolution, the Series 2010 Resolution, the Loan Agreement, and the Master Indenture for full and complete details of their provisions. Copies of the Resolution, the Series 2010 Resolution, the Loan Agreement, and the Master Indenture are on file with the Authority and the Trustee.

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

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2010 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2010 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK
PAUL T. WILLIAMS, JR. – PRESIDENT

515 BROADWAY, ALBANY, NY 12207
ALFONSO L. CARNEY, JR. – CHAIR

OFFICIAL STATEMENT RELATING TO
\$11,000,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HIGHLAND HOSPITAL OF ROCHESTER
REVENUE BONDS, SERIES 2010

PART 1 — INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and appendices, is to provide information about the Authority and the Hospital, in connection with the offering by the Authority of its \$11,000,000 Highland Hospital of Rochester Revenue Bonds, Series 2010 (the “Series 2010 Bonds”).

The following is a brief description of certain information concerning the Series 2010 Bonds, the Authority and the Hospital. A more complete description of such information and additional information that may affect decisions to invest in the Series 2010 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

Purpose of the Issue

The Series 2010 Bonds are being issued (i) to finance Costs of the Project, (ii) to provide for a deposit to the Debt Service Reserve Fund, (iii) to pay a portion of the interest coming due on the Series 2010 Bonds and (iv) to pay certain Costs of Issuance of the Series 2010 Bonds. See “PART 4 - THE PROJECT” and “PART 5 - ESTIMATED SOURCES AND USES OF FUNDS.”

Authorization of Issuance

The Series 2010 Bonds will be issued pursuant to the Resolution, the Series 2010 Resolution and the Act. Additional Series of Bonds may be issued by the Authority pursuant to the Resolution and each such Series shall be separately secured by (i) the funds and accounts established pursuant to the applicable Series Resolution, and (ii) the applicable Obligation (as defined herein) to be issued pursuant to the Master Trust Indenture, dated as of June 1, 2005, as supplemented (the “Master Indenture”), by and between the Hospital and Manufacturers and Traders Trust Company, as Master Trustee (the “Master Trustee”). See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS.”

The proceeds of the Series 2010 Bonds will be loaned by the Authority to the Hospital pursuant to the Loan Agreement, dated as of May 12, 2010, between the Authority and the Hospital (the “Loan Agreement”). The repayment obligations of the Hospital under the Loan Agreement are secured by an Obligation issued by the Hospital under the Master Indenture. See PART 2 - “SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 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, healthcare, governmental and not-for-profit institutions. See “PART 8 - THE AUTHORITY.”

The Hospital

The Hospital is a New York not-for-profit corporation and is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Founded in 1889, the Hospital is a general acute care community teaching hospital located in Rochester, New York. It is licensed under Article 28 of the New York State Public Health Law and operates 261 adult acute care beds serving residents of the City of Rochester, suburban communities of Monroe County and certain municipalities in surrounding counties. The Hospital is a subsidiary of Strong Partners Health System, Inc. (“SPHS”), which is a subsidiary of the University of Rochester. See “PART 6 - THE HOSPITAL” and “Appendix B – Consolidated Financial Statements of Highland Hospital of Rochester and Subsidiaries (With Report of Independent Auditors)”.

Neither the obligations of the Hospital under the Loan Agreement nor the Series 2010 Obligation will be an obligation of the University of Rochester, SPHS or any of their respective affiliates other than the Hospital and none of the University of Rochester, SPHS or any of their respective affiliates other than the Hospital will be liable thereon.

The Series 2010 Bonds

The Series 2010 Bonds are dated their date of delivery and bear interest from such date (payable January 1, 2011 and on each July 1 and January 1 thereafter) at the rates and will mature at the times set forth on the cover page of this Official Statement. See “PART 3 - THE SERIES 2010 BONDS - Description of the Series 2010 Bonds.”

Payment of the Bonds

The Series 2010 Bonds and all Series of Bonds hereafter issued under the Resolution are and will be special obligations of the Authority payable solely from the Applicable Revenues. The Revenues include certain payments to be made by the Hospital under the Loan Agreement or to be made by the Hospital on certain Obligations issued under the Master Indenture, which payments are pledged and assigned to the Trustee. The Hospital’s payment obligations under the Loan Agreement with respect to the Series 2010 Bonds are general obligations of the Hospital secured by an Obligation (the “Series 2010 Obligation”). The Series 2010 Obligation is secured by a security interest in the Gross Receipts of the Hospital on a parity with all other Obligations issued under the Master Indenture. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Payment of the Series 2010 Bonds,” and “- Obligations under the Master Indenture.”

Security for the Bonds

Each Series of Bonds is and will be separately secured by the pledge and assignment made by the Authority pursuant to the Resolution to the Trustee of the Revenues applicable to such Series and all funds and accounts authorized by the Resolution and established under the applicable Series Resolution (with the exception of the Arbitrage Rebate Fund), which includes a separate Debt Service Reserve Fund for the Series 2010 Bonds. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Security for the Series 2010 Bonds” and “- Obligations under the Master Indenture” and “Appendix E - Summary of Certain Provisions of the Master Indenture.”

In addition, payment when due on the Series 2010 Bonds, and payment when due of the payment obligations of the Hospital to the Authority under the Loan Agreement, is secured by the Series 2010 Obligation issued pursuant to the Master Indenture and Supplemental Indenture No. 5 (the “Supplemental Indenture”) thereto. The Master Indenture constitutes an obligation of the Hospital to repay all obligations issued under the Master Indenture (each an “Obligation”), including the Series 2010 Obligation. The obligation of the Hospital to make the payments required by the Master Indenture with respect to the Series 2010 Obligation is secured by a security interest in the Gross Receipts of the Hospital. The Series 2010 Obligation will be registered in the name of the Authority. The issuance of future Obligations is subject to the satisfaction of certain financial covenants set forth in the Supplemental Indenture which bind the Hospital, as described in “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Obligations under the Master Indenture” and “Appendix E -Summary of Certain Provisions of the Master Indenture.”

The Hospital, upon compliance with the terms and conditions set forth in the Loan Agreement and the Master Indenture and for the purposes described in the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a general obligation of the Hospital payable and secured on a parity with the Series 2010 Obligation and all other Obligations outstanding under the Master Indenture. See “Appendix E - Summary of Certain Provisions of the Master Indenture.”

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds issued

pursuant to the Resolution for the benefit of the Hospital. The holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the holders of Bonds of any other Series. Each Series of Additional Bonds shall be secured by a separate Obligation issued under the Master Indenture. For a more complete discussion of the security for the Series 2010 Bonds, see “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Security for the Series 2010 Bonds.”

The Series 2010 Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2010 Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Series 2010 Resolution, the Loan Agreement, the Master Indenture, the Supplemental Indenture and the Series 2010 Obligation. Copies of the Act, the Resolution, the Series 2010 Resolution, the Loan Agreement, the Master Indenture, the Supplemental Indenture and the Series 2010 Obligation are on file with the Authority and the Trustee. See also “Appendix C - Summary of Certain Provisions of the Loan Agreement,” “Appendix D - Summary of Certain Provisions of the Resolution” and “Appendix E - Summary of Certain Provisions of the Master Indenture”, for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2010 Bonds

The Series 2010 Bonds issued under the Resolution are special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the Series 2010 Bonds are payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established by the Series 2010 Resolution. The Revenues consist of the payments required to be made by the Hospital under the Loan Agreement and to be made by the Hospital under the Series 2010 Obligation to be issued with respect to the Series 2010 Bonds on account of (i) the principal, Sinking Fund Installments, if any, and interest on the Series 2010 Bonds, (ii) amounts required to maintain the Debt Service Reserve Fund at its requirement, and (iii) all other amounts as are required to be paid by the Hospital to the Authority as provided in the Loan Agreement. The Revenues have been assigned by the Authority to the Trustee for the benefit of the holders of the Series 2010 Bonds.

The Hospital’s obligations under the Loan Agreement and under the Series 2010 Obligation are general obligations of the Hospital. The Authority has directed the Hospital, and the Hospital has agreed, to make the payments under the Loan Agreement directly to the Trustee. Any payments made on the Series 2010 Obligation issued with respect to the Series 2010 Bonds shall also be made directly to the Trustee. The Loan Agreement obligates the Hospital to make monthly payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the Series 2010 Bonds as they become due, and to make any payments due under the Series 2010 Obligation. Each payment is to be equal to one-sixth of the interest coming due on the next succeeding interest payment date and one-twelfth of the principal and Sinking Fund Installments coming due on or prior to the next succeeding principal or sinking fund payment date. See “PART 3 - THE SERIES 2010 BONDS - Redemption and Purchase in Lieu of Optional Redemption Provisions.”

Security for the Series 2010 Bonds

The Series 2010 Bonds will be secured by the payments described above to be made under the Loan Agreement, all funds and accounts authorized under the Resolution and established by the Series 2010 Series Resolution (with the exception of the Arbitrage Rebate Fund), and payments to be made by the Hospital under the Series 2010 Obligation. Pursuant to the terms of the Resolution, the funds and accounts established and pledged by Series 2010 Resolution secure only the Series 2010 Bonds, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. See “Appendix D - Summary of Certain Provisions of the Resolution.”

THE SERIES 2010 BONDS WILL NOT BE A DEBT OF THE STATE, NOR WILL THE STATE BE LIABLE THEREON. THE AUTHORITY HAS NO TAXING POWER.

Debt Service Reserve Fund

The Series 2010 Resolution establishes a separate Debt Service Reserve Fund to be funded at the time of the delivery of the Series 2010 Bonds. The Debt Service Reserve Fund is to be funded in an amount equal to the Debt Service Reserve

Fund Requirement for the Series 2010 Bonds, which is equal to 50% of the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Series 2010 Bonds payable in such calendar year, excluding interest accrued thereon prior to July 1 of the next preceding year, and (ii) the principal and Sinking Fund Installments, if any, of the Series 2010 Bonds. The Debt Service Reserve Fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the Series 2010 Bonds. Any payments to be made by the Hospital to restore the Debt Service Reserve Fund are to be made directly to the Trustee for deposit to the Debt Service Reserve Fund. See “Appendix D - Summary of Certain Provisions of the Resolution.”

Moneys in the Debt Service Reserve Fund are to be withdrawn and deposited in the Debt Service Fund whenever the amount in the Debt Service Fund, on the fourth (4th) Business Day prior to an interest or principal payment date for the Series 2010 Bonds, is less than the amount that is necessary to pay the principal and Sinking Fund Installments of and interest on the Series 2010 Bonds payable on such interest or principal payment date and Redemption Price or purchase price of such Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption. The Resolution requires that the Hospital restore the Debt Service Reserve Fund to its requirement by paying the amount of any deficiency to the Trustee within five (5) days after receiving notice of a deficiency. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement may be withdrawn and applied in accordance with the Resolution. See “Appendix D - Summary of Certain Provisions of the Resolution - Debt Service Reserve Fund.”

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

The Series 2010 Obligation

Payment of the principal of and interest on the Series 2010 Bonds when due, and payment when due of the obligations of the Hospital to the Authority under the Loan Agreement, will be secured by payments made by the Hospital pursuant to the Series 2010 Obligation. The Series 2010 Obligation will be issued to the Authority, which will assign all payments under the Series 2010 Obligation to the Trustee for the benefit of the Bondholders. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Obligations under the Master Indenture” herein.

Events of Default and Acceleration under the Resolution

The following constitute events of default under the Resolution with respect to the Series 2010 Bonds: (i) a default by the Authority in the payment when due of the principal, Sinking Fund Installments or Redemption Price, if any, of or interest on any Series 2010 Bond; (ii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the Series 2010 Bonds or in the Resolution or in the Series 2010 Resolution which continues for thirty (30) days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee’s discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof); (iii) a default by the Authority in the due and punctual performance of any applicable tax covenant which results in the loss of the exclusion of interest on the Series 2010 Bonds from gross income under the Code; or (iv) an “Event of Default,” as defined in the Loan Agreement, shall have occurred and is continuing and all sums payable by the Hospital under the Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of the Hospital to make payment under the Loan Agreement shall not constitute an Event of Default under the Loan Agreement if timely payment of the Series 2010 Obligation is made by the Hospital in place of the corresponding payment due under the Loan Agreement. If the Hospital defaults under the Master Indenture or under any Obligation issued thereunder, such default shall constitute an Event of Default under the Loan Agreement. Unless all sums payable by the Hospital under the Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an event of default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default occurs and continues (except with respect to a default described in clause (iii) above), the Trustee may, and the Trustee shall, upon the written request of the holders of not less than 25% in principal amount of the Series 2010 Bonds, by written notice to the Authority, declare the principal of and interest on the Series 2010 Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of such notice, such principal and interest shall become immediately due and payable. The Trustee shall, with the written consent of the

holders of not less than 25% in principal amount of Series 2010 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the holders within thirty (30) days, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, Sinking Fund Installment or Redemption Price of, or interest on, any of the Series 2010 Bonds, the Trustee shall be protected in withholding such notice thereof to the holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the holders of the Series 2010 Bonds.

Additional Bonds

In addition to the Series 2010 Bonds, the Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other specified purposes including refunding Outstanding Bonds or other notes or bonds issued on behalf of the Hospital.

Obligations under the Master Indenture

General

In addition to other sources of payment described herein, principal of and interest on the Series 2010 Bonds will be payable from moneys paid by the Hospital pursuant to the Series 2010 Obligation. The Series 2010 Obligation will be issued to the Authority, which will assign all payments under the Series 2010 Obligation to the Trustee as security for the payment of the principal of and interest on the Series 2010 Bonds and the payment when due of the obligations of the Hospital to the Authority under the Loan Agreement. Concurrently with the issuance of the Series 2010 Bonds, the Hospital will issue its Series 2010 Obligation pursuant to the Master Indenture.

Pursuant to the Master Indenture, the Hospital is subject to certain covenants, including restrictions on encumbering Hospital Property and limitations on the incurrence of Indebtedness, consolidation and merger and the disposition of assets. Pursuant to the Supplemental Indenture, the Hospital is subject to certain additional covenants relating to the maintenance of Income Available for Debt Service and Unrestricted Cash and Investments.

THE MASTER INDENTURE PERMITS THE HOSPITAL TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE SERIES 2010 OBLIGATION (I.E., THE GROSS RECEIPTS PLEDGE) ON PARITY WITH SUCH OBLIGATION. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE TRUSTEE FOR THE SECURITY OF THE SERIES 2010 BONDS.

Security for the Series 2010 Obligation

Pursuant to the Master Indenture, each Obligation issued thereunder will be a general obligation of the Hospital. Under the Master Indenture, the Hospital may not create or suffer to be created any Lien on Property other than the Lien created by the pledge of Gross Receipts or a Lien on tangible Property securing Indebtedness incurred to finance or refinance the acquisition or construction of such Property. The enforcement of the Obligations may be limited by (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and (v) federal bankruptcy laws, State of New York receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture. See "PART 7 – CERTAIN BONDHOLDERS' RISKS - Enforceability of Lien on Gross Receipts."

Security Interest in Gross Receipts

As security for its obligations under the Master Indenture, the Hospital has pledged and granted to the Master Trustee a security interest in the Hospital's Pledged Assets. Pledged Assets consist of Gross Receipts, defined in the Master Indenture to include all Accounts and all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of the Hospital, including, without limitation, (a) revenues derived from the Hospital's operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the provisions of the Master Indenture, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical and hospital insurance, indemnity or reimbursement

programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by the Hospital, and (d) rentals received from the leasing of real or tangible personal property. Under the Master Indenture, the Hospital may not create or suffer to be created any other lien on Property other than a Lien on tangible Property securing Indebtedness incurred to finance or refinance the acquisition or construction of such Property.

Other Indebtedness

The Hospital may issue additional Obligations under the Master Indenture that are secured on a parity with the Series 2010 Obligation by the pledge of Gross Receipts. See “Appendix E - Summary of Certain Provisions of the Master Indenture - Limitation on Indebtedness” for a description of the conditions under which the Hospital may issue additional Obligations under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the Hospital may incur debt in the form of Indebtedness that is not evidenced or secured by an Obligation issued under the Master Indenture. See “Appendix E - Summary of Certain Provisions of the Master Indenture” for a description of various financial covenants applicable to the Hospital.

The Hospital has certain Indebtedness outstanding. See “Appendix B – Consolidated Financial Statements of Highland Hospital and Subsidiaries (With Report of Independent Auditors)” for the fiscal years ended December 31, 2009 and 2008.

General

The Series 2010 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See “PART 8 - THE AUTHORITY.”

PART 3 — THE SERIES 2010 BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2010 Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Resolution and the Loan Agreement, copies of which are on file with the Authority and the Trustee. See also “Appendix C - Summary of Certain Provisions of the Loan Agreement” and “Appendix D - Summary of Certain Provisions of the Resolution” for a more complete description of certain provisions of the Series 2010 Bonds.

General

The Series 2010 Bonds will be issued pursuant to the Resolution. The Series 2010 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2010 Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2010 Bonds, payments of the principal, Purchase Price and Redemption Price of and interest on the Series 2010 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Series 2010 Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2010 Bonds, the Series 2010 Bonds will be exchangeable for fully registered Series 2010 Bonds in any authorized denominations of the same maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See “Book-Entry Only System” below and “Appendix D - Summary of Certain Provisions of the Resolution.”

Description of the Series 2010 Bonds

The Series 2010 Bonds are dated their date of delivery and bear interest from such date (payable January 1, 2011 and on each July 1 and January 1 thereafter) at the rates set forth on the cover page of this Official Statement.

The Series 2010 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

Interest on the Series 2010 Bonds will be payable by check mailed to the registered owners or, at the option of the registered owner of at least \$1,000,000 of Series 2010 Bonds, by wire transfer to the wire transfer address within the continental United States to which the registered owner has instructed the Trustee to make such payment at least five days prior to the interest payment date. If the Series 2010 Bonds are not registered in the name of DTC or its nominee, Cede & Co., the principal and Redemption Price of the Series 2010 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of Manufacturers and Traders Trust Company, Buffalo, New York, the Trustee and Paying Agent.

For a more complete description of the Series 2010 Bonds, see “Appendix D - Summary of Certain Provisions of the Resolution.”

Redemption and Purchase in Lieu of Redemption Provisions

The Series 2010 Bonds are subject to optional redemption, and to purchase in lieu of redemption, as described below. For a more complete description of the redemption and other provisions relating to the Series 2010 Bonds, see “Appendix D—Summary of Certain Provisions of the Resolution.”

Optional Redemption

The Series 2010 Bonds maturing on or before July 1, 2020 are not subject to optional redemption prior to maturity. The Series 2010 Bonds maturing after July 1, 2020 are subject to redemption prior to maturity on or after July 1, 2020, in any order at the option of the Authority, as a whole or in part at any time, at a price of 100% of the principal amount thereof plus accrued interest to the redemption date.

Mandatory Redemption

The Series 2010 Bonds maturing on July 1, 2026 and on July 1, 2032 are subject to redemption, in part, through application of Sinking Fund Installments upon notice given as prescribed in the Resolution, at a Redemption Price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus accrued interest, if any, to the date of redemption. Unless none of the Series 2010 Bonds of a maturity to be so redeemed are then Outstanding and, subject to the provisions of the Resolution permitting amounts to be credited to part or all of any one or more Sinking Fund Installments, there shall be due and the Authority shall be required to pay for the retirement of the Series 2010 Bonds on July 1 of each of the years set forth in the following table, the amount set forth opposite such year:

<u>Series 2010 Bonds</u> <u>Maturing July 1, 2026</u>		<u>Series 2010 Bonds</u> <u>Maturing July 1, 2032</u>	
<u>Year</u>	<u>Sinking Fund</u> <u>Installment</u>	<u>Year</u>	<u>Sinking Fund</u> <u>Installment</u>
2021	\$465,000	2027	\$630,000
2022	490,000	2028	665,000
2023	515,000	2029	700,000
2024	540,000	2030	735,000
2025	570,000	2031	775,000
2026	600,000 [†]	2032	810,000 [†]

[†] Final maturity.

There will be credited against and in satisfaction of the Sinking Fund Installment payable on any date, the principal amount of Series 2010 Bonds entitled to such Sinking Fund Installment (A) purchased with moneys in the Debt Service Fund pursuant to the Resolution, (B) redeemed at the option of the Authority, (C) purchased by the Hospital or the Authority and delivered to the Trustee for cancellation or (D) deemed to have been paid in accordance with the Resolution. Series 2010 Bonds purchased with moneys in the Debt Service Fund will be applied in satisfaction of a required Sinking Fund Installment of the Series 2010 Bonds in accordance with the Resolution. Series 2010 Bonds redeemed at the option of the Authority, purchased by the Authority or the Hospital (other than from amounts on deposit in the Debt Service Fund) or deemed to have been paid in accordance with the Resolution will be applied in satisfaction, in whole or in part, of one or more Sinking Fund Installments as the Authority may direct in its discretion. To the extent the Authority’s obligation to make Sinking Fund Installments in a particular year is so satisfied, the likelihood of redemption through mandatory Sinking Fund Installments of a Bondholder’s Series 2010 Bonds of the maturity so purchased will be reduced for such year.

Purchase in Lieu of Optional Redemption

The Series 2010 Bonds maturing after July 1, 2020 are also subject to purchase in lieu of optional redemption prior to maturity at the election of the Hospital, on or after July 1, 2020, in any order, in whole or in part at any time, at a price of 100% of the principal amount thereof (the "Purchase Price"), plus accrued interest to the date set for purchase (the "Purchase Date").

Special Redemption

The Series 2010 Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part on any interest payment date, at 100% of the principal amount thereof plus accrued interest to the redemption date (i) from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Project to which such proceeds relate, and (ii) from unexpended proceeds of the Series 2010 Bonds upon the abandonment of all or a portion of the Project due to a legal or regulatory impediment.

Selection of Bonds to be Redeemed

In the case of redemptions of Series 2010 Bonds, other than mandatory redemptions, the Authority will select the maturities of the Series 2010 Bonds to be redeemed. If less than all of the Series 2010 Bonds of a maturity are to be redeemed, the Series 2010 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2010 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2010 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten days prior to the date such notice is given. Each notice of redemption may state, in addition to any other condition, that the redemption is conditioned upon the availability on the redemption date of sufficient moneys to pay the Redemption Price of the Series 2010 Bonds to be redeemed. The failure of any owner of a Series 2010 Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2010 Bond. If directed in writing by the Authority, the Trustee will publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2010 Bonds.

If on the redemption date moneys for the redemption of the Series 2010 Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the redemption price, and if notice of redemption has been mailed, then interest on the Series 2010 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2010 Bonds will no longer be considered to be Outstanding.

Notice of Purchase in Lieu of Redemption and its Effect

Notice of purchase of the Series 2010 Bonds will be given in the name of the Hospital to the registered owners of the Series 2010 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the Purchase Date specified in such notice. The Series 2010 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2010 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. If the Series 2010 Bonds are called for purchase in lieu of an optional redemption, such purchase will not extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2010 Bonds. Such Series 2010 Bonds need not be cancelled, and will remain Outstanding under the Resolution and continue to bear interest.

The Hospital's obligation to purchase a Series 2010 Bond or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Series 2010 Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Series 2010 Bonds to be purchased, the former registered owners of such Series 2010 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the Purchase Price. If sufficient money is not available on the Purchase Date for payment of the Purchase Price, the Series 2010 Bonds tendered or deemed tendered for purchase will continue to

be registered in the name of the registered owners on the Purchase Date, who will be entitled to the payment of the principal of and interest on such Series 2010 Bonds in accordance with their respective terms.

If not all of the Outstanding Series 2010 Bonds of a maturity are to be purchased, the Series 2010 Bonds of such maturity to be purchased will be selected by lot in the same manner as Series 2010 Bonds of a maturity to be redeemed in part are to be selected.

For a more complete description of the redemption and other provisions relating to the Series 2010 Bonds, see “Appendix D - Summary of Certain Provisions of the Resolution.” Also see “Book-Entry Only System” below for a description of the notices of redemption to be given to Beneficial Owners of the Series 2010 Bonds when the Book-Entry Only System is in effect.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as the securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010 Bond certificate will be issued for each maturity of the Series 2010 Bonds, totaling in the aggregate the principal amount of the Series 2010 Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2010 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, 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 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010 Bonds, except in the event that use of the book-entry system for such Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices will be sent to DTC. If less than all of the Series 2010 Bonds within a maturity of the Series 2010 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2010 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 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 is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Series 2010 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Series 2010 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been furnished by DTC. The Authority believes that this information is reliable, but makes no representations or warranties as to the accuracy or completeness thereof. More information can be found at www.dtcc.com or www.dtc.org.

NEITHER THE AUTHORITY, THE HOSPITAL NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2010 BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2010 BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2010 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2010 BONDS; OR (VI) ANY OTHER MATTER.

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the Hospital during each twelve month period ending June 30 of the Bond Years shown for the payment of debt service on the currently outstanding indebtedness of the Hospital, the principal of and interest on the Series 2010 Bonds and the total debt service on all indebtedness of the Hospital, including the Series 2010 Bonds.

12-Month Period Ending June 30	Series 2010 Bonds			Debt Service on Other Indebtedness	Total Debt Service
	Principal Payments	Interest Payments	Total Debt Service on the Series 2010 Bonds		
2011	-	\$505,454	\$505,454	\$3,995,728	\$4,501,182
2012	\$350,000	497,168	847,168	4,732,978	5,580,146
2013	355,000	490,168	845,168	4,283,839	5,129,007
2014	365,000	483,068	848,068	3,346,325	4,194,393
2015	370,000	474,855	844,855	3,343,150	4,188,005
2016	385,000	463,755	848,755	3,073,925	3,922,680
2017	395,000	451,243	846,243	2,737,125	3,583,368
2018	410,000	436,430	846,430	2,682,875	3,529,305
2019	430,000	420,030	850,030	2,670,500	3,520,530
2020	445,000	402,293	847,293	2,658,750	3,506,043
2021	465,000	383,380	848,380	2,652,250	3,500,630
2022	490,000	360,130	850,130	2,640,750	3,490,880
2023	515,000	335,630	850,630	3,691,875	4,542,505
2024	540,000	309,880	849,880	934,375	1,784,255
2025	570,000	282,880	852,880	932,125	1,785,005
2026	600,000	254,380	854,380	932,750	1,787,130
2027	630,000	224,380	854,380	-	854,380
2028	665,000	191,620	856,620	-	856,620
2029	700,000	157,040	857,040	-	857,040
2030	735,000	120,640	855,640	-	855,640
2031	775,000	82,420	857,420	-	857,420
2032	810,000	42,120	852,120	-	852,120

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PART 4 — THE PROJECT

The Project consists of two undertakings at the Hospital’s primary facility.

Neuromedicine Inpatient Unit – This portion of the Project involves the creation of a 22-bed state-of-the-art neuromedicine inpatient unit to create an integrated program that links the clinical and research elements of neurology and neurosurgery. The renovation of existing space is designed to provide 18 private rooms and 4 step-down beds. The Neuro Step-Down Unit will provide expertise in post-operative care and will be used for stroke patients, patients following intracranial surgery, tumor patients requiring frequent neuro checks, status epilepticus, intracranial hemorrhage, post TPA and myasthenia.

Perioperative Services Expansion – This portion of the Project involves the enhancement and expansion of the Hospital’s perioperative services. Improvements include the construction of two additional operating rooms, state-of-the-art equipment and technology, a dedicated room to service orthopedics, storage for equipment and supplies, an enhanced pre-testing area to accommodate bariatric patients and increased volumes and improved SPD space.

PART 5 — ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds

Principal Amount of Series 2010 Bonds	\$ 11,000,000
Plus: Net Original Issue Premium/(Discount)	(67,936)
Hospital Equity Contribution	<u>2,707,223</u>
Total Sources	<u>\$ 13,639,287</u>

Uses of Funds

Deposit to the Construction Fund.....	\$ 11,990,807
Deposit to the Debt Service Reserve Fund.....	428,710
Capitalized Interest.....	618,863
Costs of Issuance ⁽¹⁾	483,407
Underwriters’ Discount	<u>117,500</u>
Total Uses	<u>\$ 13,639,287</u>

¹ Includes legal fees, State bond issuance charge and associated costs relating to the Series 2010 Bonds.

PART 6 — THE HOSPITAL

GENERAL INFORMATION

Introduction

The Highland Hospital of Rochester (“Highland” or “the Hospital”) is a not-for-profit corporation organized under the laws of the State of New York, and exempt from taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”). The Hospital is a 261-bed acute care hospital facility located at 1000 South Avenue, Rochester, New York. The Hospital is a subsidiary of Strong Partners Health System, Inc., (“SPHS”), a New York not-for-profit corporation exempt from taxation as an organization described in Section 501(c)(3) of the Code, which is the sole member and unregulated parent of Highland. However, SPHS is not an obligor with regard to the Series 2010 Bonds.

Incorporated in 1889, the Hospital serves residents of portions of the City of Rochester, suburban communities in Monroe County, and certain municipalities in surrounding counties. The Hospital is currently licensed to provide major patient care services: general medical and surgical care; intensive care; obstetrical and newborn care; inpatient and outpatient renal dialysis; outpatient primary care clinic care; and emergency services. Highland’s primary care satellite clinic system is extensive and it provides care throughout the Greater Rochester area at its 14 off-site primary and specialty health care centers.

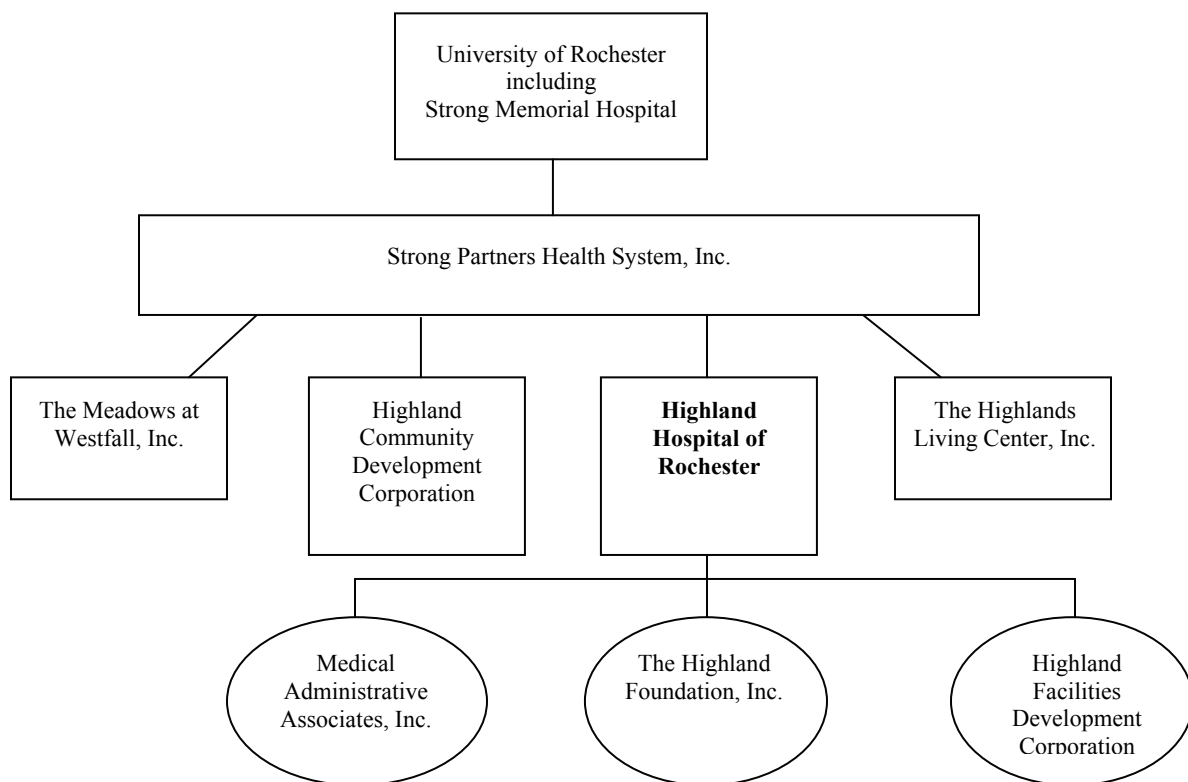
Included in its bed complement of 261 are 14 intensive care unit beds and 29 maternity beds. In addition, there are also 44 newborn bassinets at Highland.

Certified Operating Certificate Bed Complement

Medical/Surgical	218
Obstetrics	29
Intensive Care Unit	<u>14</u>
Total adult acute care beds	261
Newborn bassinets	<u>44</u>
Total	<u><u>305</u></u>

Organization and Affiliates

The chart below illustrates the current organizational structure of the affiliated corporations of Highland Hospital and SPHS. Separate governing boards of directors maintain fiduciary responsibility over the University of Rochester, SPHS and the other SPHS subsidiaries.



The Hospital operates an acute care hospital serving the population residing in Monroe County and other nearby counties and is a medical teaching affiliate of the University of Rochester School of Medicine and Dentistry. The University of Rochester is the sole corporate member of Strong Partners Health System (“SPHS”). SPHS is also the sole corporate member of the Hospital, Highland Community Development Corporation (“HCDC”), The Highlands Living Center, Inc. (“HLC”), and The Meadows at Westfall, Inc. (the “Meadows”).

The Hospital's subsidiaries consist of the following: *Highland Facilities Development Corporation* ("HFDC") is a New York not-for-profit corporation, whose primary purpose is to provide services which are substantially related to the charitable purposes of the Hospital but do not involve provision of health care services. HFDC owns and operates a medical office building and a parking garage on the Hospital campus.

Medical Administrative Associates, Inc. d/b/a Highland South Wedge Pharmacy ("the Apothecary") is a New York business corporation that owns and operates a retail pharmacy.

The Highland Foundation, Inc. (the "Foundation") is a New York not-for-profit corporation, whose primary purpose is to solicit, receive, and maintain funds exclusively for the benefit of the Hospital and other SPHS entities.

The Hospital's other affiliates are as follows: *Strong Partners Health System, Inc.* SPHS's primary purpose is to oversee a regional health care delivery system of health services.

SPHS, as the sole member of Highland, The Meadows, HCDC and HLC, has certain operational powers over these corporations, as set forth in their respective bylaws, including the following:

- 1) to elect, remove (with or without cause), appoint and replace the members of the Board of Directors;
- 2) to approve the strategic plan and capital and operating budgets;
- 3) to approve the authorization of any debt in excess of \$500,000 or having a term of 5 years or more, unless previously approved as part of the capital or operating budget;
- 4) to approve any transfer of assets to unrelated entities;
- 5) to approve the appointment or removal of the CEO;
- 6) to direct transfer of assets to the extent necessary or appropriate to achieve the goals of the University of Rochester's health care system;
- 7) to approve any dissolution, liquidation, merger, consolidation, lease or transfer of all or substantially all assets; and
- 8) to approve any amendment to the by-laws or certificate of incorporation.

Strong Memorial Hospital. Strong Memorial Hospital ("Strong") is a tertiary care teaching institution located in Rochester, New York. It is an integrated division of the University of Rochester, which is a private, not-for-profit institution of higher education based in Rochester, New York. Strong provides health care services through its inpatient and outpatient care facilities located in Rochester, New York.

Highland Community Development Corporation. Highland Community Development Corporation ("HCDC") is a New York not-for-profit corporation which owns and operates The Highlands at Pittsford, a retirement community located in Pittsford, Monroe County, New York. The retirement community includes 132 independent living units, 48 enriched housing units, a community common area, a dining room, sitting areas and, recreational areas.

The Highlands Living Center, Inc. The Highlands Living Center, Inc. is a New York not-for-profit corporation which owns and operates a 120-bed skilled nursing facility and an adult day care health program for seniors in Pittsford, Monroe County, New York. The skilled nursing facility is adjacent to The Highlands at Pittsford.

The Meadows at Westfall, Inc. The Meadows at Westfall, Inc. ("The Meadows") is a New York not-for-profit corporation that owns and operates a 145-bed nursing home in Brighton, New York, known as The Highlands at Brighton.

Neither the obligations of the Hospital under the Loan Agreement nor the Series 2010 Obligation will be an obligation of the University of Rochester, SPHS or any of their respective affiliates other than the Hospital and none of the University of Rochester, SPHS or any of their respective affiliates other than the Hospital will be liable thereon.

Governance

Except for the reserved powers retained by its sole member SPHS, as described above, the Hospital is governed by its Board of Directors, consisting of between 13 and 19 directors divided into 3 classes, each class being elected for three year terms in alternating years. The Board acts as a whole on all matters and therefore has no standing committees. The current Board of Directors consists of the following individuals:

**Highland Hospital Board of Directors
2010 Listing**

Hon. Francis A. Affronti *
NYS Supreme Court
7th Judicial District

John H. Barr *
President & CEO
Transformation Through Leadership

Cindy Becker
Vice President & COO
Highland Hospital

Bradford C. Berk, MD, PhD
Senior Vice President of Health
Sciences/CEO of University of
Rochester Medical Center

Michael F. Buckley, Esq. *
Partner
Harter, Secrest & Emery

Jean Close *
Principal
Bonadio & Company LLP

David DeJoy *
Managing Partner
DeJoy, Knauf & Blood LLP

Steven I. Goldstein *
President and CEO
Strong Memorial and Highland
Hospitals

Gerard Guerinot, MD *
Retired Physician

Lisa Harris, MD *
Community Physician

Joseph Johnson, MD *
Chief of Surgery
Highland Hospital

Amy Kates *
Chairperson
Highland Hospital Foundation

Stephen Kates, PhD
Associate Professor
University of Rochester

Howard Konar *
President
Konar Properties

Robert N. Latella, Esq. **
Partner
Hiscock & Barclay, LLP

Richard P. LeFrois *
President
LeFrois Builder Inc.

George D. Lord *
Retired, Eastman Kodak

Robert McCann, MD *
Chief of Medicine
Highland Hospital

Anil Sharma, MD *
Gastrology Group of Rochester NY

Raphael Tshibangu, MD *
Community Physician

*Indicates voting Board member.

**Honorary Member

The current Board of Directors of SPHS, with responsibility for all of the powers reserved to SPHS as sole member of the Hospital, consists of the following individuals:

**Strong Partners Health System, Inc. Board of Directors
2009-2010 Listing**

Bradford C. Berk, MD, PhD
Senior Vice President of Health
Sciences/CEO of University of
Rochester Medical Center

C. William Brown
Risk Management Consultant
Brighton Pittsford Agency, Inc.

Michael F. Buckley, Esq.
Partner
Harter, Secrest & Emery, LLP

Susan P. Byrd
Vice President
Xerox Global Services

Richard J. Collins, MD
Retired Physician

Roger B. Friedlander
Consultant

Steven I. Goldstein
President & CEO
Strong Memorial and Highland
Hospitals

William J. Hall, MD
Director, Center for Healthy Aging
Highland Hospital

Robert H. Hurlbut
President
The Hurlbut Trust

Alan Illig, Esq.
Counsel
Harter, Secrest & Emery, LLP

Joseph A. Johnson, MD
Chief of Surgery
Highland Hospital

Robert N. Latella, Esq.
Partner
Hiscock & Barclay, LLP

George D. Lord
Retired, Eastman Kodak

Robert M. McCann, MD
Chief of Medicine
Highland Hospital

Mary K. Ness, MD
Honeoye Valley Family Practice, LLP

Thomas S. Richards, Esq.
Corporation Counsel
City of Rochester

Michael P. Riordan
UBS Financial Services, Inc.

Anil Sharma, MD
Gastrology Group of Rochester NY

Mark B. Taubman, MD
Dean, SMD, VP for Health Sciences
Strong Memorial Hospital

Ronald L. Zarrella
Chairman Emeritus
Bausch & Lomb Incorporated

Senior Advisors:

James J. DeCaro, PhD
Gerard T. Guerinot, MD
William D. Ryan
Kathleen R. Whelehan

Potential Conflicts of Interest

The Hospital has adopted a policy to minimize any adverse effect of possible conflicts of interest between personal interests of members of the Board, officers or staff and the interests of the Hospital. The purpose of the policy is to ensure that decisions about the Hospital business are made solely in terms of the benefits to the Hospital and are not influenced by any private profit or other benefit to the members of the Board, officers or staff who take part in the decision. Board members are surveyed each year and requested to indicate any conflicts or attest to there being none. There were no conflicts declared in the most recent survey.

Management

Bradford C. Berk, M.D., Ph.D., *Senior Vice President and Vice Provost for Health Affairs; Medical Center and Strong Health System Chief Executive Officer.* Dr. Berk is the University Senior Vice President for Health Sciences at the University of Rochester and CEO of the Medical Center. Dr. Berk received his M.D. and Ph.D. degrees from the University of Rochester. He has served on the faculties of Harvard Medical School, Emory University, and the University of Washington. Dr. Berk was previously Chairman of Medicine (1999-2006) and Chief of the Cardiology Unit (1998-2003) at the University of Rochester. In addition he was Director of the Aab Cardiovascular Research Institute. Dr. Berk is a fellow of the American Heart Association and the American College of Cardiology, and a member of the Association of American Physicians. Dr. Berk is past-president of the North American Vascular Biology Organization (NAVBO). He is on the Editorial Boards of *Circulation*, *Circulation Research*, *ATVB* and the *Journal of Clinical Investigation*. He serves on the Empire State Stem Cell Board Funding Committee and the National Heart, Lung and Blood Institute (NHLBI), Stem Cell Clinical Trial Network and Gene and Cell-Based Therapies Data and Safety Monitoring Board (DSMB). Dr. Berk has published widely – more than 250 articles, chapters, and books.

Steven I. Goldstein, *President and Chief Executive Officer of Strong Memorial Hospital and Highland Hospital; and President of Long Term Care of the University of Rochester, New York.* Mr. Goldstein is Vice President for the University of Rochester Medical Center (URMC), President and Chief Executive Officer for Strong Memorial Hospital and Highland Hospital in Rochester, New York and President for Long Term Care for the University of Rochester Medical Center. Mr. Goldstein is a member of the Board of Trustees of the American Hospital Association (AHA) and the chair of AHA Regional Policy Board 2 where he previously served as a delegate. He is a past Chairman of the Board of Trustees of the Healthcare Association of New York State (HANYS). He has served on numerous boards of directors and committees including Highland Hospital of Rochester, University of Rochester Medical Center, Strong Partners Health System, Visiting Nurse Service, and Rochester Regional Healthcare Association. He also holds a joint appointment as Professor in Community and Preventive Medicine for the University of Rochester School of Medicine and Dentistry. Prior to assuming his position at Strong Memorial and Highland Hospitals, Mr. Goldstein served in administrative positions at Rochester General Hospital, Rochester, New York, The Children's Medical Center, Dayton, Ohio, the University of Nebraska Hospitals and Clinics and the Nebraska Psychiatric Institute, Omaha, Nebraska. He has also served as assistant clinical professor in the Department of Community Medicine at Wright State University School of Medicine. Mr. Goldstein is a Diplomat of the American College of Healthcare Executives and received his Master's degree from the St. Louis University Graduate School of Hospital and Health Care Administration and his Bachelor's degree from Utica College of Syracuse University.

Raymond J. Mayewski, MD, FACP, *Medical Director for Clinical Services at the Medical Center, Chief Medical Officer for Strong Memorial Hospital and Highland Hospital and Physician-Director of the University of Rochester Medical Faculty Group.* Dr. Mayewski received his Bachelor of Science (Honors) degree from Pennsylvania State University and Doctor of Medicine degree from Temple Medical School. After joining the Hospital in 1972 as an intern and then as Chief Resident in Medicine, Dr. Mayewski became a licensed physician in 1975 and was certified by the American Board Internal Medicine in 1975 and Pulmonary Diseases in 1978. He served as Associate Chairman for Clinical Affairs in the Department of Medicine from 1991 to 1995 and became a Dean's Professor (endowed chair) of Medicine in 1994. He was appointed Medical Director for Clinical Services at the University of Rochester Medical Center and chief Medical Officer for the Hospital in 1995. He is also a Fellow of the American College of Physicians and serves on numerous committees of other local State and national organizations. Dr. Mayewski serves on the Board of the University of Rochester Medical Center as well as continuing to serve on executive committees at the University of Rochester Medical Center.

Leonard J. Shute, Senior Director for Finance and Chief Financial Officer, Strong Memorial Hospital and Highland Hospital. Mr. Shute joined the Hospital in 1991 as Director of Financial Operations and assumed his present position in 1995. From 1982 to 1991, Mr. Shute was the Vice President for Institutional Affairs for Blue Cross/Blue Shield of the Rochester Area. Prior to that, Mr. Shute received a Bachelor of Science degree in Accounting from St. John Fisher College. He is a current member and former regional board president of the Health Care Financial Management Association. Mr. Shute serves on the Finance Committee of the Hospital Association of New York State, and chairs the Chief Financial Officer Committee of the Rochester Regional Healthcare Association. He also serves on the Finance Committee of the Medical Center Insurance Company, a professional liability insurer.

Cindy Becker, RN, MS, MBA, Vice President and Chief Operating Officer of Highland Hospital. Ms. Becker joined Highland Hospital in 1988 as the Department Manager for the Emergency Department. She advanced to positions of Assistant Vice President for Nursing and Vice President for Nursing in 1993. She assumed the Chief Operating Officer position in 2000. She served as Captain in the United States Air Force for 3 years. She received her masters in Nursing Administration from the University of Buffalo and MBA from the Simon School at the University of Rochester. She is a Fellow of the American College of Healthcare Executives and serves on numerous committees.

Medical and Dental Staff

The following is a summary by clinical department of the Medical and Dental Staff of the Hospital, including number of physicians and dentists, average age, and the percentage who are board certified:

Department Name	Total On Staff	Average Age	% Board Certified
Anesthesiology	78	48	97.44
Dentistry	9	48	44.44
Emergency Medicine	35	47	97.14
Family Medicine	96	48	94.79
Med Diagnostic Imaging	56	52	94.64
Medicine	393	50	92.11
Neurology	44	48	100.00
Neurosurgery	9	52	100.00
Obstetrics/Gynecology	81	47	82.72
Orthopedics	41	51	100.00
Pathology/Lab Medicine	33	52	96.97
Pediatrics	143	50	93.71
Radiation Oncology	13	54	92.31
Surgery	<u>127</u>	<u>52</u>	<u>87.40</u>
Total	<u>1,158</u>	<u>50</u>	<u>92.40</u>

Leading Admitting Physicians

The top fifteen admitting physicians on staff are indicated in the table below by specialty, together with their age and number of discharges for the period from January 1, 2009 through December 31, 2009:

Physician	CASES	% TOTAL	AGE	SPECIALTY
O'Malley, William	663	4.1%	46	General Surgery
Mead, Karen	540	3.3%	60	Geriatric Medicine
Boyd, Allen	407	2.5%	57	Orthopedic Surgery
Drinkwater, Christopher	400	2.4%	48	Orthopedic Surgery
Kates, Stephen	378	2.3%	50	Orthopedic Surgery
Angel, Cynthia	332	2.0%	54	GYN Oncology
DuBeshter, Brent	301	1.8%	57	GYN Oncology
Allen, Egan	245	1.5%	43	Geriatric Medicine
Romesser, Corey	234	1.4%	33	Geriatric Medicine
Johnson, Joseph	229	1.4%	48	General Surgery
Zeidman, Seth	221	1.4%	48	Neuro-Surgery
Toy, Eugene	220	1.3%	42	GYN Oncology
Nicholas, Joseph	212	1.3%	40	Geriatric Medicine
Lim, Oona	201	1.2%	41	OB/GYN
Bonham, Adrienne	<u>155</u>	<u>0.9%</u>	43	OB/GYN
TOTAL	4,738	28.8%		

Physician Recruitment and Retention

In collaboration with the University of Rochester Medical Center (“URMC”), the Hospital actively works to retain and recruit needed physicians. The Hospital benefits from the relationship with the URMC as many physicians practice at both Highland and Strong Memorial Hospital. Since the affiliation in 1997, several clinical programs have been relocated from Strong Memorial to Highland Hospital. Examples of these are GYN Oncology, midwives, medicine/pediatric clinics, and an orthopedic joint replacement program.

Also, as an academic medical center, URMC trains approximately 722 residents and fellows in 79 accredited graduate medical and dental education programs. Upon completion, these resident and fellows serve as a source of new physicians for the Hospital.

Also, on occasion, the Hospital has acquired physician practices within the local market either through purchasing the practice or through offering employment.

Service Area and Demographics

Highland is located in the City of Rochester in the center of Monroe County. The primary and secondary service areas (“PSA” and “SSA”) were defined based upon historical patient origin and market share information on a zip code-specific basis. The criteria established to define the PSA and SSA are as follows: PSA, where the Hospital derived 200 or more discharges from the zip code; and SSA, where (i) zip codes where the Hospital’s market share is greater than 10%, and (ii) the Hospital derives 50 or more but less than 200 discharges from the zip code.

By applying the above criteria, the Hospital defines its PSA and SSA area to be in Monroe, Livingston, Ontario, Genesee and Wayne Counties (the “Surrounding Counties”). All of the zip codes defined as the PSA are within Monroe County, and are located in the communities surrounding the City of Rochester. The Hospital’s PSA and SSA include 57 zip codes. Together, these 57 zip codes represent approximately 87 percent of the Hospital’s total discharges. Twenty-eight of these zip codes comprise the PSA, which represents approximately 66 percent of the Hospital’s total discharges. The remaining 29 zip codes comprise the SSA, which represents approximately 21 percent of the Hospital’s total discharges. Approximately 13 percent of the Hospital’s discharges have historically been derived from outside the PSA and SSA.

Demographic Characteristics of the Service Area

The forecast of population for the inpatient PSA (Monroe County) and SSA (surrounding 15 Counties) was developed from 2000 US Census data, population estimates for 2008 and 2013 were provided by “Market Expert,” a Medstat product. In 2000, the population for the PSA and SSA was 1,683,451.

The population of the PSA and SSA is estimated to increase between 2000 and 2013 by 11,690 or 0.69%. The projected population increase in the hospital’s PSA and SSA (0.69%) is slightly lower than the projected increase in Monroe County (1.07%), and it is much lower than the projected increases in Livingston County (4.35%) and Ontario County (13.04%) of the surrounding region.

Primary Service Area Population Data

	2000	2008	2013
Monroe County, New York	714,451	728,987	722,129

Secondary Service Area Population Data

	2000	2008	2013
Genesee County, New York	60,826	58,970	57,479
Livingston County, New York	63,311	66,436	66,065
Ontario County, New York	94,197	103,935	106,479
Wayne County, New York	91,850	95,715	94,655
Subtotal Counties	310,184	325,056	324,678

PSA & SSA Population Data

	2000	2008	2013
Total 5 Counties	1,024,635	1,054,043	1,046,807

Competition

There are three acute care hospitals which management of the Hospital classifies as major competitors to the Hospital within its primary service area.

Hospital	Adult # Beds	Location	Distance from Highland Hospital
Strong Memorial Hospital*	739	Rochester	1 mile
Rochester General Hospital	528	Northern Rochester	8 miles
Park Ridge Hospital	289	Northwest Rochester	9 miles

*An affiliate of Highland Hospital of Rochester. See “Organization and Affiliates” above.

Services and Programs

Primary Care Satellite Network

Highland Hospital operates a network of 12 primary care satellite medical practices in 13 locations, including two residency training programs. These practices, representing the disciplines of Family Medicine, Internal Medicine, Internal Medicine — Pediatrics, and OB/GYN, provide high quality, accessible primary health care services to a wide variety of patients throughout the greater Rochester area.

The oldest and largest of these satellites is the Highland Family Medicine program at the Highland Family Health Center (the “Center”) and is located at 777 South Clinton Avenue in Rochester, within walking distance of the Highland Hospital campus. The Center, established in 1975, serves as the home for the University of Rochester’s Department of Family Medicine and, as a jointly sponsored program between Highland and the University, the Family Medicine residency training program. This program, which graduates 10 Family Medicine physicians each year over a 3- year training program, is the oldest in New York State and the third such program to be established nationally (1967). The program is ranked as one of the top programs in the nation in terms of its residency training. In addition to the residents, there are 29 physicians, nurse practitioners and family therapists providing service at this practice. The Center is on the same campus as The Cornhill Internal Medicine satellite practice, the Highland Apothecary and a laboratory collection station.

In addition to training residents in Family Medicine, the network and Highland, through a similar relationship with the University, trains physicians in the joint program of Internal Medicine and Pediatrics at the Culver Medical Group location, at 913 Culver Road in Rochester, a 10 minute drive north of the Highland Hospital campus. This program graduates 8 physicians who are trained in both disciplines of Internal Medicine and Pediatrics over a 4-year training program. In addition to the residents in training, there are 6 full time faculty physicians providing services at this practice.

In addition to the residency training programs noted above, Highland operates a growing network of primary care practices which are geographically dispersed throughout the community. These practices are located throughout Monroe and Livingston Counties and represent a mix of urban, suburban and rural locations. There are 32 physicians and nurse practitioners providing services at these practices. A listing of these practices is as follows:

Avon Medical Group	Avon, New York
Caledonia Medical Group	Caledonia, New York
Cornhill Internal Medicine	Rochester, New York
East Ridge Family Medicine	Rochester, New York
Penfield Family Medicine	Penfield, New York
Genesee Valley Family Medicine	Mt. Morris, Geneseo, and Lakeville, New York
Rush Family Medicine	Rush, New York
Webster Family Medicine	Webster, New York
Greece Medical Associates	Rochester, New York

Surgery

The Hospital’s operating room cases have increased 40% since 1999. The growth is led by the bariatric surgery program, which is the largest of its kind in central, western and southern New York State, performing 700 annual cases. Three surgeons expect to perform 900 cases within two years.

Orthopedics

The Evarts Joint Center for Orthopedics opened to the community in March of 2005. The Center includes a 20-bed inpatient unit that includes rehabilitation services on the floor, two state-of-the-art operating rooms and an outpatient clinic. The Center represents collaboration between the University of Rochester Medical Center, the Hospital and private physicians from the community. In November of 2004, the Hospital launched a geriatric fracture service that utilizes Highland's comprehensive orthopedics and geriatric services to provide an expedited admission to the Hospital for older patients who have fallen and require orthopedic care. The integrated model of care with orthopedics and geriatrics has improved patient care clinical outcomes.

Neurosurgery

The neurosurgery service has expanded with the recruitment of additional surgeons and a new chief of neurosurgery. FY10 case volume is approximately 650 cases with anticipated growth of 30% over the next two years with the addition of two new operating rooms. Highland's strategic plan includes the creation of a neuromedicine program which combines the clinical service of neurology and neurosurgery to provide a collaborative and integrated disease management model of care where patients are managed collaboratively by neurologists, neurosurgeons, and pain management specialists in a team-patient centered approach. A dedicated 24-bed inpatient unit will be renovated to provide care to this patient population.

Emergency Department

The Hospital's Emergency Department ("ED") volume has continued to increase over the last five years. In 2009, the ED handled 31,649 patient visits, an 11% growth over 2007. The recent growth is a result of the expansion of the Hospital ED, which had not been renovated since 1975. The expansion increased the acute care beds from 18 to 25 and increased the square footage from 7,000 to 16,700 square feet. Highland received a grant of \$3 million from New York State to assist in the financing of this project.

Women's Services

The Hospital offers a full array of women's services to the community. Its family maternity center delivered approximately 3,146 babies in 2009, more than any hospital in the region. Highland also performs the vast majority of GYN Oncology surgeries in the region. This is the result of the relocation of this specialty formerly located at Strong Memorial Hospital. The Highland Breast Care Center handled 13,500 visits in 2009, a 7% increase over the previous year. The Hospital's Center for Women was created to help women get the information and support they need to maintain healthy lifestyles. The programs consist of massage therapy, osteoporosis screening and a store for special needs like prostheses, etc. In addition, Highland provides a wide range of obstetrics and gynecology services to women in the community through its community OB/GYN service, regardless of insurance coverage.

Geriatric Services

The Hospital offers comprehensive services to older adults and has a dedicated inpatient unit (Acute Care for Elders Unit) that provides specialized care to older adults in the community. The Hospital also has a dedicated geriatric primary care practice. Geriatricians provide medical oversight to the majority of the nursing homes in Rochester and Monroe County. The collaboration provides seamless care when patients are transferred from the nursing home to the Hospital.

Oncology Program

The cancer treatment center at the Hospital provides a multi-disciplinary team approach to clinical services provided in radiation, medical and surgical oncology. Services are integrated with the James P. Wilmot Cancer Center at the University of Rochester Medical Center.

OPERATING INFORMATION

Utilization Statistics

The Hospital provides a wide range of medical, surgical, and obstetrical services, with 33% of the discharges from obstetrics and neonatology followed by medicine and orthopedics.

In fiscal year 2009 the Hospital discharged 16,355 inpatients, and cared for 233,299 clinic patients and 31,649 Emergency Department patients. Approximately 75.3% of inpatients came from the primary service area in Monroe County, 16.7% of the inpatients from the secondary service area in Genesee, Livingston, Ontario and Wayne counties. The remaining 8.0% were outside the PSA and SSA.

Inpatient Utilization

	2005	2006	2007	2008	2009
Medical/Surgical					
Discharges	11,434	11,758	11,783	12,541	13,059
Patient Days	58,581	63,367	63,353	65,228	60,813
Average Length Of Stay	5.1	5.4	5.4	5.2	4.7
Average Daily Census	160	174	174	178	167
Licensed Beds	232	232	232	232	232
Percent Occupancy	69.2%	74.8%	74.8%	76.8%	71.8%
Maternity					
Discharges	3,280	3,465	3,313	3,287	3,296
Patient Days	8,990	9,600	9,650	9,569	9,332
Average Length Of Stay	2.7	2.8	2.9	2.9	2.8
Average Daily Census	25	26	26	26	26
Licensed Beds	29	29	29	29	29
Percent Occupancy	86.2%	89.7%	89.7%	89.7%	89.7%
Total Acute					
Discharges	14,714	15,223	15,096	15,828	16,355
Patient Days	67,571	72,967	72,963	74,797	70,145
Average Length Of Stay	4.6	4.8	4.8	4.7	4.3
Average Daily Census	185	200	200	204	192
Licensed Beds	261	261	261	261	261
Percent Occupancy	70.9%	76.6%	76.6%	78.3%	73.6%
Nursery					
Discharges	3,248	3,479	3,344	3,296	3,231
Patient Days	8,267	9,219	8,297	8,299	8,207
Average Length of Stay	2.5	2.7	2.5	2.5	2.5
Average Daily Census	23	25	23	23	22
Licensed Beds	44	44	44	44	44
Percent Occupancy	52.3%	56.8%	52.3%	52.3%	50.0%

Historical Outpatient Utilization

	2005	2006	2007	2008	2009
ED Visits	27,899	27,638	28,554	29,656	31,649
Clinic Visits	214,599	219,333	221,759	228,425	233,299
Ambulatory Surgery Visits	5,967	5,643	5,341	5,126	5,506

Payor Classification

The distribution of patient volume by payor classification for Highland, based on historical information, is presented in the table below.

	2005	2006	2007	2008	2009
Inpatient Discharges					
Medicare	41%	40%	41%	42%	41%
Medicaid	15%	16%	14%	14%	14%
Blues/HMO's	35%	36%	34%	33%	34%
Commercial	6%	5%	7%	7%	8%
Self-Pay	2%	2%	2%	3%	2%
Other	1%	1%	2%	1%	1%
Total	100%	100%	100%	100%	100%
Ambulatory Surgery					
Medicare	20%	21%	20%	24%	23%
Medicaid	8%	8%	9%	7%	6%
Blues/HMO's	60%	59%	58%	57%	57%
Commercial	6%	7%	9%	8%	10%
Self-Pay	2%	2%	2%	1%	2%
Other	4%	3%	2%	3%	2%
Total	100%	100%	100%	100%	100%
ED Visits					
Medicare	31%	31%	28%	28%	30%
Medicaid	19%	17%	22%	22%	21%
Blues/HMO's	30%	30%	28%	28%	31%
Commercial	5%	6%	7%	7%	7%
Self-Pay	10%	11%	9%	9%	7%
Other	5%	5%	6%	6%	4%
Total	100%	100%	100%	100%	100%
OP Clinics					
Medicare	19%	22%	22%	22%	20%
Medicaid	22%	21%	18%	20%	20%
Blues/HMO's	46%	44%	43%	43%	45%
Commercial	8%	7%	8%	8%	9%
Self-Pay	3%	4%	6%	4%	4%
Other	2%	2%	3%	3%	2%
Total	100%	100%	100%	100%	100%

Commercial insurance percentages have remained relatively stable during this period. Medicare and Medicaid revenues are inclusive of patients enrolled in managed care programs, as well as fee-for-service.

ANNUAL FINANCIAL STATEMENT INFORMATION

Summary of Historical Revenues and Expenses

The summary of historical revenues and expenses for each of the five years ended December 31, 2009 in the table below has been derived from the consolidated audited financial statements of Highland through 2009. The data should be read in conjunction with the consolidated audited financial statements and related notes thereto included in Appendix B.

Hospital Operating Results (Dollars in Thousands)

Fiscal Year Ended December 31,

	2005	2006	2007	2008	2009
Operating Revenues:					
Net Patient Service Revenue	\$192,726	\$207,201	\$221,200	\$237,683	\$249,947
Other Operating Revenue	<u>12,541</u>	<u>14,212</u>	<u>15,605</u>	<u>16,412</u>	<u>16,872</u>
Total Operating Revenue	205,267	221,413	236,805	254,095	266,819
Operating Expenses:					
Salaries, Wages & Fringe Benefits	108,791	118,699	128,039	138,769	147,784
Supplies and Other Expenses	77,591	82,563	88,913	92,651	95,518
Interest	1,776	2,088	1,868	1,797	1,717
Depreciation	<u>8,919</u>	<u>9,698</u>	<u>10,382</u>	<u>10,855</u>	<u>11,791</u>
Total Operating Expenses	197,077	213,048	229,202	244,072	256,810
Income from Operations	<u>8,190</u>	<u>8,365</u>	<u>7,603</u>	<u>10,023</u>	<u>10,009</u>
Pension Liability Adjustments	406	3,874	757	(29,805)	6,585
Other gains/(losses), net	<u>(168)</u>	<u>4,260</u>	<u>4,604</u>	<u>(470)</u>	<u>522</u>
Change in net assets	<u>\$ 8,428</u>	<u>\$ 16,499</u>	<u>\$ 12,964</u>	<u>\$(20,252)</u>	<u>\$ 17,116</u>

The following table presents the Days of Cash on Hand reported by the Hospital that measure the number of days of daily operating expenses that could have been covered by unrestricted cash and investments available at the end of each of the fiscal years shown:

Days of Cash on Hand

2005	67.2
2006	68.3
2007	53.9
2008	49.6
2009	74.3

The following table presents the Debt to Capitalization Ratio reported by the Hospital as compared to the State median for all hospitals at the end the last five fiscal years. The ratio measures the amount of debt an institution has outstanding as a percentage of the sum of its outstanding indebtedness and unrestricted net assets.

Debt to Capitalization

	<u>Highland</u>	<u>NYS Median</u>
2005	40.1%	43.6%
2006	33.5	48.1
2007	28.7	51.0
2008	33.6	51.0
2009	26.5	51.0

Management's Discussion of Financial Performance

The Hospital has consistently generated operating margins that align with its budgeting objectives of between 3.2% and 4.0% for the years ended December 31, 2005 through 2009. During this period revenue grew 30%. This growth was fueled by increased inpatient and outpatient volumes as well as patient case mix (acuity). The Hospital has continued to benefit from the close affiliation with the University of Rochester's Medical Center through programmatic integrations which have brought new patients to the Hospital. Also contributing to revenue growth have been relatively modest increases in third party payment rates. This is particularly true of the Medicare and Medicaid programs due to Federal and State budget constraints and regulatory mandates. To meet these revenue constraints, Highland has consistently strived to control expenses to match the imposed constraints on revenue. This has been key to its consistent performance.

Consistent with the operating margin, the Hospital's net assets have similarly improved with the exception of 2008. This was due to significant investment losses and other actuarial adjustments to its defined benefit pension plan assets as a result of the general economic downturn during that period. Currently, the Hospital is in the process of converting existing employees and all new employees to a defined contribution plan to be effective January 1, 2011. This will help to mitigate future significant fluctuations in financial performance due to market conditions.

Patient Service Revenues

The Hospital's major sources of patient services revenue are Medicare, Medicaid, Blue Cross and commercial insurers. During 2009, the Hospital received approximately 80% of its patient service revenues from Medicare, Medicaid, and Blue Cross. Comparative sources of patient service revenues for the last five years ended December 31, 2005 through 2009 are as follows:

Calendar Year Ended December 31,

Payor	2005	2006	2007	2008	2009
Medicare	43%	41%	41%	42%	40%
Medicaid	13%	13%	12%	11%	14%
Blues/HMO'S	35%	37%	37%	36%	36%
Commercial	5%	6%	7%	8%	8%
Self-Pay	2%	2%	2%	2%	1%
Other	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>
Total	100%	100%	100%	100%	100%

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rate. A summary of the payment arrangements with major third-party payors follows:

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system ("PPS") for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than average, providers typically will receive additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services based on service groups called ambulatory payment classifications ("APCs"). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2006.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996, as amended (“HCRA”), governs payments to hospitals in New York State through March 31, 2011. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient’s assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital’s established charges.

As part of the passage of the State’s fiscal 2009-2010 budget, the New York State Department of Health is authorized to make extensive reforms to the Medicaid payment system. The key concept of the reform is to provide enhanced outpatient payments to encourage, when possible, the treatment of patients on an ambulatory basis versus more expensive inpatient care. The changes to the payment system will be phased in over a three year period starting in 2009 through 2011. The full effect of these changes is not fully known at this time, but it is not expected to materially impact the Hospital’s financial performance.

In addition, under HCRA, all non-Medicare payers are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge vary by payer and apply to a broader array of health care services. Also, certain payers are required to fund a pool specifically for teaching hospitals for indigent care expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered-lives assessment directly to the New York State Department of Health.

Capital Campaign and Fundraising

Capital campaigning and fundraising for the Hospital are conducted under the auspices of the Foundation. The fair market value of the Foundation’s net assets as of December 31, 2009 was:

Unrestricted	\$1,437,525
Temporarily Restricted	2,249,848
Permanently Restricted	<u>2,985,938</u>
Total	\$6,673,311

Unrestricted net assets are not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets result from donors who stipulate that their donated resources be maintained permanently. The Foundation, on behalf of the Hospital, is permitted to use or expend part or all of the income and gains derived from the donated permanently restricted net assets, restricted only by the donors’ wishes.

Other Operating Revenue

Other operating revenue consists primarily of Hospital cafeteria revenues, parking fee revenues, and physician office rental, along with revenues generated from the Hospital’s retail pharmacy, Medical Administrative Associates. This revenue supplements patient care income; and prices, fees, and rates charged are consistent with the overall market.

Three-Month Unaudited Financial Statements

In the opinion of the Hospital’s management, there have been no material adverse changes in the financial condition of the Hospital since December 31, 2009, the date of the last audited consolidated financial statements. The summary of historical revenues and expenses for the three-month period ended March 31, 2010 and 2009 and the summary of the Hospital’s balance sheet as of March 31, 2010 with a comparison to December 31, 2009 in the tables that follow have been derived from the Hospital’s internally prepared unaudited financial statements. The data in the table below reflects, in the opinion of management of the Hospital, all adjustments necessary to summarize fairly the results for such periods. The results for the three-month period ended March 31, 2010 should not be considered indicative of the results for the full fiscal year.

Hospital Operating Results (Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31,	
	2009	2010
Operating Revenues:		
Net Patient Service Revenue	\$61,984	\$65,844
Other Operating Revenue	<u>4,314</u>	<u>4,148</u>
Total Operating Revenue	66,298	69,992
Operating Expenses:		
Salaries, Wages & Fringe Benefits	35,187	36,569
Supplies and Other Expenses	24,902	26,024
Interest	445	432
Depreciation	<u>2,865</u>	<u>3,308</u>
Total Operating Expenses	63,399	66,333
Income from Operations	<u>2,899</u>	<u>3,659</u>
Other gains, net	(243)	160
Excess of revenues over expenses	<u>\$2,656</u>	<u>\$3,819</u>

Hospital Balance Sheet (Unaudited)
(Dollars in Thousands)

	December 31, 2009	March 31, 2010
Assets:		
Cash	\$ 49,894	\$45,884
Net patient accounts receivable	16,495	21,817
Other receivables	5,305	5,422
Other current assets	<u>6,581</u>	<u>6,264</u>
Total current assets	78,275	79,387
Assets whose use is limited	4,015	4,023
Trusts receivable	171	171
Long-term investments	5,709	6,097
Property and equipment	109,553	110,011
Other assets	<u>4,155</u>	<u>4,157</u>
Total assets	201,878	203,846
Liabilities and Net Assets		
Current portion of debt	3,831	3,873
Accounts payable and accrued expenses	15,954	13,131
Accrued payroll and benefits/taxes	<u>7,781</u>	<u>7,601</u>
Total current liabilities	27,566	24,605
Accrued pension liability	32,045	32,509
Estimated professional liability costs	4,777	4,840
Estimated third-party payor settlements	5,369	6,204
Long-term debt	32,273	32,065
Other non-current liabilities	5,073	5,029
Net assets	<u>94,775</u>	<u>98,594</u>
Total liabilities and net assets	\$201,878	\$203,846

Community Service

Highland's commitment to its community and underserved population has been and continues to be a major focus of the mission of the Hospital. Throughout the years, Highland has expanded services and developed new programs in a direct response to community need. Accessibility, convenience and quality have been a primary focus in providing these services.

Highland's Family Maternity Center offers patients and families quality customer focused service through the use of 29 post-partum beds, a family dining room, home care nursing, case management, lactation counseling and other obstetrical education programs.

The Highland Community OB/GYN Program is designed to meet the needs of the underserved with a team of doctors, nurse practitioners, nurses, social workers, and volunteers who assist in removing the barriers to health care for the indigent. In 2009, over 5,800 visits were provided to women served by this practice.

Highland's Family Medicine Center, located within the South Wedge community, is not only a primary care medical practice, but in partnership with the University of Rochester School of Medicine and Dentistry, serves as a family medicine residency site. The Center was the first of its kind in New York State and the third in the United States. Some 446 physicians have been trained at the Family Medicine Center. Approximately 50 physicians have focused on family medicine specialties such as family systems, care of patients with AIDS, and OB services. With a strong research component, the Family Medicine Center is a unique example of the Hospital's commitment to care for the community.

Highland's Cancer Center is considered among the top cancer programs of its size in the county. Radiation, medical and surgical oncology programs work together in order to give patients and their families coordinated services. The Highland Hospital Cancer Center also offers services at two off-site clinics in other area hospitals. These are located at Park Ridge Hospital and F.F. Thompson Hospital.

Highland is actively involved in community activities such as: the United Way campaign; being an active member of Highland's neighborhood's South East Area Coalition; sponsorship of the Rochester Lilac festival; sponsorship, with assistance from Eastman Kodak and other area businesses, of the Breast Care Educational luncheon; being actively involved and represented on numerous community boards of directors; and having close educational ties with local colleges and universities such as Rochester Institute of Technology, SUNY Cortland, SUNY Alfred, SUNY Brockport, Monroe Community College, St. John Fisher, Nazareth and the University of Rochester.

Outstanding Indebtedness

As of December 31, 2009, the Hospital had the following outstanding long-term indebtedness: (a) obligations relating to the County of Monroe Industrial Development Agency (COMIDA) Series 2005 Highland Hospital of Rochester Civic Facility Revenue Refunding Bonds and Civic Facility Revenue Project Bonds and Series 2005 Direct Taxable Notes having an aggregate outstanding principal balance at December 31, 2009 of \$33,651,218; and (b) capitalized lease obligations in the aggregate amount of \$2,453,170 with various equipment vendors secured by security interests in the equipment covered by the respective capital leases.

To date, the Hospital has not entered into any interest rate swap agreements.

Historical and Pro-forma Debt Service Coverage

The following table sets forth the Hospital's historical coverage of the maximum annual debt service requirements on certain long-term indebtedness of the Hospital for the fiscal years ended December 31, 2007, 2008 and 2009. The table also sets forth the Hospital's historical coverage of the pro forma maximum annual debt service requirements for the fiscal years ended December 31, 2007, 2008 and 2009 on certain long-term indebtedness of the Hospital which is expected to be outstanding upon the issuance of the Bonds and the Taxable Notes.

	Fiscal Years ended December 31,		
	2007	2008	2009
	(dollars in thousands)		
Change in net assets	\$12,964	\$(20,252)	\$17,116
Add (Less):			
Depreciation and amortization	10,382	10,855	11,791
Interest	1,868	1,797	1,717
Loss on disposal of assets	0	0	0
Pension Liability Adjustments	(757)	29,805	(6,585)
Income available for debt service	<u>\$24,457</u>	<u>\$22,205</u>	<u>\$24,039</u>
Historical maximum annual debt service	\$5,278	\$5,941	\$4,849
Historical maximum debt service coverage ratio	4.63	3.74	4.96
Pro forma maximum annual debt service ⁽¹⁾	\$6,129	\$6,792	\$5,700
Pro-forma maximum debt service coverage ratio	3.99	3.27	4.22

1) The pro-forma debt service coverage ratio in the table above has been calculated based on the pro-forma maximum annual debt service in order to demonstrate the maximum impact that issuance of the Series 2010 Bonds would have had on Highland's historical debt service coverage ratio for the fiscal years ended December 31, 2007, 2008 and 2009.

Employees

As of December 31, 2009, Highland employed approximately 1,987 full-time employees (FTE's). The number of FTE's increased by 299 from December 31, 2005 as a direct result of the expansion of clinical programs at the Hospital.

The Hospital has a full time nurse recruiter and an active nursing recruitment program. The Hospital offers a competitive compensation package, including tuition reimbursement, enhanced incentive pay programs, referral bonuses, flexible per diem programs and a mentored orientation program, in order to attract and retain a qualified workforce.

The Hospital currently provides a non-contributory defined retirement plan. All employees enter the plan on the first day of the plan year in which they complete two years of service and 1000 hours in each year. The most recent actuarial valuation, dated January 1, 2009, indicated an actuarial present value of vested accumulated plan benefits of \$76.2 million. The actuarial present value of non-vested accumulated plan benefits was \$1.1 million. The total market value of the assets available for the plan benefits was \$57.5 million. Based on actuarial estimates, the Hospital anticipates making contributions to the plan of approximately \$5.0 million, \$6.6 million and \$9.6 million for the years ending December 31, 2010, 2011, and 2012, respectively. As noted above, the Hospital is in the process of converting most current and all future employees to a defined contribution plan to be effective January 1, 2011.

Benefits offered to eligible employees include: health insurance covering hospitalization, major medical expenses, prescription drugs, dental, hearing, and vision; short and long term disability; life insurance; retirement plan; and tuition reimbursement. The Hospital is in compliance with its funding obligations under the above benefit plans.

The Hospital has a history of positive employee relations. With the exception of the Hospital's operating engineers (5 employees), the Hospital is totally union free.

Insurance

The Hospital maintains comprehensive all risk form property insurance as well as professional liability, general liability, directors and officers liability and other types of insurance coverage, at levels which management believes are prudent.

Professional and general liability coverage is provided by MCIC Vermont, Inc. and includes coverage of \$3.5 million per occurrence. The Hospital's claims made coverage for professional liability insurance is provided under insurance policies obtained jointly with other hospitals. The primary layer of coverage, and the first \$3 million layer of excess insurance, were written by MCIC Vermont, Inc. (A Risk Retention Group), formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Hospital is \$221,500,000 per claim. The per claim coverage amount at each of the participating institutions has been tailored to their own experiences and exposures. All non-Hospital employed medical staff with admitting privileges are required to maintain professional liability insurance coverage in accordance with Hospital and statutory requirements.

The property and casualty insurance programs for the Hospital are provided by Traveler's Insurance and include comprehensive coverage against certain risks of loss, including property and business interruption insurance. Limits and coverages are reviewed and updated annually. Aggregate coverage for 2010 under this policy is approximately \$346 million. The Hospital also maintains a business package policy with Philadelphia Insurance that covers its automobiles and selected other properties, including its Medical Office Building and parking garage.

The Hospital maintains a self-insurance program for workers compensation, along with an excess workers compensation policy through the Safety National Casualty Corporation.

The Hospital also carries a directors and officers insurance policy through United Educators, a commercial crime policy through St. Paul/Travelers, and a pollution policy through AIG.

Major Accreditations and Memberships

The Hospital is fully accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO), which granted a full three-year accreditation to December 2010. The Hospital is also a member of the American Hospital Association (AHA) and the Healthcare Association of New York State (HANYS). The Hospital is licensed by the New York Department of Health and the New York State Board of Pharmacy.

LITIGATION

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

PART 7 - CERTAIN BONDHOLDERS' RISKS

Factors Affecting the Hospital's Revenues

General

The discussion herein of risks to Holders of the Series 2010 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 2010 Bonds. However, Holders of the Series 2010 Bonds should be aware of these matters and other potential risks that could adversely affect the Hospital's ability to make payments under the applicable Loan Agreement which supports the Series 2010 Bonds. Other sections of this Official Statement should be referred to for a more detailed description of risks described in this part, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal offices of the Authority and the Trustee.

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

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

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for healthcare services, including an anticipated continued decline in utilization of inpatient facilities, the capability of the management of the Hospital, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Hospital, increased use of health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs") with discounted payment schedules, economic and demographic developments in the United States and in the service areas in which facilities of the Hospital are located, competition from other healthcare institutions, changes in interest rates which affect the investment results, and changes in rates, costs, third-party payments and governmental regulations concerning payment, are, among other factors, issues which may adversely affect revenues and expenses.

Legislative, Regulatory, and Contractual Matters Affecting Revenue

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

Legislation is periodically introduced in Congress and in the State legislature (the "Legislature") that could result in limitations on the Hospital's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the Hospital. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the healthcare industry, including proposals to promote competition in the healthcare industry, to contain healthcare costs, to prevent healthcare fraud, to provide universal health insurance and to impose additional requirements and restrictions on healthcare insurers, providers and other healthcare entities. The effects of future reform efforts on the Hospital cannot be predicted.

Commission on Health Care Facilities in the 21st Century

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the Legislature authorized the creation of a "Commission on Health Care Facilities in the Twenty-First Century" (the "Commission") charged with studying the State's hospital and nursing home systems and making recommendations (the "Recommendations") for closure, resizing, conversion, consolidation and restructuring. The Commission was chaired by Stephen Berger, Chairman of Odyssey Investment Partners, LLC and former New York State Commissioner of Social Services, and comprised 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 its Recommendations, the Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors, as determined by the Commissioner of Health or the Commission. In its Final Report released on November 28, 2006, the Commission's Recommendations targeted nearly 50 hospitals for restructuring and nine hospitals for closure. With the implementation of the Recommendations, the Commission anticipated 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 have been available to assist in the implementation of the Recommendations. The Recommendations were implemented by the Commissioner of Health. Several lawsuits have been filed challenging the authority of the Commission which, if successful, could affect implementation of the Recommendations. No lawsuit has been successful to date. Neither Highland or any of its affiliated corporations nor any other hospital or nursing home in Monroe County or adjacent counties was identified in the Commission's Final Report as an entity targeted for closure or restructuring of any kind.

Managed Care and Consumer Directed Health Plans

Managed care and consumer directed health plans, which include various payment methodologies and utilization controls, are increasingly being offered by traditional insurance companies and managed care organizations in the State. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care and consumer directed health plans has increased, and these plans are expected to have a greater influence on the manner in which healthcare services are delivered and paid for in the future. Managed care programs and consumer directed health plans are expected to significantly reduce the utilization of healthcare services generally, and inpatient services in particular. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting institutional cash flows. The financial condition of the Hospital may be adversely affected by these trends.

Medicare and Medicaid Managed Care

Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is currently voluntary and enrollees may disenroll and reenroll in the traditional Medicare fee-for-service system at any time. Commercial insurers and HMOs typically offer managed care products for the Medicare population. The Balanced Budget Act of 1997 established Medicare+Choice, a program that allows healthcare providers (hospitals and physicians) to contract directly with the federal Centers for Medicare and Medicaid Services (“CMS”), formerly known as the federal Health Care Financing Administration (“HCFA”), to form networks for the purpose of directly serving and insuring Medicare beneficiaries through the assumption of financial risk. Definitions and requirements for these networks, which are referred to as Provider Sponsored Organizations (“PSOs”), were published by HCFA as an interim rule in the April 14, 1998 edition of the Federal Register and as a final rule in the June 29, 2000 edition of the Federal Register.

Medicare enrollees in managed care products have their healthcare managed and paid for by the applicable insurer, HMO or PSO (the “managed care plan”). The managed care plan is reimbursed by the Medicare program on a monthly per-beneficiary amount for each Medicare enrollee; the payment amount generally includes either a per diem or DRG payment, plus a risk-sharing arrangement. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan and its participating hospitals, physicians and other providers seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial considerations may contribute to reduced per patient revenues from the Hospital Medicare patients. Enrollment in Medicare managed care plans is expected to continue increasing and substantial numbers of Medicare beneficiaries are expected to enroll in such plans.

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

The Hospital also participates in the federal and State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. Enrollment of Medicaid patients in managed care programs, payments to managed care organizations for care rendered to them, the financial risk assumed by the managed care organization and the resulting and potential financial and other risks to the Hospital are similar to those for Medicare managed care programs.

The State’s program for mandatory Medicaid enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by HCFA in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. There remains the possibility that managed care providers will seek to reduce the compensation hospitals are currently receiving under the Medicaid program and direct that such enrollees use the services of only managed care provider approved hospitals.

Department of Health Regulations

The Hospital is subject to extensive regulations regarding quality of care and other aspects of Hospital operations by the New York State Department of Health. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Hospital’s ability to add services or beds and to modify existing services materially is also subject to Department of Health review and approval through the State’s Certificate of Need (“CON”) process. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposal.

Accordingly, the Hospital's ability to make changes to its service offerings and respond to changes in the healthcare environment may be limited.

Other Governmental Regulation

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

The Hospital, like many other medical centers throughout the nation, is frequently subject to audits and other investigations by federal and State government agencies and private payors relating to its operations. The management of the Hospital does not believe that any current audits or investigations will result in a liability that would have a material adverse impact on the business, operations or financial condition of the Hospital.

Competition

The healthcare industry is in the process of rapid and fundamental change, triggered by the deregulation of the acute care hospital reimbursement system and the growing national strength of managed care plans. The growth of the managed care industry is being driven in part by increasing pressures from employers and other purchasers that are seeking to reduce their healthcare premium costs. In New York, integrated delivery systems are developing in order to provide adequate geographical coverage for major purchasers of healthcare and to provide a system through which potential cost savings may become available. These factors may further increase competitive pressures on acute care hospitals, including the Hospital.

The Hospital faces and will continue to face competition from other hospitals and integrated delivery systems. In addition, alternative modes of healthcare delivery offering lower priced services to the same population — such as ambulatory surgery centers, private laboratories, private radiology services, skilled and specialized nursing facilities, and home care — compete with the Hospital.

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

Private Third-Party Reimbursement

A significant portion of the patient service revenue of the Hospital is received from private entities, such as insurance companies that provide third-party reimbursement for patient care on the basis of negotiated payments or make payments based on the charges submitted by the Hospital. Renegotiations of such negotiated payments and changes in such reimbursement systems and methods may reduce this category of revenue or prevent the Hospital from receiving adequate reimbursement for its costs.

Accreditation

The Hospital is subject to periodic review by the JCAHO and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. The Hospital has accreditation from JCAHO through 2010. The Hospital and its residency training programs are accredited by the Accreditation Council for Graduate Medical Education and the Commission on Dental Accreditation. No assurance can be given as to the effect on future operations of existing laws, regulations and standards for certification or accreditation, of any future changes in such laws, regulations and standards, or of certification or accreditation decisions.

Federal "Fraud And Abuse" Laws And Regulations

The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement is provided under a federal health care program, including without limitation Medicare or Medicaid. In addition to criminal penalties, including fines of up to \$25,000 and five years imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the Medicare and Medicaid programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes, subject to certain limited

exceptions, economic arrangements involving hospitals, physicians and other healthcare providers, including certain joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) contains provisions for enhanced enforcement, increases to the scope of the Anti-Kickback Law, additional sanctions for violations of such laws and other measures designed to protect the integrity of federal healthcare programs. HIPAA created a new program operated jointly by the Secretary of the United States Department of Health and Human Services (“HHS”) and the Attorney General of the United States to coordinate federal, state and local law enforcement with respect to fraud and abuse. HIPAA also provides for minimum periods of exclusion from federal reimbursement or third-party payment programs as a penalty for fraudulent billing or similar fraudulent activities; allows intermediate sanctions; and expands the scope of civil monetary penalties applicable to any federal health care programs. In addition, HIPAA and the regulations promulgated thereunder implemented new federal privacy and security requirements.

Further, various federal laws, including the federal False Claims Act, make it a criminal and/or civil violation to submit (or cause to be submitted) fraudulent (or recklessly incorrect) requests for reimbursement or payment from a federal program, including federal health care programs such as Medicare and Medicaid. Violations of these laws and regulations can lead to criminal actions, treble damages, disgorgement of proceeds fraudulently obtained and/or additional financial penalties ranging up to \$11,000 per false claim. In the healthcare context, with thousands of claims submitted by hospitals each year, liabilities can be potentially enormous if fraudulent or recklessly inappropriate billing activities occur. Other federal and state laws also prohibit false, reckless or fraudulent billing to non-governmental third-party payors for medical services, and can impose civil and/or criminal penalties for such activities. A State false claims act has also been enacted and New York has created the Office of the Medicaid Inspector General (“OMIG”) to coordinate State anti-fraud efforts, and new healthcare fraud crimes have been defined in New York State law. OMIG has taken a very aggressive stance with regard to Medicaid fraud and Medicaid overpayment.

Management of the Hospital believes that their current practices are presently in compliance with the Anti-Kickback Law, applicable billing and reimbursement regulations, and HIPAA. The Hospital, through its compliance program, routinely monitors institutional billing practices with the goal of assuring compliance with applicable law. However, in light of the narrowness of the safe harbor regulations and the scarcity of the case law interpreting the Anti-Kickback Law and the confusing body of laws and guidelines relating to Medicare and Medicaid billing, there can be no assurance that the Hospital will not be found to have violated the Anti-Kickback Law, HIPAA and/or other billing laws and regulations and, if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Hospital.

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that is not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted and so broadly interpreted by several applicable federal cases and in statements by officials of the Office of the Inspector General of HHS (the “OIG”) that they may create liability in connection with a wide variety of business transactions. In the case of the Anti-Kickback Law, limited “safe harbor” regulations provide defenses for a narrow scope of arrangements in case of prosecution or administrative enforcement action. However, failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of such statute. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties. In certain instances, private individuals may also bring suit under the *qui tam* provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health care programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Hospital). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or *qui tam* action could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, practice purchases, physician recruiting and retention programs; various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities; physician referral services; hospital-physician service or management contracts; and to space or equipment rentals between hospitals and physicians. The Hospital conducts limited activities of these general types or similar activities, which pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Hospital is not aware of any current challenge or investigation concerning it with respect to such matters, there can be no assurance

that one or more will not occur in the future or that the outcome of any such event will not have a material effect on the Hospital's operations.

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

The Federal Ethics in Patient Referrals Act (known as the "Stark Law") prohibits a physician (or an immediate family member of such physician) with a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services, and prohibits such entity from presenting or causing to be presented a claim for payment under a federal health care program including, without limitation, the Medicare or Medicaid program, for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, outpatient speech-language pathology services, radiology (including magnetic resonance imaging, computerized axial tomography and ultrasound) services, radiation therapy services and supplies, durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), prosthetics and orthotics and prosthetic devices and supplies, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services. Under the Stark Law, "physician" is defined to include a doctor of medicine or osteopathy legally authorized to practice medicine and surgery by the state in which he or she performs that function or action. The definition also includes a doctor of dental surgery or dental medicine, a doctor of podiatric medicine, a doctor of optometry, and a chiropractor.

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

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

The Stark provisions provide certain exceptions to these restrictions. If the physician or practitioner has a financial relationship with an entity that provides one of the designated health services, the Stark prohibitions will apply unless one of the specified exceptions is available. Unlike the anti-kickback safe harbors discussed above (where the failure to meet a safe harbor does not necessarily mean the referral is prohibited), failure to satisfy an exception to the Stark provisions means (i) that the referral itself is prohibited, and (ii) the entity receiving the referral is prohibited from seeking payment for such service. However, the mere existence of a financial relationship does not violate the Stark provisions. Stark is only violated if (i) a financial relationship exists, (ii) a referral for designated services is made, and (iii) no relevant exception is available. To the extent a relationship is found to exist, an applicable exception under Stark is necessary in order for the entity receiving the referral to accept such referral (for a designated service) and to bill for the designated service generated by such referral.

The exceptions under the Stark provisions can be broken down into three categories, based upon the nature of the financial relationship between the referring provider and the referral entity. The three categories of exceptions include: (i) exceptions to ownership arrangements, (ii) exceptions to compensation arrangements, and (iii) exceptions to both compensation and ownership arrangements.

If the financial relationship between a physician/practitioner and the Hospital cannot be made to fit within the exceptions, the Hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship. Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violations may result in civil and criminal penalties and exclusion from the Medicare and Medicaid programs. On January 9, 1998, HCFA issued proposed regulations and commentary interpreting the Stark Law. On January 4, 2001, HCFA (now CMS), issued "Phase I" of final Stark regulations. On March 26, 2004, CMS issued "Phase II" of final Stark regulations as an interim final rule with comment period. The Phase II regulations became effective on July 26, 2004. On October 11, 2005, CMS issued proposed regulations that would create an exception for non-monetary remuneration that is used solely to receive and transmit electronic prescription drug information, as well as exceptions for electronic health records software and directly related training services. These regulations were finalized and became effective in 2006. On September 5, 2007, CMS

issued “Phase III” Stark regulations. These Phase III regulations became effective in December 2007. The Phase III regulations affect many aspects of Stark, including hospital recruitment programs. There can be no assurance that a third party reviewing the existing activities of the Hospital would find such activities to be in full compliance with the Stark provisions and existing regulations or in full compliance with the new regulations.

HIPAA Privacy Regulations

When Congress enacted HIPAA, it required HHS to implement national standards to protect the privacy and security of individual health information. HHS published a set of privacy and security regulations, which became effective on April 14, 2001, governing the release of protected health information. The deadline for healthcare providers to be fully compliant with the privacy regulations was April 14, 2003. The regulations prohibit any covered entity, including hospitals and health systems, from using or disclosing an individual’s protected health information unless the use or disclosure is authorized by the individual (or his or her personal representative) or is specifically required or permitted under the privacy regulations. The privacy regulations impose a complex system of requirements for meeting this basic rule. The privacy regulations also provide for the imposition of both civil and criminal penalties for violations of the statute. Civil penalties can range up to \$25,000 per violation. Criminal penalties include fines of up to \$50,000 and imprisonment of up to 1 year. Criminal penalties increase substantially if the offense occurs under false pretenses or with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain or malicious harm.

HHS published a set of final security regulations on February 20, 2003, effective April 20, 2005 (although health plans with annual receipts of \$5 million or less had until April 20, 2006 to comply). The security regulations specify a series of administrative, technical and physical security procedures for covered entities to use to assure the confidentiality of electronic protected health information. The standards are delineated into either required or addressable implementation specifications. The security regulations provide for the imposition of civil penalties of a \$100 fine per person, per violation, not to exceed \$25,000 in a calendar year.

On February 7, 2009, President Obama signed into law the Health Information and Clinical Health Act (“HITECH”). Among other things, HITECH requires the application of HIPAA security and privacy provisions and penalties directly to business associates of covered entities, requires notification to patients if their protected health information has been disclosed and imposes increased civil penalties for violations of HIPAA.

The administrative and financial burden of complying with the HIPAA privacy and security regulations is substantial. The Hospital believes its health information systems are now in compliance with the privacy and security regulations. The Hospital has appointed a privacy officer and security official to oversee the implementation of the privacy and security standards and teams work with the privacy officer and security official to ensure compliance.

Regulation of Patient Transfer

Federal laws prohibit hospitals from transferring a patient who is medically unstable or is in labor, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. The receiving hospital must agree to accept the transfer. Hospitals that violate the ban on inappropriate transfers may be expelled from the Medicare and/or Medicaid programs and are subject to fines of up to \$50,000 per violation. Management of the Hospital believes that the Hospital is currently in compliance with these requirements.

Internal Revenue Code Limitations

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

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

status. The Hospital may enter into arrangements with physicians that are of the kind that the IRS has indicated that it will examine in connection with audits of tax-exempt hospitals. Any suspension, limitation, or revocation of the tax-exempt status of the Hospital or assessment of significant tax liability could have a material adverse effect on the Hospital and might lead to a loss of the exclusion of interest on the Series 2010 Bonds from gross income for federal income tax purposes.

Revocation of the tax-exempt status of the Hospital under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2010 Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. While management believes the Hospital's arrangements with private persons and entities are generally consistent with IRS guidance and do not constitute private inurement, there can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Hospital.

Code Section 4958 imposes intermediate sanction penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization has continued to function as a charity. The tax is imposed on the disqualified person receiving the excess benefit. An additional tax may be imposed on any officer, director, trustee or other person having similar powers or responsibilities who knowingly participated in the transaction willfully or without reasonable cause. "Excess benefit transactions" include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that exceeds fair market value. "Disqualified persons" include "insiders" such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization's board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

Intermediate sanction penalties can also be assessed in situations where the exempt organization, or an entity controlled by the organization, provides an economic benefit to a disqualified person without maintaining contemporaneous written substantiation of the organization's intent to treat the benefit as compensation. If the written contemporaneous substantiation requirements are not satisfied and unless the organization can establish that it provided the economic benefit in exchange for consideration other than the performance of services (i.e., a bona fide loan), the IRS shall deem such a transaction an "automatic" excess benefit transaction without regard to whether: (1) the economic benefit is reasonable; (2) any other compensation the disqualified person may have received is reasonable; or (3) the aggregate of the economic benefit and any other compensation the disqualified person may have received is reasonable. There is no defense to the assessment of automatic excess benefit penalties.

The imposition of excise tax based upon a finding that an exempt organization engaged in an excess benefit transaction could result in negative publicity and other consequences that could have a material adverse effect on the operations, property, or assets of the Hospital or on the market for its debt obligations.

Not-for-Profit Status

From time to time, legislation affecting the tax-exempt status of not-for-profit organizations, has been introduced into Congress. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of such organizations, particularly where such authorities have been dissatisfied with the amount of service provided to indigents. Any legislation affecting the tax-exempt status of the Hospital or the imposition or increase in taxes related to its property and operations, could have a material adverse effect on its operations.

Malpractice and Other Insurance Costs

As a result of unfavorable underwriting results in the medical professional liability insurance and other insurance line marketplace, health care providers have experienced substantial premium increases, reductions in coverage and coverage availability, more stringently enforced policy terms, and increases in required deductibles or self-insured retentions. The effect of these developments has been to significantly increase the operating costs of hospitals, including the Hospital. In

addition, the dramatic increase in the cost of professional liability insurance in the State may have the effect of causing established physicians to leave the market and of preventing new physicians from establishing their practices in the area. There can be no assurance that continued reductions in coverage availability and the rising cost of professional liability and other insurance coverages will not adversely affect the future operations or financial condition of the Hospital.

Litigation

Health care service providers are frequently subject to claims and actions alleging malpractice in the provision of professional services. In addition, health care providers are frequently subject to investigations, claims and proceedings which do not arise directly from patient care outcomes, some of which claims may not be covered by insurance. The cost of defense, settlement and payment of claims can be substantial and may exceed available insurance coverage. The Hospital utilizes quality assurance, risk management and corporate compliance program measures to minimize the liability associated with adverse patient care outcomes and operational activities, and at the present time, the management of the Hospital is not aware of liability of the Hospital on claims, in the aggregate and after application of available insurance coverage, that would have a material and adverse effect on the Hospital's operations and financial condition.

Labor Concerns

Employee strikes and other work stoppages, and other adverse labor actions could result in a substantial reduction in revenues without corresponding decreases in costs. See "PART 6 - THE HOSPITAL" herein.

Physicians and Registered Nurse Recruitment

Hospitals and health systems are experiencing significant challenges to the recruitment and retention of qualified health care providers.

The health care industry is facing a nationwide shortage of nursing professionals, including registered nurses. Nurses are leaving the profession citing stress, irregular working hours, high patient to nurse ratios, deteriorating working conditions, and low morale as some of the reasons. At the same time, there has been a decrease in enrollment in nursing programs as well as in the skill level of those who are enrolling in nursing programs as more individuals opt to enroll in non-baccalaureate programs. Additionally, the average age of the existing workforce has risen substantially over the last two decades. As a result of these factors, the health care industry is facing a severe nursing shortage. A shortage of nursing staff could result in escalating labor costs, delays in providing care, and patient care management issues, among other adverse effects. Although legislation has been introduced at both the State and federal level to mitigate the impact of the existing and projected nursing shortages, there can be no assurance that a nursing shortage will not adversely affect the operations or financial condition of the Hospital. See "PART 6 - THE HOSPITAL" herein.

Service Area Economic Conditions

Increased unemployment or other adverse economic conditions in the service area may increase the proportion of patients without health insurance benefits or who otherwise are unable to pay fully for the cost of their care, which could have a material adverse effect on its operations.

Increased Employer Insurance Costs

Efforts by employers to reduce the costs of health insurance by having employees bear a greater portion of their healthcare costs may cause employees to reduce their use of, or become more selective and cost conscious in choosing, healthcare services which may in turn have a material adverse effect on the Hospital's operations.

Environmental Matters

Health care providers are subject to a wide variety of federal, State, and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As a health care operator and employer, the Hospital is subject to potentially material liability for costs of investigating and remediating the releases of any such substances either on its properties, or that have migrated from its properties or that have been improperly disposed of off-site and the harm to persons or property that such releases may cause. At the present time, management of the Hospital is not aware of any pending or threatened environmental claim, investigation or enforcement action which, if determined adversely to the Hospital, would have a material adverse affect on its operations or financial condition.

Tax Audits

Taxing authorities have recently been conducting general tax audits on non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part

of the settlement process. Although the Hospital is not the subject of any such audit at this time, other hospitals located in the State have been the subject of such audits.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including, but not limited to, medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm from allegedly anticompetitive behavior. Common areas of potential liability include joint action among providers with respect to payor contracting, medical staff credentialing, and issues relating to abuse of market power. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, the Hospital may, from time to time, be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources, is dependent on a myriad of factors, which may change from time to time. If any provider with which the Hospital is or becomes affiliated is determined to have violated the antitrust laws, the Hospital may be subject to liability as a joint actor.

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

Provider-Specific Taxes

The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 established standards that govern how states can impose and use provider-specific taxes. In general, states are allowed to impose broad-based, provider-specific taxes that are redistributive and do not contain "hold harmless" provisions. The law also limits Medicaid payment adjustments for hospitals that service a disproportionate number of low-income patients to 12% of each state's gross Medicaid expenditures.

Possible Staffing Shortages

In recent years, the hospital industry has suffered from an increasing scarcity of nurses and skilled technicians to staff its facilities. Factors underlying this industry trend include an increase in the proportion of the population that is elderly, an increase in the tendency to institutionalize senior citizens as opposed to providing nursing care in the home, a decrease in the number of persons entering the nursing profession and an increase in the number of nurses specializing in home health care. These factors may intensify in years to come, aggravating the shortage of skilled personnel. Nationally there is a shortage of registered nurses and licensed practical nurses. As competition for such employees intensifies, staffing shortages could have the effect of significantly increasing personnel costs and could have a material adverse effect on the financial results of the Hospital and on the ability of the Hospital to sustain minimum staffing levels necessary to maintain licensure, certification and accreditation. Although its management believes that the Hospital has achieved adequate nurse and skilled technician staffing levels to date, it is uncertain whether qualified candidates will continue to be available to the Hospital in the future.

Malpractice Claims and General Liability Insurance

In recent years, the number of malpractice and general liability suits and the dollar amounts of recoveries has increased nationwide, resulting in substantial increases in malpractice insurance premiums. Insurance premiums may continue to rise in future years, which could have a negative effect on the financial condition of the Hospital. Furthermore, malpractice and other actions alleging wrongful conduct and seeking punitive damages are occasionally filed against New York hospitals. Insurance may not provide coverage for judgments for punitive damages.

Federal Health Reform

With the signing into law of the Patient Protection and Affordable Care Act and the Health Care and Education Act on March 23 and 30, 2010 (collectively, the "PPACA"), a new era for all hospitals was initiated. The overall long-term impacts of PPACA on the Hospital cannot be predicted.

Among the many reforms enacted through the PPACA are the following:

- Increased Medicaid enrollment;
- Greatly expanded health insurance coverage through subsidies, tax credits, and mandated employer health insurance;
- Uniform standards for electronic transmission of healthcare information;
- Mandatory antifraud compliance plans;
- Medicare and Medicaid overpayment reporting and return obligations;
- Increased penalties under the FCA;
- New requirements for disclosure of financial relationships between hospitals and other providers;
- Modification of the knowledge of violation standard under the Anti-Kickback law;
- Value-based purchasing program to pay providers based on their performance with respect to quality measures;
- Reductions in Medicare disproportionate share payments to hospitals;
- Prohibitions against Medicaid payments for services related to healthcare – acquired conditions;
- Hospital readmission Medicare deductions; and
- Triennial community needs assessment programs for hospitals.

The PPACA also initiates studies, demonstration programs and pilot programs regarding a host of new concepts that may change the future healthcare delivery system. Among these new concepts are patient-centered medical homes, health homes, physician and nurse practitioner developed home-based primary care teams, pay for performance programs, bundled or episode care payments to hospitals, gainsharing, accountable care organizations, global capitated Medicaid payments, and community based collaborative care networks.

The effective date of the provisions of the PPACA extend from 2010 to 2018. The federal government has begun the daunting task of promulgating federal regulations to implement the PPACA. State statutes and regulations will also have to be modified to accommodate the new federal law. Governor Paterson of New York recently formed a State task force to plan New York's implementation efforts. Several states (but not New York) have initiated legal challenges to the PPACA.

The PPACA presents incalculable opportunities, risks and uncertainties for the Hospital.

Enforceability of Lien on Gross Receipts

The Loan Agreement provides that the Hospital shall make payments to the Trustee sufficient to pay the Series 2010 Bonds and the interest thereon as the same become due. The obligation of the Hospital to make such payments is secured by the Series 2010 Obligation, which, in turn, is secured by a security interest granted to the Master Trustee in the Gross Receipts of the Hospital. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS – Obligations under the Master Indenture – *Security Interest in Gross Receipts*." Gross Receipts paid by the Hospital to other parties might no longer be subject to the lien of the Master Indenture and might therefore be unavailable to the Master Trustee.

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

In the event of bankruptcy of the Hospital, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of the Hospital before paying debt service on the Series 2010 Bonds.

Pursuant to the New York Uniform Commercial Code, a perfected security interest in the proceeds of Gross Receipts may become unperfected under certain circumstances.

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

Exercise of Remedies under Master Indenture

“Events of Default” under the Master Indenture include the failure of the Hospital to make payments on any Obligation Outstanding under the Master Indenture (such as the Series 2010 Obligation) and may include nonpayment related defaults under documents such as the Loan Agreement or the Resolution. The Master Indenture provides that upon an “Event of Default” thereunder, the Master Trustee may and, upon the written request of (i) Holders of not less than 51% in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligation issued pursuant to the Supplement, shall, by notice to the Hospital, declare all Obligations Outstanding immediately due and payable.

Bankruptcy

The Series 2010 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2010 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial actions which may be subject to discretion, delay or denial.

Under existing law, the remedies specified by the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2010 Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and Federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors’ rights generally.

In general, if the Hospital were to become a debtor in a case under Title 11 of the United States Code (the “Bankruptcy Code”), among other things, payments to Bondholders would be stayed and a bankruptcy court could confirm a plan that could affect the Bondholders by reducing, modifying or eliminating the amount of the Hospital’s indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying, abrogating or substituting collateral or security arrangements, substituting (in whole or in part) other security provisions, and otherwise compromising, modifying, or terminating and discharging the rights and remedies of the Bondholders against the Hospital. Furthermore, a bankruptcy court has the power to avoid and recover certain payments made to creditors prior to the filing of the bankruptcy case.

More particularly, if the Hospital were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Hospital and its property. The Hospital would not be permitted or required to make payments of principal or interest under the Loan Agreement and the Obligations, unless an order of the court were issued for such purpose. No assurance can be provided regarding whether such an order can be obtained or how long obtaining such an order might take. In addition, without an order of the court, the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of amounts on deposit in the Debt Service Fund to the payment of principal of, and interest on, the Series 2010 Bonds. Moreover, any motion for an order modifying or terminating the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to judicial discretion, and may be subject to objection and/or comment by the debtor, other creditors of the Hospital, or other parties in interest, which could affect the likelihood or timing of obtaining such relief.

The provisions of the Bankruptcy Code may also work to modify or extinguish the Master Trustee’s continuing security interest in the Hospital’s Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the priority of the Master Trustee’s lien on Gross Receipts and adversely affect or delay the ability of the Master Trustee to exercise remedies upon default, including, but not limited to, the acceleration of all amounts payable by the Hospital under the Obligations, the Master Indenture and the Loan Agreement.

As set forth above, the filing of a bankruptcy case in which the Hospital is a debtor could subject the Master Trustee or Bondholders to the risk that payments made by the Hospital within certain periods of time prior to the bankruptcy are avoidable and, therefore, recoverable. See “Enforceability of Lien on Gross Receipts” above.

In a Hospital bankruptcy case, a court could confirm a plan that could affect the Bondholders by reducing or eliminating the amount of their obligations, their indebtedness, deferring or rearranging their debt service schedule, reducing or eliminating their interest rate, modifying or abrogating collateral or security arrangements, adjusting the priority of the Master Trustee’s lien on the Gross Receipts, substituting (in whole or in part) other security provisions, and otherwise compromising, modifying, or terminating and discharging the rights and remedies of Bondholders and/or the Master Trustee against the Hospital.

Considerations Relating to Additional Debt

Subject to the debt service coverage and other tests set forth in the Master Indenture and the Supplemental Indenture, the Hospital is permitted to incur additional indebtedness. Such indebtedness, in addition to being on a parity with respect to the lien on Gross Receipts, would increase the Hospital’s debt service and repayment requirements and may adversely affect debt service coverage on the Series 2010 Bonds.

PART 8 — THE AUTHORITY

Background, Purposes and Powers

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

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

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, make reasonable rules and regulations to assure the maximum use of

facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

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

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

At March 31, 2010, the Authority had approximately \$41.5 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 March 31, 2010 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities.....	\$ 2,350,316,000	\$ 1,043,710,000	\$ 0	\$ 1,043,710,000
State University of New York Educational and Athletic Facilities.....	13,243,272,999	5,624,057,245	0	5,624,057,245
Upstate Community Colleges of the State University of New York.....	1,590,645,000	662,375,000	0	662,375,000
Senior Colleges of the City University of New York.....	10,262,671,762	3,346,519,213	0	3,346,519,213
Community Colleges of the City University of New York.....	2,444,968,350	542,365,787	0	542,365,787
BOCES and School Districts.....	2,436,626,208	1,845,580,000	0	1,845,580,000
Judicial Facilities.....	2,161,277,717	724,132,717	0	724,132,717
New York State Departments of Health and Education and Other.....	6,138,795,000	4,230,220,000	0	4,230,220,000
Mental Health Services Facilities.....	8,032,895,000	3,881,765,000	0	3,881,765,000
New York State Taxable Pension Bonds.....	773,475,000	0	0	0
Municipal Health Facilities Improvement Program.....	<u>985,555,000</u>	<u>760,915,000</u>	<u>0</u>	<u>760,915,000</u>
Totals Public Programs.....	<u>\$ 50,420,498,036</u>	<u>\$ 22,661,639,962</u>	<u>\$ 0</u>	<u>\$ 22,661,639,962</u>

<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
Independent Colleges, Universities and Other Institutions	\$ 18,886,575,260	\$ 9,853,091,435	\$ 35,975,000	\$ 9,889,066,435
Voluntary Non-Profit Hospitals.....	14,092,059,309	8,070,515,000	0	8,070,515,000
Facilities for the Aged	1,996,020,000	887,495,000	0	887,495,000
Supplemental Higher Education Loan Financing Program.....	95,000,000	0	0	0
Totals Non-Public Programs.....	<u>\$ 35,069,654,569</u>	<u>\$ 18,811,101,435</u>	<u>\$ 35,975,000</u>	<u>\$ 18,847,076,435</u>
Grand Totals Bonds and Notes	<u>\$ 85,490,152,605</u>	<u>\$ 41,472,741,397</u>	<u>\$ 35,975,000</u>	<u>\$ 41,508,716,397</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At March 31, 2010, the Agency had approximately \$324.9 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at March 31, 2010 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities	\$ 3,817,230,725	\$ 0
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program	\$ 226,230,000	\$ 2,880,000
Insured Mortgage Programs.....	6,625,079,927	314,970,000
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	7,045,000
Total Non-Public Programs	<u>\$ 9,265,549,927</u>	<u>\$ 324,895,000</u>
Total MCFFA Outstanding Debt	<u>\$ 13,082,780,652</u>	<u>\$ 324,895,000</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:

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

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris

Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expired on March 31, 2010 and by law he 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 June 20, 2007. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2013.

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

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President and the Chief Financial and Operating Officer of Earl G. Graves, Ltd., a multi-media company that includes *Black Enterprise* magazine. He is also a member of the Investment Advisory Committee of the New York Common Retirement Fund. Mr. Jiha previously served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. In that capacity, Mr. Jiha was responsible for assets valued at \$120 billion and was in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha also served as Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Earlier, Mr. Jiha served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expires on March 31, 2011.

CHARLES G. MOERDLER, Esq., New York.

Charles Moerdler was appointed as a Member of the Authority by the Governor on March 16, 2010. Mr. Moerdler is a partner in the law firm Stroock & Stroock & Lavan. Mr. Moerdler also served as Commissioner of Housing and Buildings of the City of New York, as a real estate and development consultant to New York City Mayor John Lindsay, as a member of the City's Air Pollution Control Board, and as Chairman and Commissioner of the New York State Insurance Fund. He currently serves on the Board of Directors of the New York City Housing Development Corporation. Mr. Moerdler holds a Bachelors of Arts degree from Long Island University and a Juris Doctor degree from Fordham University. His current term expires on March 31, 2012.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on December 15, 2008. 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. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the

Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expires on August 31, 2010.

SANDRA M. SHAPARD, Delmar.

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

GERARD ROMSKI, Esq., Mount Kisco.

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

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

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

DAVID M. STEINER, Ph.D., *Commissioner of Education of the State of New York, Albany; ex-officio.*

David M. Steiner was appointed by the Board of Regents as President of the University of the State of New York and Commissioner of Education on October 1, 2009. Prior to his appointment, Dr. Steiner served as the Klara and Larry Silverstein Dean of the School of Education at Hunter College CUNY. Prior to his time with Hunter College, Dr. Steiner served as Director of Arts Education at the National Endowment for the Arts and Chairman of the Department of Education Policy at Boston University. As Commissioner of Education, Dr. Steiner serves as chief executive officer of the Board of Regents, which has jurisdiction over the State's entire educational system, which includes public and non-public elementary, middle and secondary education; public and independent colleges and universities; museums, libraries and historical societies and archives; the vocational rehabilitation system; and responsibility for licensing, practice and oversight of numerous professions. He holds a Doctor of Philosophy in political science from Harvard University and a Bachelor of Arts and Master of Arts degree in philosophy, politics and economics from Balliol College at Oxford University.

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.

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

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

The principal staff of the Authority is as follows:

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

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

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

PAUL W. KUTEY is the Chief Financial Officer of the Authority. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising the Authority's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications

infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company, where his responsibilities included finance, operations and facilities management. Prior to joining AYCO Company, he served as Corporate Controller and Acting Chief Financial Officer for First Albany Companies, Inc. From 1982 until 2001, Mr. Kutey held increasingly responsible positions with PricewaterhouseCoopers, LLP, becoming Partner in 1993. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

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

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

CARRA WALLACE is the Managing Director of the Office of Executive Initiatives (OEI). In that capacity, she oversees the Authority's Communications and Marketing, Opportunity Programs, Environmental Initiatives, Client Outreach, Training, Executive Projects, and Legislative Affairs units. Ms. Wallace is responsible for strategic efforts in developing programs, maximizing the utilization of Minority and Women Owned Businesses, and communicating with Authority clients, the public and governmental officials. She possesses more than twenty years of senior leadership experience in diverse private sector businesses and civic organizations. Ms. Wallace most recently served as Executive Vice President at Telwares, a major telecommunications service firm. Prior to her service at Telwares, Ms. Wallace served as Executive Vice President of External Affairs at the NYC Leadership Academy. She holds a Bachelor of Science degree in management from the Pepperdine University Graziadio School of Business and Management.

Claims and Litigation

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

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2010 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, 2009. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 9 — LEGALITY OF THE SERIES 2010 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2010 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.

The Series 2010 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 10 — NEGOTIABLE INSTRUMENTS

The Series 2010 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2010 Bonds.

PART 11 — TAX MATTERS

In General

In the opinion of Sidley Austin LLP, New York, New York, Bond Counsel, based on current law and except as provided in the next sentence, interest on the Series 2010 Bonds is not includable in the gross income of the owners of the Series 2010 Bonds for purposes of federal income taxation. Interest on the Series 2010 Bonds will be includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2010 Bonds in the event of a failure by the Hospital or the Authority to comply, subsequent to the issuance of the Series 2010 Bonds with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”) and covenants regarding the use, expenditure and investment of the Series 2010 Bond proceeds and the timely payment of certain investment earnings to the U.S. Treasury.

The above opinion with respect to the exclusion from gross income of the interest on the Series 2010 Bonds for federal income tax purposes may not be relied upon to the extent that such exclusion is adversely affected as a result of any action taken or not taken in reliance upon the opinion of counsel other than Sidley Austin LLP.

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

Interest on the Series 2010 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax and will not be included in the calculation of the alternative minimum tax liabilities of corporations. The Code contains provisions (some of which are noted below) that could result in tax consequences upon which no opinion will be rendered by Bond Counsel as a result of (i) ownership of the Series 2010 Bonds or (ii) the inclusion in certain computations of interest that is excluded from gross income.

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

purchasers of the Series 2010 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Under current law, the interest on Series 2010 Bonds is exempt from personal income taxation of the State of New York and its political subdivisions.

Original Issue Discount

The excess, if any, of the amount payable at maturity over the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) of a maturity of substantially identical Series 2010 Bonds at which price a substantial amount of such maturity of substantially identical obligations is sold constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Series 2010 Bonds for purposes of federal income taxation. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that an owner's adjusted basis for purposes of determining an owner's gain or loss on disposition of Series 2010 Bonds with original issue discount (the "OID Bonds") will be increased by such amount. Original issue discount that accrues in each year to an owner of an OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences described above. Consequently, owners of any OID Bond should be aware that the accrual of original issue discount in each year may result in additional distribution requirements or other collateral federal income tax consequences although the owner of such OID Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of an OID Bond that is not purchased in the initial offering at the first price at which such substantially identical Series 2010 Bonds is sold to the public may be determined according to rules that differ from those described above.

Owners of OID Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such OID Bonds, other tax consequences of owning OID Bonds and state and local tax consequences of owning such OID Bonds.

Original Issue Premium

The excess, if any, between the tax basis of a maturity of substantially identical Series 2010 Bonds to a purchaser (other than a purchaser who holds such Series 2010 Bonds as inventory, stock in trade, or for sale to customers in the ordinary course of business) who purchases such Series 2010 Bonds at the initial offering price and the amount payable at maturity is "bond premium". Bond premium is amortized over the respective terms of the Series 2010 Bonds with bond premium (the "Premium Bonds") for federal income tax purposes (or, in the case of a Series 2010 Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2010 Bond). Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable bond premium attributable to each taxable year such Premium Bonds are held. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of the bond premium upon the sale or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2010 Bonds will not have an adverse impact on the tax exempt status of the Series 2010 Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or market price of the Series 2010 Bonds. See also "—Future Developments."

Backup Withholding

Interest paid on the Series 2010 Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2010 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients. Amounts

withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2010 Bonds to be subject, directly or indirectly, to U.S. federal income taxation or to be subject, directly or indirectly, to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2010 Bonds should consult their own tax advisors regarding any pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

PART 12 — STATE NOT LIABLE ON THE SERIES 2010 BONDS

The Act provides that notes and bonds of the Authority are not a debt of the State, that the State is not liable on them and that such notes and bonds are not payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2010 Bonds are not a debt of the State and that the State is not liable on them.

PART 13 — COVENANT BY THE STATE

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

PART 14 — LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2010 Bonds by the Authority are subject to the approval of Sidley Austin, LLP, New York, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2010 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the Hospital by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Phillips Lytle LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2010 Bonds or questioning or affecting the validity of the Series 2010 Bonds or the proceedings and authority under which they are to be issued.

PART 15 — UNDERWRITING

RBC Capital Markets Corporation has agreed, subject to certain conditions, to purchase the Series 2010 Bonds from the Authority at an aggregate purchase price of \$10,814,563.75 and to make a public offering of Series 2010 Bonds at prices that are not in excess of the public offering prices stated on the cover page of this Official Statement. The Underwriter will be obligated to purchase all such Series 2010 Bonds if any are purchased.

The Series 2010 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 16 — CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended (“Rule 15c2-12”), the Hospital has undertaken in a written agreement (the “Continuing Disclosure Agreement”) for the benefit of the Bondholders to provide to Digital Assurance Certification LLC (“DAC”), on behalf of the Authority as the Authority’s disclosure dissemination agent, on or before 120 days after the end of each fiscal year, commencing with the fiscal year of the Hospital ending June 30, 2010, for filing by DAC with the Municipal Securities Rulemaking Board (“MSRB”) and its Electronic Municipal Market Access system for municipal securities disclosures, on an annual basis, operating data and financial information of the type hereinafter described which is included in “PART 6 - THE HOSPITAL” of this Official Statement (the “Annual Information”), together with the Hospital’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to the MSRB.

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

The Hospital also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”). In addition, the Authority and the Trustee have undertaken, for the benefit of the Bondholders, to provide such Notices to DAC, should the Authority have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Hospital, the Trustee or the Authority, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2010 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Hospital has provided such information to DAC as required by the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by the Hospital, the Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Hospital, the Holders of the Series 2010 Bonds or any other party. DAC has no responsibility for the failure of the Authority to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Hospital, the Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Hospital, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement. In the event the obligations of DAC as the Authority’s disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Financial Information means annual information concerning the Hospital, consisting of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in “PART 6 - THE HOSPITAL” herein relating to the following: (i) utilization statistics of the type set forth under the heading “Utilization Statistics”; (ii) revenue and expense data of the type set forth under the heading “Summary of Historical Revenues and Expenses; and (iii) information on the sources of revenue by payor of the type set forth under the headings “Payor Classification” and “Patient Services Revenues” together with (2) such narrative explanation, as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Hospital.

The Notices include notices of any of the following events (the “Notice Events”) with respect to the Series 2010 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 2010 Bonds; (7) modifications to the rights of holders of the Series 2010 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the

Series 2010 Bonds; and (11) rating changes. In addition, DAC will undertake, for the benefit of the Holders of the Series 2010 Bonds, to provide to the MSRB, in a timely manner, notice of any failure by the Hospital to provide the Annual Information and annual financial statements by the date required in the Hospital's undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement described above is an action to compel specific performance of the undertaking of DAC, the Hospital, the Trustee and/or the Authority, and no person, including any Holder of the Series 2010 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the Hospital may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2010 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2010 Bonds, or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of the Series 2010 Bonds; provided, however, that the Trustee is not required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2010 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution, the Series 2010 Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without consent of the Holders of the Series 2010 Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement when executed by the parties thereto upon the delivery of the Series 2010 Bonds will be on file at the principal office of the Authority.

In the past five years, the Hospital has not failed to comply, in any material respects, with any previous continuing disclosure undertaking entered into in connection with any tax-exempt offerings.

PART 17 — RATINGS

Moody's Investors Service ("Moody's") has assigned a rating of "A2" to the Series 2010 Bonds. Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") has assigned a rating of "BBB+" to the Series 2010 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Standard & Poor's, 55 Water Street, New York, New York 10041; and Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price of the Series 2010 Bonds.

PART 18 — MISCELLANEOUS

References in this Official Statement to the Act, the Resolution, the Series 2010 Resolution, the Loan Agreement, the Master Indenture and the Series 2010 Obligation do not purport to be complete. Refer to the Act, the Resolution, the Series 2010 Resolution, the Loan Agreement, the Master Indenture and the Series 2010 Obligation for full and complete details of their provisions. Copies of the Resolution, the Series 2010 Resolution, the Loan Agreement, the Master Indenture and the Series 2010 Obligation are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2010 Bonds are fully set forth in the Resolution and the Series 2010 Resolution. Neither any advertisement of the Series 2010 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2010 Bonds.

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

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

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

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

"Appendix B — Financial Statements of Highland Hospital of Rochester and Subsidiaries (With Report of Independent Auditors)" contains the financial statements of the Hospital as of and for the years ended June 30, 2009 and 2008 which have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report thereon.

The Hospital has reviewed the parts of this Official Statement describing the Hospital, Obligations Under the Master Indenture, Other Indebtedness, Certain Bondholder's Risk, the Principal and Interest Requirements, the Project, the Estimated Sources and Uses of Funds, Continuing Disclosure and Appendix B. The Hospital, as a condition to issuance of the Series 2010 Bonds, is required to certify that as of the date of this Official Statement and as of the date of issuance of the Series 2010 Bonds, such parts do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

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

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

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

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

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CERTAIN DEFINITIONS

Appendix A

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CERTAIN DEFINITIONS

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

Annual Administrative Fee means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in an amount more particularly described in Schedule A of the Loan Agreement.

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

Arbitrage Rebate Fund means the fund so designated, established pursuant to Section 4.01 of the Series 2010 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 succeed to the rights, powers, duties and functions of the Authority.

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

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

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

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

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

Bond Year means a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

Bondholder, Holder of Bonds, Holder, Owner or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Bonds of such Series, except as provided in Section 10.07 of the Resolution.

Bonds means the Authority's Highland Hospital of Rochester Revenue Bonds, Series 2010, and any other Bonds issued under the Resolution and a Series Resolution.

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

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

Construction Fund means the fund so designated, established pursuant to Section 4.01 of the Series 2010 Resolution.

Continuing Disclosure Agreement means the Continuing Disclosure Agreement, undertaken by and among the Authority, the Hospital and the Trustee.

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

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

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

reconstruction, rehabilitation, repair, improvement or equipping of the Project(s), and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project(s) or pursuant to the Resolution or to the Loan Agreement, or a Reserve Fund Facility.

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

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

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

Debt Service Fund means the fund so designated, established pursuant to Section 4.01 of the Series 2010 Resolution.

Debt Service Reserve Fund means the fund so designated, established pursuant to Section 4.01 of the Series 2010 Resolution.

Debt Service Reserve Fund Requirement shall have the meaning set forth in the Series 2010 Bond Series Certificate.

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

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

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

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

Exempt Obligation means:

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

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

Federal Agency Obligation means:

- (i) an obligation issued by any federal agency or instrumentality approved by the Authority;
- (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority;
- (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and
- (iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a - 7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

Government Obligation means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America are pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Company; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, and (j) upon the approval of the Authority and all Applicable Credit Facility Issuers, (i) an obligation of any federal agency and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or (ii) an obligation of any other agency or

instrumentality of the United States of America created by Act of Congress, provided such obligation is rated at least “A” by S&P and Moody’s at all times.

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

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

Gross Receipts shall have the meaning accorded such term in the Master Indenture, as amended from time to time.

Highland, Hospital or Institution means Highland Hospital of Rochester, a not-for-profit corporation organized and existing under the laws of the State of New York, its successors and assigns.

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

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

Loan Agreement means the Loan Agreement, dated as of May 12, 2010, by and between the Authority and the Hospital, as may be amended, supplemented or otherwise modified as permitted by the Loan Agreement and by the Resolution.

Master Indenture means the Master Indenture, dated as of June 1, 2005, between the Hospital and the Master Trustee, as the same may be supplemented or amended from time to time.

Master Trustee means Manufacturers and Traders Trust Company, Buffalo, New York, and any successor or assigns under the Master Indenture.

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

Net Book Value, when used in connection with property, means the value of such property, net of accumulated depreciation, as it is carried on the books of the owner thereof in conformity with generally accepted accounting principles, and when used in connection with property of the Hospital, means the aggregate of the values so determined with respect to such property of the Hospital determined in such a manner that no portion of property is included more than once.

Obligation means each Obligation issued pursuant to the Master Indenture.

Official Statement means the official statement or other offering document relating to and in connection with the sale of the Series 2010 Bonds, as amended or supplemented.

Outstanding when used in reference to Bonds of an Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Applicable Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with Section 12.01 of the Resolution; and (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to Article 3, Section 4.06 or Section 10.06 of the Bond Resolution.

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

Permitted Encumbrances means (i) the Loan Agreement, (ii) the Resolution, (iii) any instrument recorded or filed pursuant to Section 34 of the Loan Agreement, (iv) all Obligations entered into by the Hospital under the Master Indenture, (v) any other encumbrances or matters approved in writing by the Authority subject to compliance with applicable Governmental Requirements, (vi) those matters referred to in any title insurance policy accepted by the Authority, and (vii) any Permitted Liens allowed under the Master Indenture subject to compliance with all applicable Governmental Requirements and the security interests provided for under the Loan Agreement.

Permitted Collateral means:

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

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

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

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

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

Permitted Investments means any of the following:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

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

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

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

Project includes the following: (i) renovation of existing space within the Hospital's facility for two new operating rooms for the expansion of perioperative services, including renovation and expansion of the pre-testing area and of the sterile processing department; (ii) renovation of existing space in the Hospital's facility to house a 22 bed inpatient neuromedicine unit; (iii) acquisition and installation of furnishings and equipment for the Hospital's facilities; (iv) other miscellaneous renovation and construction projects on the Hospital's campus; (v) interest to accrue on the Series 2010 Bonds during the construction period of the Project and a period not to exceed six months thereafter; and (vi) any other Projects which are financed from the proceeds of the Series 2010 Bonds and which are included as part of the Project by amendment to the Loan Agreement.

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

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

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

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

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

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

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

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

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

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

Refunding Bonds means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to Article 3, Section 4.06 or Section 10.06 of the Resolution, and originally issued pursuant to Section 2.04 of the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

Repository means, at any time, a then-existing, nationally recognized municipal securities information repository, as recognized from time to time by the United States Securities and Exchange Commission for the purposes referred to in its Rule 15c2-12 under the Securities Exchange Act of 1934.

Reserve Fund Facility means a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Fund authorized to be delivered to the Trustee pursuant to Section 5.07 of the Resolution.

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

Resolution means the "Highland Hospital of Rochester Revenue Bond Resolution" adopted by the Authority on May 12, 2010, as amended, supplemented or modified pursuant to the terms thereof.

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

Securities means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, at the time an investment therein is made or such security is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "Aa" or better by Moody's or "AA" or better by S&P or is rated with a comparable rating by

any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) with the consent of the Credit Facility Issuers, if any, common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or its stock is deposited in any fund or account established under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “Aa” or better by Moody’s or “AA” or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and the Credit Facility Issuers, if any.

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

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and the Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article 3, Section 4.06 or Section 10.06 of the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to Article 2 of the Resolution.

Series 2010 Bond Series Certificate means the Bond Series Certificates relating to the Series 2010 Bonds.

Series 2010 Bonds means the Authority’s Highland Hospital of Rochester Revenue Bonds, Series 2010, issued under the Resolution and the Series 2010 Resolution.

Series 2010 Obligation or **Obligation No. 4** means Obligation No. 4 issued pursuant to the Master Indenture and Supplemental Indenture for Obligation No. 4.

Series 2010 Resolution means the Series 2010 Resolution adopted by the Authority on May 12, 2010, pursuant to Article 2 of the Resolution with respect to the Project, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

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

State means the State of New York.

Supplemental Indenture for Obligation No. 4 means Supplemental Indenture No. 5 for Obligation No. 4, dated as of June 1, 2010, by and between the Hospital and the Master Trustee.

Supplemental Indenture No. 4 means Supplemental Indenture No. 4, dated as of June 1, 2010, by and between the Hospital and the Master Trustee.

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

Tax Certificate means a certificate executed by an Authorized Officer of the Authority and an Authorized Officer of the Hospital, in connection with the issuance of the Series 2010 Bonds in which the Authority

and the Hospital make representations and agreements as to compliance with the provisions of Section 141 through 150, inclusive, of the Code, or any similar certificate, agreement or other instrument made, executed and delivered in lieu of said certificate, in each case as the same may be amended or supplemented.

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

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

**CONSOLIDATED FINANCIAL STATEMENTS OF
HIGHLAND HOSPITAL OF ROCHESTER AND SUBSIDIARIES
(WITH REPORT OF INDEPENDENT AUDITORS)**

Appendix B

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Highland Hospital of Rochester and Subsidiaries

**Consolidated Financial Statements
December 31, 2009 and 2008**

Highland Hospital of Rochester and Subsidiaries

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December 31, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
Highland Hospital of Rochester

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Highland Hospital of Rochester and subsidiaries (the "Hospital") at December 31, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

May 13, 2010

Highland Hospital of Rochester and Subsidiaries
Consolidated Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 49,893,578	\$ 31,633,975
Patient accounts receivable, net of estimated uncollectibles of approximately \$2,987,000 and \$2,480,000, respectively	16,494,850	16,215,060
Other receivables, net	3,296,635	3,350,267
Affiliate receivables	1,519,747	2,285,967
Pledges receivable, net	488,785	580,492
Supplies, at lower of cost (first-in, first-out) or market	4,501,278	3,492,414
Prepaid expenses	1,619,990	1,144,092
Estimated third-party payor settlements	460,244	1,773,594
Total current assets	<u>78,275,107</u>	<u>60,475,861</u>
Assets whose use is limited	4,015,060	6,783,494
Affiliate receivables	763,281	2,174,520
Trusts receivable	171,227	161,016
Pledges receivable, net	77,353	358,295
Investments held for long-term purposes	4,286,834	3,667,606
Investments held in perpetuity by others	1,422,247	1,343,272
Deferred financing and other costs, net	1,715,024	1,927,166
Property and equipment, net	109,552,818	105,423,366
Other noncurrent assets	1,599,232	1,604,121
Total assets	<u>\$ 201,878,183</u>	<u>\$ 183,918,717</u>
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt and capital lease obligations	\$ 3,830,902	\$ 3,131,906
Accounts payable and accrued expenses	10,517,962	10,226,359
Affiliate payables	4,699,792	1,891,194
Accrued payroll and payroll taxes	3,891,988	3,600,108
Accrued vacation and compensated absences	3,889,076	3,704,533
Accrued workers compensation liability	735,862	680,454
Total current liabilities	<u>27,565,582</u>	<u>23,234,554</u>
Estimated professional liability costs	4,776,841	4,667,459
Accrued pension liability	32,044,885	36,884,969
Accrued workers compensation liability	4,594,818	4,417,064
Estimated third-party payor settlements	5,369,310	374,910
Long-term debt and capital lease obligations	32,273,486	36,104,390
Other noncurrent liabilities	477,922	576,489
Total liabilities	<u>107,102,844</u>	<u>106,259,835</u>
Commitments and contingencies		
Net assets		
Unrestricted	89,539,552	72,410,140
Temporarily restricted	2,249,848	2,091,787
Permanently restricted	2,985,939	3,156,955
Total net assets	<u>94,775,339</u>	<u>77,658,882</u>
Total liabilities and net assets	<u>\$ 201,878,183</u>	<u>\$ 183,918,717</u>

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

Highland Hospital of Rochester and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	2009	2008
Unrestricted net assets		
Revenue		
Net patient service revenue	\$ 249,947,374	\$ 237,682,882
Other revenue	16,564,951	16,170,320
Net assets released from restrictions - operations	306,602	242,087
Total unrestricted revenue	<u>266,818,927</u>	<u>254,095,289</u>
Expenses		
Salaries	115,868,609	113,124,669
Benefits	31,915,010	25,644,319
Pharmaceutical and medical supplies	54,093,621	50,160,704
Professional and contract services	13,252,782	12,490,264
Interest	1,717,436	1,797,466
Depreciation, accretion and amortization	11,791,409	10,854,916
Provision for uncollectibles	4,449,517	4,415,077
Other expenses	23,721,742	25,585,053
Total expenses	<u>256,810,126</u>	<u>244,072,468</u>
Income from operations	10,008,801	10,022,821
Investment income	824,249	479,042
Excess of revenues over expenses	10,833,050	10,501,863
Other changes		
Pension related benefit (charges) other than net periodic pension cost	6,585,360	(29,804,998)
Net assets released from restriction-capital	145,000	2,154,946
Transfer to affiliates	(433,998)	(483,996)
Increase (decrease) in unrestricted net assets	<u>17,129,412</u>	<u>(17,632,185)</u>
Temporarily restricted net assets		
Contributions	203,655	526,273
Investment income	62,108	38,610
Net unrealized gain (loss) on investments	343,900	(767,683)
Net assets released from restrictions	(451,602)	(2,397,033)
Increase (decrease) in temporarily restricted net assets	<u>158,061</u>	<u>(2,599,833)</u>
Permanently restricted net assets		
Contributions	2,205	2,709
Net unrealized (loss) on investments	(173,221)	(23,171)
(Decrease) in permanently restricted net assets	<u>(171,016)</u>	<u>(20,462)</u>
Change in net assets	17,116,457	(20,252,480)
Net assets		
Beginning of year	<u>77,658,882</u>	<u>97,911,362</u>
End of year	<u>\$ 94,775,339</u>	<u>\$ 77,658,882</u>

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

Highland Hospital of Rochester and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 17,116,457	\$ (20,252,480)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, accretion and amortization	11,791,409	10,854,916
Provision for uncollectibles	4,449,517	4,415,077
Pension related changes other than net periodic pension cost	(6,585,360)	29,804,998
Transfers to affiliates	433,998	483,996
Unrealized (gains) losses on investments	(587,981)	1,567,790
Realized (gains) on investments	(141,347)	(888)
Restricted contributions	(578,509)	(814,225)
Changes in assets and liabilities		
Patient accounts receivable	(4,729,307)	(4,011,870)
Estimated third-party payor settlements	6,307,750	(1,990,007)
Other receivables	53,632	436,797
Supplies	(1,008,864)	(818,278)
Prepaid expenses	(475,898)	(21,921)
Trusts receivable	(10,211)	46,222
Pledges receivable	372,649	287,952
Change in affiliate receivables/payables	3,574,818	(223,810)
Other noncurrent assets	4,889	(200,639)
Accounts payable and accrued expenses	741,102	1,518,342
Accrued pension liability	1,745,276	(923,496)
Accrued workers compensation liability	233,162	379,574
Estimated professional liability costs	109,382	1,196,459
Other noncurrent liabilities	(111,025)	217,316
Net cash provided by operating activities	<u>32,705,539</u>	<u>21,951,825</u>
Cash flows from investing activities		
Change in assets whose use is limited	2,768,434	(2,374,920)
Decrease (increase) in investments held for long-term purposes	110,100	827,627
Acquisition of property, plant, and equipment	(15,669,337)	(22,554,555)
Net cash used in investing activities	<u>(12,790,803)</u>	<u>(24,101,848)</u>
Cash flows from financing activities		
Repayment of long-term debt and capital lease obligations	(3,131,908)	(4,143,808)
Proceeds from capital lease	-	4,000,000
Change in affiliate receivables	1,411,239	811,340
Transfers to affiliates	(433,998)	(483,996)
Restricted contributions	578,509	814,225
Change in investments held in perpetuity by others	(78,975)	495,335
Net cash (used in) provided by financing activities	<u>(1,655,133)</u>	<u>1,493,096</u>
Net increase (decrease) in cash	18,259,603	(656,927)
Cash		
Beginning of year	<u>31,633,975</u>	<u>32,290,902</u>
End of year	<u>\$ 49,893,578</u>	<u>\$ 31,633,975</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, net of amounts capitalized	\$ 1,717,436	\$ 1,928,575
Cash paid during the year for income taxes	165,587	138,654
Increase (decrease) in construction-related payables	26,924	(5,777)
Asset retirement cost	-	-

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

Highland Hospital of Rochester and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Organization and Significant Accounting Policies

The consolidated financial statements include the accounts of Highland Hospital of Rochester (the "Hospital") and its wholly owned subsidiaries, Highland Facilities Development Corporation ("HFDC"), Medical Administrative Associates, Inc. ("MAA"), and Highland Hospital Foundation, Inc. ("HHF").

Highland Hospital of Rochester is a not-for-profit, New York corporation which operates an acute care hospital and is a medical teaching affiliate of the University of Rochester School of Medicine and Dentistry. The Hospital primarily provides health care services to the population residing in Monroe County and other nearby counties. Highland Hospital of Rochester and its subsidiaries along with other affiliated corporations are affiliated corporations of Strong Partners Health System ("SPHS"). The University of Rochester (the "University") is the sole corporate member of SPHS. SPHS is the sole corporate member of the Hospital, Highland Community Development Corporation ("HCDC"), The Highlands Living Center, Inc. ("HLC") and The Meadows at Westfall, Inc. ("The Meadows").

HFDC is a not-for-profit, New York corporation, whose primary purpose is to provide services which are substantially related to the charitable purposes of the Hospital but do not involve provision of health care services. HFDC owns and operates a medical office building and a parking garage on the Hospital campus.

MAA is a for-profit, New York corporation, whose primary purpose is to own and operate a retail pharmacy.

HHF is a not-for-profit, New York corporation, whose primary purpose is to solicit, receive, and maintain funds exclusively for the benefit of the Hospital and other SPHS entities.

All significant inter-company balances and transactions have been eliminated and for presentation purposes Highland Hospital of Rochester and subsidiaries are herein referred to as the Hospital.

Basis of Presentation

The Hospital's consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are net assets that are not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets result from donors who stipulate that their donated resources be maintained permanently. The Hospital is permitted to use or expend part or all of the income and gains derived from the donated assets, restricted only by the donors' wishes.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas which are affected by the use of estimates include the allowance for uncollectible accounts, estimated third-party payor settlements, self-insurance reserves, and pension obligations.

Excess of Revenues over Expenses

The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities,

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permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Revenue Recognition

Net operating revenues are recognized in the period services are performed and consist primarily of net patient service revenue that is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Investments Held for Long-Term Purposes

Effective September 30, 2008, the Hospital's investments are primarily held as part of the University's consolidated investment pool, and are subject to the same asset allocation between stocks, debt securities, hedge funds and other investments as the overall University investment pool. The Hospital reports investments in equity and debt securities at fair value in the balance sheet based on quoted market prices of public securities markets. The fair value of other investments is based upon values reported by the respective investment managers and consists of readily marketable securities that may be less liquid than the University's other investments. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are included in the operating measure as the investments are trading securities.

A decline in the market value of an investment security below its cost that is designated as other than temporary is recognized through an impairment charge. Impairment charges are included in excess of revenue over expenses in the statement of operations and changes in net assets and a new cost basis is established.

Cash and Cash Equivalents

Cash and cash equivalents consist of liquid investments with an original maturity of three months or less, excluding amounts limited as to use.

Supplies

Supplies consist primarily of pharmaceuticals and medical supplies and are valued at the lower of cost or market on the first-in, first-out basis.

Investments Held in Perpetuity by Others

The Hospital is a beneficiary of a perpetual trust held and administered by others. Distributions from the trust are recorded as contributions and the carrying value of the investments are adjusted for changes in the fair value of the trust assets.

Assets Whose Use is Limited

Assets whose use is limited include assets pledged by the Hospital as collateral for obligations of the Hospital. Also included are capital lease proceeds to be used for equipment purchases, assets held for the acquisition of property and equipment and debt service reserve funds. The Hospital has determined that cash and cash equivalents classified as assets whose use is limited are not considered as cash equivalents for statement of cash flow purposes.

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Deferred Financing and Other Costs

Deferred financing costs are capitalized and amortized over the term of the related borrowing.

Certain other capitalized expenditures are amortized over their related useful life of five years.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at estimated fair value at the date of receipt. The Hospital calculates depreciation using the straight-line method applied to the following useful lives:

Land and leasehold improvements	5–20 years
Buildings and fixed equipment	20–40 years
Moveable equipment	3–15 years

Leasehold improvements and equipment under capital leases are amortized on the straight-line method over the lesser of the lease term or the estimated useful life. Such amortization is included in depreciation and amortization.

Interest cost incurred on borrowed funds during the period of construction of property and equipment is capitalized as a component of the cost of acquiring those assets.

Long-Lived Assets

In the event circumstances indicate, the Hospital reviews the carrying value of its long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, if any, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Hospital assessment would include an estimate of the undiscounted future cash flows that are directly associated with and that are expected to arise from the use of and eventual disposition of such asset group and if the carrying value of the asset group exceeded the estimated undiscounted cash flows, the Hospital would record an impairment charge to the extent the carrying value of the long-lived assets exceeds its estimated fair value.

In connection with its assessment of recoverability of its long-lived assets and its ongoing strategic review of the business and its operations, the Hospital continually reviews the remaining useful lives of its long-lived assets. If this review indicates that the remaining useful life of the long-lived assets has been reduced, the Hospital adjusts the depreciation on that asset to facilitate full cost recovery over its revised estimated remaining useful life. No such adjustment was made in 2009 or 2008.

Insurance Claims

The Hospital's provision for estimated professional liability and workers' compensation claims includes estimates of the ultimate costs for claims incurred, but not reported.

Self-insured professional liability and workers' compensation claim losses and expenses are recorded based upon management's estimate of losses associated with pending and probable claims. Loss estimates are derived from data developed by representatives of the Hospital's legal counsel, insurance company, physicians, insurance advisor, actuary, and management.

Donor-Restricted Gifts

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

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same year as received are reflected as unrestricted contributions in the accompanying consolidated statements of operations and changes in net assets.

Income Taxes

The Hospital, HFDC, and HHF are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from Federal, state, and local income taxes on related income pursuant to Section 501(a) of the code. MAA is a for profit corporation subject to Federal and New York State income taxes.

Charity Care and Provision for Bad Debts

As further described in Note 16, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or patient accounts receivable.

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and State governmental healthcare coverage and other collection indicators.

2. Fair Value Measurements

The Hospital follows fair value accounting, which defines fair value, establishes a framework of measuring fair value, and expands disclosures related to fair value measurements. Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset's or liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchical levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

Level 1 – Valuation based on quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access. Such valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These are generally Hospital generated inputs and are not market based inputs.

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The following table presents the financial instruments carried at fair value as of December 31, 2009 on the consolidated balance sheet by the valuation hierarchy defined above:

	Assets Whose Use is Limited	Investments Held in Perpetuity by Others	Investments Held for Long-Term Purposes	Total
Level 1	\$ 4,015,060	\$ -	\$ 1,171,201	\$ 5,186,261
Level 3	-	1,422,247	3,115,633	4,537,880
	<u>\$ 4,015,060</u>	<u>\$ 1,422,247</u>	<u>\$ 4,286,834</u>	<u>\$ 9,724,141</u>

The following table presents the financial instruments carried at fair value as of December 31, 2008 on the consolidated balance sheet by the valuation hierarchy defined above:

	Assets Whose Use is Limited	Investments Held in Perpetuity by Others	Investments Held for Long-Term Purposes	Total
Level 1	\$ 6,783,494	\$ -	\$ 808,990	\$ 7,592,484
Level 3	-	1,343,272	2,858,616	4,201,888
	<u>\$ 6,783,494</u>	<u>\$ 1,343,272</u>	<u>\$ 3,667,606</u>	<u>\$ 11,794,372</u>

Following is a description of the valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Level 3, which primarily consists of the Hospital's ownership in the University's endowment fund includes publicly traded stocks and bonds, and alternative investments (principally limited partnership interests in absolute return, hedge, private equity, real estate, and natural resources funds), represents the ownership interest in the net asset value (NAV) of the respective partnership. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities; prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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The following table is a rollforward of the balance sheet amounts for financial instruments classified by the Hospital within Level 3 of the valuation hierarchy defined above:

	Investments Held in Perpetuity by Others	Investments Held for Long-Term Purposes
Fair value January 1, 2008	\$ 1,838,607	\$ -
Transfers in	-	3,301,883
Realized and unrealized (losses)	<u>(495,335)</u>	<u>(443,267)</u>
Fair value December 31, 2008	1,343,272	2,858,616
Realized and unrealized gains	<u>78,975</u>	<u>257,017</u>
Fair value December 31, 2009	<u>\$ 1,422,247</u>	<u>\$ 3,115,633</u>

3. Third-Party Reimbursement

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system ("PPS") for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than the average and exceeds specified thresholds, the Hospital receives additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications ("APCs"). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been completed and final settled through December 31, 2006.

Effective October 1, 2007, the Centers for Medicare and Medicaid Services ("CMS") revised the Medicare patient classification system. The new Medicare severity adjusted diagnosis related groups ("MS-DRGs") reflect changes in technology and current methods of care delivery. CMS has expanded the number of DRGs from 538 to 745 and requires identification of conditions that are present upon admission.

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Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 ("HCRA"), as amended, governs payments to hospitals in New York State through March 31, 2011. Under the Act, Medicaid, workers compensation and no-fault payors pay rates promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations ("HMOs"), Preferred Provider Organizations ("PPOs") and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges. Effective January 1, 2008, the New York State Department of Health ("DOH") updated the data utilized to calculate the NYS DRG service intensity weights ("SIWs") in order to utilize more current data in the DOH promulgated rates. Furthermore, effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data used to calculate payment rates utilizing All Payor Revised DRGs (APR-DRGs). APR-DRGs use revised service intensity weights to adjust each APR-DRG for patient acuity. Similar type outpatient reforms were implemented effective December 1, 2008 by connecting outpatient payments to Ambulatory Payment Groups (APGs) which use outpatient SIWs based on types of service and resource consumption.

In addition, under HCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge vary by payor and apply to a broader array of health care services. Also, certain payors are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the Department of Health. Through December 31, 2008, these additional payments were used to fund a pool for graduate medical education (GME) expenses. Beginning January 1, 2009, the GME pool was consolidated into the indigent care pool.

Revenue from Blue Cross and MVP Health Care accounted for approximately 26% and 12%, respectively, of the Hospital's net patient service revenue for the year ended December 31, 2009 and 26% and 10%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2008.

Revenue from Medicare and Medicaid programs accounted for approximately 40% and 11%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2009 and 42% and 11%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both Federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers compensation and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments which can be reasonably estimated have been provided for in the accompanying consolidated financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific

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regulations to implement such adjustments, or (b) dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying consolidated financial statements. Management believes the amounts recorded in the accompanying consolidated financial statements will not be materially affected upon the implementation of such adjustments.

During 2009 and 2008, the Hospital recognized approximately (\$244,540) and \$1,123,000, respectively, of adjustments to net patient service revenue as a result of changes in estimates related to third-party payor settlements.

There are various other proposals at the Federal and New York State levels relating to Medicare and Medicaid, that could, among other things, reduce reimbursement rates, modify reimbursement methods, increase managed care penetration. The ultimate outcome of these proposals and other market changes cannot presently be determined.

4. Asset Retirement Obligations

The Hospital accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Hospital will recognize a gain or loss for any difference between the settlement amount and liability recorded.

The following is a summary of the components of the asset retirement obligation at December 31:

	2009	2008
Change in Asset Retirement Obligations		
Asset retirement obligation at beginning of year	\$ 465,464	\$ 670,331
Accretion expense	12,458	12,133
Settlements	<u>-</u>	<u>(217,000)</u>
Asset retirement obligation at end of year	<u>\$ 477,922</u>	<u>\$ 465,464</u>

5. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Concentrations of patient accounts receivable by payor classes at December 31 are approximately as follows:

	2009	2008
Medicare	18 %	26 %
Medicaid	8 %	7 %
Blue Cross	22 %	27 %
MVP Health Care	18 %	12 %
Commercial insurance	19 %	14 %
Self-pay	9 %	8 %
All other	<u>6 %</u>	<u>6 %</u>
	<u>100 %</u>	<u>100 %</u>

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6. Investments – Assets Whose Use is Limited

Assets whose use is limited is comprised of cash and short-term investments, at fair value, restricted for the following purposes at December 31:

	2009	2008
Debt service reserve fund	\$ 4,015,060	\$ 3,996,954
Capital lease proceeds to be used for equipment purchases	-	2,420,000
Bond proceeds to be used for Hospital construction activity	-	366,540
	<u>\$ 4,015,060</u>	<u>\$ 6,783,494</u>

7. Investments Held for Long-Term Purposes

Investments held for long-term purposes are comprised of the following at December 31:

	2009	2008
Investments held in the University's consolidated endowment pool	\$ 3,115,633	\$ 2,858,616
Corporate bonds	<u>1,171,201</u>	<u>808,990</u>
	<u>\$ 4,286,834</u>	<u>\$ 3,667,606</u>

The Hospital's return on investments for the years ended December 31 is as follows:

	2009	2008
Interest and dividend income	\$ 265,600	\$ 1,278,261
Realized gains	141,347	888
Unrealized gains (losses)	<u>417,302</u>	<u>(800,107)</u>
Total unrestricted investment income	824,249	479,042
Temporarily restricted net unrealized gain (loss) on investments	343,900	(767,683)
Temporarily restricted investment income	62,108	38,610
Permanently restricted net unrealized (loss) on investments	<u>(173,221)</u>	<u>(23,171)</u>
Total return (loss) on investments	<u>\$ 1,057,036</u>	<u>\$ (273,202)</u>

8. Trusts Receivable

Trusts receivable at December 31 is comprised of the following:

	2009	2008
Present value of trusts estimated to be received in		
Less than 1 year	\$ -	\$ -
Between 1 and 5 years	58,044	49,256
More than 5 years	<u>113,183</u>	<u>111,760</u>
	<u>\$ 171,227</u>	<u>\$ 161,016</u>

The Hospital's trusts receivable consist of split interest agreements with donors, primarily charitable remainder unitrusts. Assets held under these agreements are included in trusts receivable.

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Generally, contribution revenues are recognized at the dates the agreements are established, at the present value of the estimated future benefits. Adjustments to the receivable include amortization of the discount, revaluation of the present value of estimated future payments, and changes in actuarial assumptions during the term of the trust.

9. Pledges Receivable

Pledges receivable at December 31 is comprised of the following:

	2009	2008
Present value of pledges estimated to be received in		
Less than 1 year	\$ 488,785	\$ 580,492
Between 1 and 5 years	77,353	358,295
	<u>\$ 566,138</u>	<u>\$ 938,787</u>

The amounts shown above are net of discounts of \$6,306 and \$13,213 and allowances for uncollectible pledges of \$17,812 and \$18,359 as of December 31, 2009 and 2008, respectively.

10. Property and Equipment

Property and equipment at December 31 is comprised of the following:

	2009	2008
Land	\$ 207,769	\$ 207,769
Land and leasehold improvements	690,686	985,000
Buildings	131,053,535	115,649,531
Equipment	104,615,381	98,260,926
	<u>236,567,371</u>	<u>215,103,226</u>
Accumulated depreciation and amortization	(130,877,265)	(128,424,266)
Construction in progress	3,862,712	18,744,406
	<u>\$ 109,552,818</u>	<u>\$ 105,423,366</u>
Property and equipment, net		

Property and equipment includes \$35,848,136 and \$33,428,136 of costs relating to capital leases at December 31, 2009 and 2008, respectively. Related accumulated amortization was \$29,948,320 and \$29,001,891 at December 31, 2009 and 2008, respectively.

Construction in progress is made up of certain projects started but not completed at December 31. The estimated cost to complete these projects was approximately \$24,417,000 and \$8,422,000 at December 31, 2009 and 2008, respectively. Capitalized interest related to construction in progress was \$0 as of December 31, 2009 and 2008.

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11. Long-Term Debt and Lease Arrangements

The Hospital has pledged certain property and equipment, revenues and funds as collateral for its various debt and lease arrangements. Long-term debt and capital lease obligations payable at December 31 consist of the following:

	2009	2008
COMIDA, Series 2005	\$ 33,651,218	\$ 35,981,156
Capital leases payable at varying interest rates from 3.79% to 4.42% in installments through January 2013	<u>2,453,170</u>	<u>3,255,140</u>
	36,104,388	39,236,296
Less: Current installments of long-term debt and capital lease obligations	<u>3,830,902</u>	<u>3,131,906</u>
	<u>\$ 32,273,486</u>	<u>\$ 36,104,390</u>

COMIDA, Series 2005

Pursuant to an agreement with the Hospital and the County of Monroe Industrial Development Agency ("COMIDA") dated June 23, 2005, COMIDA issued and sold \$20,000,000 of fixed rate Civic Facility Revenue Refunding Bonds and \$14,920,000 of fixed rate Civic Facility Revenue Project Bonds. The COMIDA Refunding Bonds were issued at a premium of \$912,000 and were used to refund a portion of Series 1997A debt. These Refunding Bonds are collateralized by amounts in Debt Service Reserve Fund. The COMIDA Project Bonds were issued at a premium of \$362,000 and were issued to finance (1) the Park Ridge Oncology Project, (2) the Bariatric Center and Operating Room Project, (3) the Inpatient Joint Center Project, (4) the Orthopedic Operating Room Project and (5) various equipment and renovation projects throughout Highland Hospital. The Project Bonds are collateralized by the construction projects noted above. In addition, the Hospital issued \$6,135,000 of direct taxable notes on June 23, 2005 to refund the remaining portion of Series 1997A and all of Series 1997B debt. These notes were issued at a discount of \$5,000 and are collateralized by amounts in a Debt Service Reserve Fund.

Under terms of the COMIDA agreement, the Hospital is required to meet various financial covenants related to debt service coverage and liquidity measures based on audited financial statements. As of December 31, 2009, the Hospital is in compliance with these requirements.

Scheduled principal repayments on long-term debt and future minimum lease payments on capital lease obligations are as follows:

	Long-Term Debt	Capital Lease Obligations
2010	\$ 3,049,936	\$ 879,528
2011	2,529,936	879,528
2012	2,644,936	879,528
2013	2,264,936	-
2014	2,369,936	-
Thereafter	<u>20,791,538</u>	<u>-</u>
	33,651,218	2,638,584
Less: Interest portion	<u>-</u>	<u>185,414</u>
Principal balance	<u>\$ 33,651,218</u>	<u>\$ 2,453,170</u>

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The Hospital, either directly or through the University, also has several noncancelable operating leases for clinical and office space that expire over the next fifteen years. Rental expense for operating leases was \$2,987,428 and \$3,004,277 for the years ended December 31, 2009 and 2008, respectively. The future minimum lease payments are as follows:

	Amount
Year ending December 31,	
2010	\$ 2,679,881
2011	2,356,092
2012	2,119,716
2013	2,023,554
2014	1,914,331
Thereafter	<u>7,848,593</u>
	<u>\$ 18,942,167</u>

12. Professional Liability Risk

The Hospital's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage as well as the buffer and self-insured layers of excess insurance, were written by MCIC Vermont, Inc. (A Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Hospital is \$221,500,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experiences and exposures.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the Hospital's obligation for incurred but not reported claims was \$4,776,841 and \$4,667,459 as of December 31, 2009 and 2008, respectively, which has been recorded as a noncurrent liability. This amount has not been discounted.

13. Pension Plan

The Hospital's defined benefit retirement plan (the "Plan") covers employees of the Hospital, HLC, and HCDC who have completed two years of continuous employment. The benefits for the Plan agreement are based primarily on years of service and employees' pay near retirement. The Hospital's policy is to contribute, annually, an amount consistent with the requirement of the Employee Retirement Income Security Act. Effective January 1, 2004, the accrued benefits of employees of HLC and HCDC were frozen and no future benefits are being accrued under the Plan. The Hospital has agreed to incur and fund all future costs related to HLC's and HCDC's employees included in the Plan. For the years ended December 31, 2009 and 2008, the Hospital incurred retirement plan expense of \$7,448,751 and \$2,319,533, respectively, that is recorded in benefits expense on the consolidated statements of operations and changes in net assets. In addition, the Hospital recorded a pension related benefit (charges) other than net periodic pension cost of \$6,585,360 and (\$29,804,998) for the years ending December 31, 2009 and 2008, respectively. These amounts are included in other changes on the consolidated statement of operations and changes in net assets.

The Hospital is required to recognize the overfunded or underfunded status of a defined benefit pension and postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The Hospital is also required to measure the funded status of the plan as of the balance sheet date.

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The Hospital changed the measurement date for the Plan to December 31 from September 30 for its 2008 and subsequent financial statements. The Hospital elected the alternative transition method for the change in measurement date. The impact of the adoption resulted in a decrease of \$558,476 in unrestricted net assets, which has been recorded as pension related charges other than net periodic pension cost in the consolidated statement of operations and changes in net assets.

The following tables present the changes in the Plan's benefit obligation and the fair value of the Plan assets for the years ended December 31, 2009 and 2008 and the funded status of the Plan at December 31, 2009 and 2008:

	2009	2008
Change in benefit obligations		
Benefit obligation at beginning of year	\$ 93,045,800	\$ 80,128,242
Service cost	3,903,283	4,067,156
Interest cost	5,596,454	6,331,236
Actuarial loss	5,667,975	5,237,620
Benefits paid	<u>(2,520,395)</u>	<u>(2,718,454)</u>
Benefit obligation at end of year	<u>\$ 105,693,117</u>	<u>\$ 93,045,800</u>
Change in Plan assets		
Fair value of Plan assets at beginning of year	\$ 56,160,831	\$ 72,124,775
Actual return (loss) on Plan assets	14,547,019	(16,291,327)
Employer contribution	5,703,500	3,233,428
Benefits paid	(2,520,395)	(2,718,454)
Administrative expenses paid	<u>(242,723)</u>	<u>(187,591)</u>
Fair value of Plan assets at end of year	<u>\$ 73,648,232</u>	<u>\$ 56,160,831</u>
Funded Status	<u>\$ (32,044,885)</u>	<u>\$ (36,884,969)</u>
Amounts recognized in the balance sheets consists of		
Accrued benefit cost	\$ (3,866,785)	\$ (2,121,509)
Unrestricted net assets	<u>(28,178,100)</u>	<u>(34,763,460)</u>
	<u>\$ (32,044,885)</u>	<u>\$ (36,884,969)</u>
	2009	2008
Components of net periodic pension cost		
Service cost	\$ 3,903,283	\$ 3,270,567
Interest cost	5,596,454	5,098,014
Expected return on plan assets	(4,946,382)	(6,049,048)
Amortization of unrecognized (gain) loss	<u>2,895,396</u>	<u>-</u>
	<u>\$ 7,448,751</u>	<u>\$ 2,319,533</u>

Highland Hospital of Rochester and Subsidiaries
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Benefits are valued based upon the projected unit credit cost method. The assumptions used for the Plan at the measurement date are as follows:

	2009	2008
Discount rate for obligation	5.97%	6.09%
Discount rate for pension expense	6.09%	6.50%
Future compensation increase rate	3.80%	3.80%
Investment return assumption (regular)	8.50%	8.50%

Discount rates are established based on Moody's long-term bond yield for AA bonds with maturities of 20 years or more that, if the pension benefit obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Hospital uses long-term historical actual return experience, with consideration given to the expected investment mix of the Plan's assets, and future estimates of long-term investment returns, to develop its expected rate of return assumption used in calculating the net periodic pension cost.

The Plan funds are allocated to two money managers, each with a balanced portfolio. These money managers monitor financial market funds and adjust inconsistent strategy accordingly.

The weighted average asset allocation for the Plan as of December 31 by asset categories is as follows:

	2009	2008
Asset category		
Equity securities	56%	61%
Fixed income securities	30%	38%
Cash and other investments	14%	1%
	<u>100%</u>	<u>100%</u>

Investment Policy

The Plan's asset allocation policy states the assets should be allocated as follows:

	Target Allocation	Range
Domestic equity	25%	20 - 30%
International equity	25%	20 - 35%
Fixed income	20%	20 - 40%
Inflation protection assets	18%	5 - 30%
Hedge funds/absolute return	10%	5 - 15%
Cash and equivalents	2%	0 - 5%

In addition, the total equity commitment should not exceed 75% of assets.

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The asset allocation ranges established by this investment policy represent a long-term perspective, and as such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

Inflows and disbursements should be allocated such that the assets are rebalanced toward the target allocation.

Scheduled estimated future benefit payments are as follows:

	Pension Benefits
2010	\$ 2,507,400
2011	2,733,800
2012	3,067,500
2013	3,591,600
2014	4,048,100
2015 - 2019	30,443,800

Cash Flows Contributions

The Hospital expects to contribute \$6,800,000 to the Plan in 2010 and contributed \$5,703,000 to the Plan in 2009.

The Plan assets for Highland Hospital are invested with an outside trustee for the sole benefit of the plan participants. Investments are directed by the Hospital or by investment managers appointed by the Hospital. They are managed to maximize total return while maintaining a prudent level of risk.

Risk mitigation is achieved by diversifying investments across multiple asset classes, by investment in high quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. Market risk is inherent in any portfolio but the investment policies and strategies are designed to avoid concentration of risk in one entity, industry, country or commodity.

The expected return on assets was derived based on long term expected yields of the plan's assets which reflect the composition of the portfolio. In particular, we assume an estimated 60%/40% equity/fixed income allocation, a risk free rate of return of 3.0 - 3.5%, long-term and risk premiums of 6.5% for equities and 3.5% for fixed income, for an expected range of 8.3% - 8.8%. This supports the assumption of 8.5% as the long-term rate of return on assets.

The following assets were recorded at fair value within the Plan assets of the Hospital. Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar assets and/or inputs other than quoted prices that are observable for the asset or liability. Level 3, which primarily consists of hedge funds and credit opportunities, includes publicly traded stock and bonds.

Description	(Level 1)
Cash	\$ 304,038
Mutual Fund - Global Balanced Asset	37,410,971
Mutual Fund - Multi-Asset	35,933,223
Total	<u>\$ 73,648,232</u>

Highland Hospital of Rochester and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

14. Related Party and Transfers to Affiliates

HCDC is a not-for-profit, New York corporation whose primary purpose is to develop, construct, and operate a senior living facility in the Monroe County market area.

HLC is a not-for-profit, New York corporation whose primary purpose is to develop, construct, and operate a skilled nursing home facility in the Monroe County market area. At December 31, 2008 non-interest bearing amounts loaned by the Hospital to HLC totaled \$1,413,717. Proceeds were used to finance the original development and construction costs of the facility as well as to fund working capital loans required for operations. These amounts were repaid from HLC's cash flows in 2009.

In addition, HCDC and HLC utilize the Hospital's accounts payable and payroll systems. On a monthly basis, the Hospital makes payments on HCDC's and HLC's outstanding payables and issues payroll checks to employees of these entities. The Hospital is reimbursed by HCDC and HLC for these disbursements in the following month based on their available cash flow. At December 31, 2009, amounts related to these activities which are due from HCDC and HLC were \$124,501 and \$1,027,756, respectively. At December 31, 2008, amounts related to these activities which are due from HCDC and HLC were \$387,393 and \$1,045,181, respectively.

The Meadows is a not-for-profit, New York Corporation whose primary purpose is to operate a skilled nursing facility in the Monroe County market area. The Hospital provides various administrative services to The Meadows, which are included in affiliate receivables on the consolidated balance sheets. At December 31, 2009 and 2008, the amount due from The Meadows was \$803,729 and \$1,170,039, respectively.

In order to fulfill specific strategic initiatives of the Hospital, the Hospital funded, through inter-affiliate transfers, certain operating needs of The Meadows during 2009 and 2008. The amounts of these transfers for the years ended December 31, 2009 and 2008 were \$433,998 and \$483,996, respectively.

The Hospital provides certain administrative services to Strong Memorial Hospital ("Strong") and the University. During the years ended December 31, 2009 and 2008, the Hospital charged Strong and the University \$2,167,175 and \$2,511,675, respectively, for these services, which offset expenditures in other expenses on the consolidated statements of operations and changes in net assets. At December 31, 2009 and 2008, the Hospital had receivables of \$327,042 and \$444,157, respectively, from Strong and the University, which are included in affiliate receivables on the consolidated balance sheets.

Current affiliate receivable balances at December 31 are as follows:

	2009	2008
HLC	\$ 1,027,756	\$ 1,413,717
University	237,580	334,511
HCDC	124,501	387,393
Strong	89,462	109,646
The Meadows	40,448	40,700
	<u>\$ 1,519,747</u>	<u>\$ 2,285,967</u>

Highland Hospital of Rochester and Subsidiaries
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Noncurrent affiliate receivable balances at December 31 are as follows:

	2009	2008
The Meadows	\$ 763,281	\$ 1,129,339
HLC	<u>-</u>	<u>1,045,181</u>
	<u>\$ 763,281</u>	<u>\$ 2,174,520</u>

If necessary, the Hospital, in conjunction with Strong, has agreed to support the operations of HLC through at least January 1, 2011. In addition, the Hospital will not demand repayment of \$763,281 of the receivable due from The Meadows during 2010, and as a result, that amount is classified in noncurrent assets on the Hospital's balance sheet.

In addition, the Hospital purchases certain administrative services from Strong and the University. During the years ended December 31, 2009 and 2008, the Hospital was charged \$17,178,850 and \$15,416,671, respectively, for these services, which are included in other expenses on the consolidated statements of operations and changes in net assets.

HHF received contributions for HLC for \$44,091 in 2009 that were not transferred as of December 31, 2009.

Affiliate payable balances at December 31 are as follows:

	2009	2008
University	\$ 2,538,266	\$ 1,450,324
Strong	2,044,353	367,788
HLC	82,877	38,786
HCDC	33,296	33,296
The Meadows	<u>1,000</u>	<u>1,000</u>
	<u>\$ 4,699,792</u>	<u>\$ 1,891,194</u>

15. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	2009	2008
Support of health care services	\$ 1,269,911	\$ 1,235,563
Educational purposes	<u>979,937</u>	<u>856,224</u>
	<u>\$ 2,249,848</u>	<u>\$ 2,091,787</u>

Permanently restricted net assets at December 31 are restricted to the following purpose:

	2009	2008
Investments to be held in perpetuity, the income from which is expendable to support health care services	<u>\$ 2,985,939</u>	<u>\$ 3,156,955</u>

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Net assets were released from donor restrictions during the year ended December 31 by incurring expenses satisfying the restricted purposes of the following:

	2009	2008
Hospital operations	\$ 306,602	\$ 242,087
Capital	<u>145,000</u>	<u>2,154,946</u>
	<u>\$ 451,602</u>	<u>\$ 2,397,033</u>

16. Uncompensated Care (Unaudited)

The Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. The Hospital maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. In addition to charity care, the Hospital also provides services at rates significantly below the cost of rendering those services. The estimated difference between the cost of services provided to Medicaid patients and the reimbursement from New York State for this patient care is also monitored.

Effective January 1, 2007 the New York State Public Health Law required all hospitals to implement financial aid policies and procedures. The law also required hospitals to develop a summary of its financial aid policies and procedures that must be made publicly available. All standards set forth in the law are minimum standards.

In order to qualify for charity care, patients must submit financial information demonstrating need. In many cases, patients may be unable or unwilling to provide that data. In those cases, the uncompensated care is classified as bad debt expense. Based on an analysis of bad debt expense by zip code, the Hospital estimates that 75% of bad debts were from patients residing in zip codes where over 50% of households would qualify for free or discounted care under the hospital's charity care policy.

During the years ended December 31, the following levels of uncompensated care were provided:

	2009	2008
Charges forgone for charity care	<u>\$ 2,635,313</u>	<u>\$ 1,682,109</u>
Excess of cost over reimbursement for services provided to Medicaid patients	\$ 5,625,825	\$ 5,358,015
Provision for uncollectibles	<u>4,449,517</u>	<u>4,415,077</u>
	<u>\$ 10,075,342</u>	<u>\$ 9,773,092</u>

Highland Hospital of Rochester and Subsidiaries
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17. Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including primary care, obstetrics and gynecology, oncology, cardiology, and surgery. Expenses relating to providing these services for the years ended December 31 are as follows:

	2009	2008
Nursing service	\$ 66,393,888	\$ 64,795,812
Professional services other than nursing	116,478,662	112,876,546
General services	30,328,500	29,998,925
Fiscal and administrative services	43,609,076	36,401,185
	<u>\$ 256,810,126</u>	<u>\$ 244,072,468</u>

18. Workers' Compensation Insurance

The Hospital is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of \$1,045,006 is maintained as security for workers' compensation claims. Included in liabilities at December 31, 2009 and 2008 are accruals of approximately \$5,331,000 and \$5,098,000, respectively, for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. These liabilities are offset by a receivable for the expected insurance direct payments against these claims of \$797,182 and \$819,518 at December 31, 2009 and 2008, respectively. This liability has been discounted by 2.5% and 1.5% at December 31, 2009 and 2008, respectively.

19. Disclosures About the Fair Value of Financial Instruments

Long-Term Debt

Based on current borrowing rates for debt with similar terms and average maturities, management estimates that the fair value of the COMIDA long-term debt is \$33,835,936 as compared to the recorded value of \$33,651,218.

20. Commitments and Contingencies

In the ordinary course of operations, the Hospital is named as a defendant in various lawsuits, or events occur which could lead to litigation, claims, or assessments. Although the outcome of such matters cannot be predicted with certainty, management believes that insurance coverage is sufficient to cover current or potential claims, or that the final outcomes of such matters will not have a material adverse effect on the financial position.

21. Subsequent Events

The Hospital has performed an evaluation of subsequent events through May 13, 2010, the date on which the consolidated financial statements were issued.

Appendix B

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**SUMMARY OF CERTAIN PROVISIONS
OF THE LOAN AGREEMENT**

Appendix C

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement pertaining to the Series 2010 Bonds and the Project. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used in the Loan Agreement shall have the meanings ascribed to them in Appendix A.

Construction of the Project

The Hospital agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution, the Series 2010 Resolution and under the Loan Agreement, the Hospital shall complete the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of the Project in connection with which the Authority has issued the Series 2010 Bonds, substantially in accordance with the Contract Documents related thereto. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Applicable Construction Fund, cause the Hospital to be reimbursed for, or pay, any costs and expenses incurred by the Hospital which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority and the Department of Health, which approval shall not be unreasonably withheld.

(Section 5)

Amendment of a Project; Cost Increases; Additional Bonds

A Project may be amended by the Hospital upon compliance with Governmental Requirements and with the prior written consent of an Authorized Officer of the Authority and the Department of Health to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing furnishing and equipping of a Project which the Authority is authorized to undertake.

The Authority, upon the request of the Hospital, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing a Project or Projects in excess of the moneys in the Construction Fund, in accordance with the provisions of the Resolution, and subject to the limitations set forth in the Master Indenture. Nothing contained in the Loan Agreement or in the Resolution shall be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent hereof to reserve to the Authority full and complete discretion to decline to issue such Bonds. The proceeds of any Additional Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Series of Bonds.

(Section 6)

Financial Obligations of the Hospital; General and Unconditional Obligation; Voluntary Payments

A. Except to the extent that moneys are available therefor under the Resolution or the Loan Agreement, including moneys in the Applicable Debt Service Fund, but excluding moneys from the Applicable Debt Service Reserve Fund, and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Fund, the Hospital unconditionally agrees to pay or cause to be paid, so long as Series 2010 Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it, including payments to be made under the Master Indenture:

- a) On or before the date of delivery of any Bonds, the payment of the Authority Fee and the payment of the Department of Health fee;
- b) On or before the date of delivery of the Series 2010 Bonds, such amount, if any, as is required in addition to the proceeds of the Series 2010 Bonds available therefor, to pay the Costs of Issuance of the Series 2010 Bonds, and other costs in connection with the issuance of the Series 2010 Bonds;

c) On the tenth (10th) day of each month commencing on the tenth (10th) day of the sixth (6th) month immediately preceding the date on which such interest becomes due, one-sixth (1/6) of the interest coming due on the Series 2010 Bonds, on the immediately succeeding interest payment date for the Bonds; provided, however, that, if there are less than six (6) such payment dates prior to the first such interest payment date on the Series 2010 Bonds, on each payment date prior to such interest payment date the Hospital shall pay with respect to the Series 2010 Bonds an amount equal to the interest coming due on the Series 2010 Bonds on such interest payment date multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of months prior to the first interest payment date on the Series 2010 Bonds;

d) On the tenth (10th) day of each month commencing on the tenth (10th) day of the twelfth month immediately preceding the July 1 on which the principal or a Sinking Fund Installment of Series 2010 Bonds becomes due, one-twelfth (1/12) of the principal and Sinking Fund Installments on the Bonds coming due on such July 1; provided, however, that, if there are less than twelve (12) such payment dates prior to the July 1 on which principal or Sinking Fund Installments come due on the Series 2010 Bonds, on each payment date prior to such July 1 the Hospital shall pay with respect to the Series 2010 Bonds an amount equal to the principal and Sinking Fund Installments of the Series 2010 Bonds coming due on such July 1 multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of months prior to such July;

e) Unless otherwise subject to the condition that sufficient money is available on the redemption date or the purchase date or unless waived by the Authority, at least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds or Bonds contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds;

f) On December 15 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with the Series 2010 Bonds, and on June 15 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee payable shall become effective, with respect to the Series 2010 Bonds, on the date of issuance thereof; and, provided, further, that the Annual Administrative Fee with respect to the Series 2010 Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Series of Bonds multiplied by a fraction, the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to subdivision 5 of Section 9 the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to Section 22, 24 or 27 of the Loan Agreement, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement, the Resolution, the Master Indenture, the Supplemental Indenture for Obligation No. 4 and the Series 2010 Obligation in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorneys fees in connection with performance of their duties under the Resolution, and (v) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Series 2010 Bonds or the financing or construction of a Project or Projects;

h) [RESERVED]

i) Promptly upon demand by an Authorized Officer of the Authority (a copy of which shall be furnished to the Trustee), all amounts required to be paid by the Hospital as a result of an acceleration pursuant to Section 28 of the Loan Agreement;

j) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Series 2010 Bonds or otherwise available therefor under the Resolution and the amount required to be rebated or otherwise paid to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Series 2010 Bonds;

k) On the Business Day immediately preceding an interest payment date, if the amount on deposit in the Debt Service Fund is less than the amounts required for the payment of principal or Sinking Fund Installments of, or interest on, Bonds due and payable on such interest payment date, the amount of such deficiency; and

l) On July 10, 2010 and on the tenth (10th) day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee (as set forth in Schedule B of the Loan Agreement), if applicable, as described in the regulations of the Department of Health.

Subject to the provisions of the Resolution and the Loan Agreement, the Hospital shall receive a credit against the amount required to be paid by the Hospital during a Bond Year pursuant to paragraph (d) of this subdivision on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Series 2010 Bonds to be redeemed through Sinking Fund Installments on the next succeeding July 1, the Hospital delivers to the Applicable Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

Pursuant to the Loan Agreement, the Authority directs the Hospital, and the Hospital by the Loan Agreement agrees, to make the payments required by paragraphs (c), (d), (e), (i), and (k) above directly to the Trustee for deposit and application in accordance with Section 5.05 of the Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in the Construction Fund for the Series 2010 Bonds or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraphs (a), (f) and (g) above directly to the Authority, the payments required by paragraph (k) above to or upon the order of the Authority and the payments required by paragraph (l) above, directly to the Department of Health.

The Hospital agrees that it shall also be obligated to make all payments when due on the Series 2010 Obligation to the applicable holders of the Series 2010 Obligation, and that the applicable holders shall be entitled to so receive all payments when due on the Series 2010 Obligation, it being the intention of the parties to the Loan Agreement that the Series 2010 Obligation and the Loan Agreement are separate (but not duplicative) obligations of the Hospital that payments by the Hospital to the Trustee pursuant to the Series 2010 Obligation shall serve as a credit against amounts due from the Hospital to the Authority pursuant to the Loan Agreement with regard to the Series 2010 Bonds and that payments by the Hospital to or upon the order of the Authority pursuant to the Loan Agreement shall serve as a credit against respective amounts due from the Hospital to the Trustee pursuant to the Series 2010 Obligation.

B. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise described in this paragraph), all moneys paid by the Hospital to the Trustee pursuant hereto or otherwise held by the Trustee shall be applied in reduction of the Hospital's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with Section 12.01 of the Resolution. Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series 2010 Resolution to the contrary (except as otherwise described in this paragraph), (i) all moneys paid by the Hospital to the Trustee pursuant to paragraphs (c), (d), (e), (i), and (k) of paragraph A above (other than moneys received by the Trustee pursuant to Section 8.06 of the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Hospital's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the

Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (i) of above held by it in the Construction Fund for the Series 2010 Bonds to the Debt Service Fund for the Series 2010 Bonds in accordance with the applicable provisions the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Hospital of a payment in satisfaction of the Hospital's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of each Applicable Series of Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of each Applicable Series of Bonds.

C. The obligations of the Hospital to make payments or cause the same to be made under the Loan Agreement 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 Hospital may otherwise have against the Authority, the Trustee, or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Hospital to complete a Project or the completion thereof with defects, failure of the Hospital to occupy or use a Project, any declaration or finding that the Series 2010 Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part in the Loan Agreement contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Hospital may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Hospital for, or to pay, the Costs of the Project, beyond the extent of moneys available in the Construction Fund established for the Project.

The Loan Agreement and the obligations of the Hospital to make payments under the Loan Agreement are general obligations of the Hospital.

D. On the third Business Day prior to any payment date under the Loan Agreement, as set forth in Section 9 of the Loan Agreement, an Authorized Officer of the Authority, for the convenience of the Hospital, shall furnish to the Hospital statements of the due date, purpose and amount of payments to be made pursuant hereto. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided in the Loan Agreement. The Hospital shall notify the Authority as to the amount and date of each payment made to the Trustee by the Hospital.

E. The Authority shall have the right in its sole discretion to make on behalf of the Hospital any payment required pursuant to this section which has not been made by the Hospital when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under Section 28 the Loan Agreement arising out of the Hospital's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Hospital to make such payment.

The Hospital, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of an Authorized Officer of the Authority in the Debt Service Fund for the Series 2010 Bonds or held by the Trustee for the payment of Series 2010 Bonds in accordance with Section 12.01 of the Resolution. Upon any voluntary payment by the Hospital or upon any deposit in the Debt Service Fund for the Series 2010 Bonds made pursuant to subdivision 2 of Section 9 the Loan Agreement, the Authority agrees to direct the Trustee in writing to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with Section 5.06(4), 5.09 or 12.01 of the Resolution with respect to the Series 2010 Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Series 2010 Bonds Outstanding, or to pay or provide for the payment of all Series 2010 Bonds Outstanding in accordance with Section 12.01 of the Resolution, the Authority agrees, in accordance with the instructions of the Hospital, to direct the Trustee in writing to purchase or redeem all Series 2010 Bonds

Outstanding, or to cause all Series 2010 Bonds Outstanding to be paid or to be deemed paid in accordance with Section 12.01 of the Resolution.

(Section 9)

Debt Service Reserve Fund

The Hospital agrees that it will at all times provide funds to the Trustee sufficient to maintain on deposit in the Debt Service Reserve Fund for the Series 2010 Bonds an amount at least equal to the Debt Service Reserve Fund Requirement for the Series 2010 Bonds; provided, however, that the Hospital shall be required to deliver moneys, Government Obligations or Exempt Obligations or other Securities to the Trustee for deposit in the Debt Service Reserve Fund for the Series 2010 Bonds as a result of a deficiency in such fund only upon receipt of the notice required by Section 5.07 of the Resolution.

(Section 10)

Incurrence of Additional Indebtedness

Additional Indebtedness (as such term is defined in the Supplemental Indenture for Obligation No. 4) may only be incurred under the Loan Agreement, to the extent permitted by law and in accordance with the Master Indenture, and, except as set forth in the Master Indenture, with the prior written consent of the Authority.

(Section 11)

Consent to Pledge and Assignment

The Hospital consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to paragraphs (c), (d), (e), (i) and (k) of subdivision A of Section 9 of the Loan Agreement summarized above under the caption "Financial Obligations of the Hospital; General and Unconditional Obligation; Voluntary Payments", and any or all security interests granted by the Hospital under the Loan Agreement. The Government Obligations, Exempt Obligations and other Securities pursuant to the Loan Agreement and all funds and accounts established by the Resolution and pledged thereby in each case to secure any payment or the performance of any obligation of the Hospital under the Loan Agreement or arising out of the transactions contemplated in the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Hospital further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by this section, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Hospital's obligation to make all payments required under the Loan Agreement and to performing all other obligations required to be performed by the Hospital under the Loan Agreement.

(Section 13)

Tax-Exempt Status of the Hospital

The Hospital represents that: (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law and is not a "private foundation," as such term is defined under Section 509(a) of the Code; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect; (iii) such letter or other notification has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Hospital 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 Hospital as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income

tax law and (b) it shall not perform any act or enter into any agreement which could adversely affect the exclusion of interest on any of the Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 14)

Use and Control of the Project; Restrictions on Religious Use

Subject to the rights, duties and remedies of the Authority under the Loan Agreement and the statutory regulatory powers of the Department of Health, the Hospital shall have sole and exclusive control of and possession of and responsibility for (i) the Project financed under the Loan Agreement; (ii) the operation of the Project and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of the Project.

The Hospital agrees that with respect to the Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or portion thereof shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and provided, further, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit a Project or portion thereof to be used without regard to the above stated restriction, said restriction shall not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as an Authorized Officer of the Authority deems necessary to determine whether the Project or any portion or real property thereof financed by Series 2010 Bonds is being used for any purpose proscribed by the Loan Agreement. The Hospital further agrees that prior to any disposition of any portion of a Project for less than fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in the Project, the real property on or in which such portion of such Project is situated) shall exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of a Project, or the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this section an involuntary transfer or disposition of a Project or a portion thereof, upon foreclosure or otherwise, shall be considered a sale for the fair market value thereof.

(Sections 18 and 19)

Incorporation of Certain Provisions of the Master Indenture; Supplemental Indenture; Supplemental Indenture for Obligation No. 4

The Hospital agrees that those covenants and other agreements in Article III of the Master Indenture and Sections 3, 4, 9 and 13 to Supplemental Indenture to Obligation No. 4 (the "Incorporated Provisions") are incorporated into the Loan Agreement as fully as if set forth in the Loan Agreement and the Authority were a named beneficiary thereof. The Hospital will observe, perform and fulfill each such agreement in the Master Indenture. If the Master Indenture ceases to be in effect prior to the termination of the Loan Agreement, the Incorporated Provisions (other than those provisions requiring payments in respect of bonds, notes, warrants or other similar instruments issued under the Master Indenture) will remain in full force and effect for purposes of the Loan Agreement as though set forth in the Loan Agreement until such date on which all of the obligations of the Hospital under the Loan Agreement have been fully satisfied.

(Sections 20)

Maintenance, Repair and Replacement

The Hospital agrees that, throughout the term of the Loan Agreement, it shall, at its own expense, hold, operate and maintain the Project in a careful, prudent and economical manner, and keep the same, with the appurtenances and every part and parcel thereof, in good repair, working order and safe 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. The Hospital shall have the right to remove or replace any type of fixtures, furnishings and equipment in the Project which may have been financed by the proceeds of the sale of Series 2010 Bonds provided the Hospital substitutes for any removed or replaced fixtures, furnishings and equipment, additional fixtures, furnishings and equipment having equal or greater value and utility than the fixtures, furnishings and equipment so removed or replaced.

With regard to equipment, furniture and fixtures that have not been financed by the proceeds of the Series 2010 Bonds, the Hospital may convey any such equipment, furniture and fixtures as permitted by the Master Indenture for fair market value. Notwithstanding the foregoing, in all cases such transfers can not be made unless they will not adversely affect the tax-exempt status of the Series 2010 Bonds.

The Hospital further agrees that it shall pay at its own expense all extraordinary costs of maintaining, repairing and replacing the Project except insofar as funds are made available therefor from proceeds of insurance, condemnation or eminent domain awards.

(Section 21)

Covenant as to Insurance

A. The Hospital shall procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers, insurance of the type and in the amounts customarily maintained by institutions providing services similar to those provided by the Hospital. All policies of insurance required by this section shall be primary to any insurance maintained by the Authority.

B. The Hospital shall, with respect to the Project, at the times specified in the following paragraphs, procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers acceptable to the Authority, the following insurance:

a) with respect to any building, the construction of which shall not have been completed (and until insurance is procured pursuant to paragraph (b) of this subdivision), all risk builders' risk insurance against direct physical loss or damage, or with respect to the acquisition and installation of equipment or machinery, in lieu of all risk builders' risk, an installation floater on an all risk basis. The amount of such insurance shall be on a one hundred percent (100%) completed value basis on the insurable portion;

b) at all times (except during a period when builders' risk insurance is in effect as required by paragraph (a) of this subdivision 2), all risk property insurance against direct physical loss or damage to the Project in an amount not less than one hundred percent (100%) of the replacement value thereof (such replacement value to be determined on the basis of replacement costs without allowance for depreciation), exclusive of excavations and foundations and similar property normally excluded under New York standard forms; *provided, however*, that the inclusion of the Project under a blanket insurance policy or policies of the Hospital insuring against the aforesaid hazards in an amount aggregating at least one hundred percent (100%) of the insurable value of the insured property, exclusive of excavations and foundations and similar property normally excluded under the New York standard forms, shall constitute complete compliance with the provisions of this paragraph with respect to the Project; *provided further*, that in any event, each such policy shall be in an amount sufficient to prevent the Hospital and the Authority from becoming co-insurers under the applicable terms of such policy;

c) at all times, statutory workers' compensation insurance, covering loss resulting from injury, sickness, disability or death of employees and employer's liability insurance with limits of at least \$1,000,000 for each accident, each sickness, and aggregate occupational illness or sickness;

- d) at all times, statutory disability benefits;
- e) at all times, commercial general liability insurance protecting the Authority and the Hospital against loss or losses from liabilities arising from bodily injury of persons or damage to the property of others caused by accident or occurrence, with limits of not less than \$1,000,000 per accident or occurrence on account of injury to persons or property damage with \$2,000,000 policy aggregate, excluding liability imposed upon the Authority or the Hospital by any applicable workers' compensation law;
- f) commencing with the date on which the Project or any part thereof is completed or first occupied, or any equipment, machinery, fixture or personal property covered by comprehensive boiler and machinery coverage is accepted, whichever occurs earlier, insurance providing comprehensive boiler and machinery coverage in an amount considered adequate by the Authority, which insurance may include deductible provisions approved by the Authority; and
- g) professional liability insurance providing protection for loss resulting from legal obligations caused or allegedly caused by malpractice or alleged malpractice, with limits of at least in the amount in effect at the time of execution of the Loan Agreement but in any event not less than \$1,000,000 per occurrence and \$2,000,000 annual aggregate; and each other form of insurance which the Hospital is required by law to provide and such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority.

(Section 22)

Reports Relating to the Project and Financial Information

The Hospital shall, if and when requested by an Authorized Officer of the Authority, render to the Authority and the Trustee reports with respect to all repairs, replacements and maintenance made to the Project. In addition, the Hospital shall, if and when requested by an Authorized Officer of the Authority, render such other reports concerning the condition of the Project as an Authorized Officer of the Authority may request.

Furthermore, the Hospital shall furnish to the Authority and such other parties as the Authority may designate the following reports:

- a) the operating budget, as approved by the Hospital's governing board, and cash flow forecasts for each fiscal year shall be submitted to the Authority as soon as practicable after approval but in no event later than February 1 of such fiscal year;
- b) all other financial information and operating data required to be prepared and provided pursuant to the Continuing Disclosure Agreement, at the times required thereby;
- c) copies of all reports of and correspondence with outside agencies (including, but not limited to, the Joint Commission on Accreditation of Healthcare Organizations and the United States Department of Health and Human Services) relating to any and all violations or deficiencies which could adversely affect the operations of the Hospital; and
- d) such other reports and such other information as the Authority may reasonably request. The form and content of any such reports may be prescribed by the Authority, and the time of delivery of such reports shall be determined by the Authority, acting reasonably.

(Section 25)

Defaults

As used in the Loan Agreement the term "Event of Default" shall mean:

(a) the Hospital shall (A) default in the timely payment of any amount payable pursuant to the Loan Agreement (except as described in Section 9(1)(k) and (l) of the Loan Agreement) or in the delivery of Securities or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement or the Resolution, and such default continues for a period in excess of seven (7) days or (B) default in the payment of any amount payable pursuant Section 9(1)(k) and (l) of the Loan Agreement summarized above under the caption “Financial Obligations of the Hospital; General and Unconditional Obligation; Voluntary Payments”; or

(b) the Hospital defaults in the due and punctual performance of any other covenant in the Loan Agreement contained and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given by the Authority or the Applicable Trustee, provided that, if, in the reasonable determination of the Authority, such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it shall not constitute an Event of Default if corrective action is instituted by the Hospital within such period and is diligently pursued until the default is corrected;

(c) as a result of any default in payment or performance required of the Hospital under the Loan Agreement or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an “Event of Default” (as defined in the Resolution) shall have been declared under the Resolution so long as such default or Event of Default shall remain uncured or the Applicable Trustee or Holders of the Series 2010 Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Hospital shall be in default under the Master Indenture or under any Obligation issued under the Master Indenture, and in either case such default continues beyond any applicable grace period;

(e) the Hospital shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated, or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Hospital, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Hospital, or any petition for any such relief shall be filed against the Hospital and such petition shall not be dismissed within ninety (90) days;

(g) the charter of the Hospital shall be suspended or revoked;

(h) a petition to dissolve the Hospital shall be filed by the Hospital with the Secretary of State of the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Hospital;

(i) an order of dissolution of the Hospital shall be made by the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Hospital which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Hospital which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Hospital, which order shall remain undismissed or unstayed for the earlier of (x) three (3) Business Days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order shall have been entered; or

(l) a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Series 2010 Bonds shall be rendered against the Hospital and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged, paid or otherwise discharged, or (ii) the Hospital shall not have taken and be diligently prosecuting an appeal

therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within forty-five (45) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal.

(Section 28)

Remedies

Upon the occurrence of an Event of Default, the Authority shall provide written notice of such Event of Default to the Department of Health and the Applicable Trustee upon receiving knowledge thereof, provided, however, that failure to give such notice shall in no manner impair or diminish the Authority's ability to take any action under the Loan Agreement. The Authority may take any one or more of the following actions upon the occurrence of an Event of Default:

(a) declare all sums payable by the Hospital under the Loan Agreement or under the Applicable Obligation relating to the Applicable Bonds immediately due and payable;

(b) direct the Applicable Trustee in writing to withhold any and all payments, advances and reimbursements from the proceeds of Series 2010 Bonds or any Applicable Construction Fund or otherwise to which the Hospital may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the Hospital under the Loan Agreement or under any Obligation under the Master Indenture to recover any sums payable by the Hospital or to require its compliance with the terms of the Loan Agreement or of the Master Indenture or the Applicable Obligation;

(e) permit, direct or request the Applicable Trustee in writing to liquidate all or any portion of the assets of the Applicable Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installment, if any, or redemption price of and interest on the Applicable Series of Bonds, or any other obligation or liability of the Hospital or the Authority arising from the Loan Agreement or from the Resolution;

(f) to the extent permitted by law, (A) enter upon the Project and complete the construction of the Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Project, all at the risk, cost and expense of the Hospital, (B) at any time discontinue any work commenced in respect of the construction of the Project or change any course of action undertaken by the Hospital and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (C) assume any construction contract made by the Hospital in any way relating to the construction of the Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Hospital, whether or not previously incorporated into the construction of such Project, and (D) in connection with the construction of the Project undertaken by the Authority pursuant to the provisions of this subparagraph (f), (1) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (2) pay, settle or compromise all bills or claims which may become Liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of Liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (3) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Hospital shall be liable to the Authority for all sums paid or incurred for construction of the Project whether the same shall be paid or incurred pursuant to the provisions of this subparagraph (f) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Hospital to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph (f), the Hospital irrevocably constitutes and appoints the Authority its true and lawful attorney in fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Hospital; and

(g) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, or by law, including any other action or proceeding permitted by the terms under the Loan Agreement or by law.

All rights and remedies given or granted to the Authority in the Loan Agreement are cumulative, non exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to the Loan Agreement and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

The Hospital shall give the Authority and the Department of Health telephone and written notice within one business day of receiving information that the Master Trustee has appointed or intends to appoint a receiver in accordance with the Master Indenture

(Section 28)

Termination

The Loan Agreement shall remain in full force and effect until no Series 2010 Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Hospital shall have been made or provision made for the payment thereof; provided, however, that the liabilities and the obligations of the Hospital to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the Loan Agreement and the obligations of the Hospital under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority shall deliver such documents as may be reasonably requested by the Hospital to evidence such termination and the discharge of its duties under the Loan Agreement, including the release or surrender of any security interests granted by the Hospital to the Authority pursuant the Loan Agreement.

(Section 41)

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**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION**

Appendix D

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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 Bonds and the Project. 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 but not defined in the Resolution shall have the meanings ascribed to them in Appendix A.

Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts

With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued under the Resolution and under the Applicable Series Resolution by those who 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, and the pledge and assignment made therein and the covenants and agreements set forth 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 Bonds of such 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 Bonds of a Series over any other Bonds of such Series except as expressly provided therein or permitted thereby or by the Applicable Series Resolution.

(Section 1.03)

Option of Authority to Assign Certain Rights and Remedies to the Trustee

As security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, Outstanding Bonds of a Series and for the performance of each other obligation of the Authority under the Resolution, the Authority may grant, pledge and assign to the Applicable Trustee all of the Authority's estate, right, title, interest and claim in, to and under the Applicable Loan Agreement, or Applicable Obligation, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under such Applicable Loan Agreement or Obligation, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the Resolution) all Revenues, Gross Receipts and other payments and other security payable to or receivable by the Authority under such Loan Agreement or Applicable Obligation, and the right to make all waivers and agreements in the name and on behalf of the Authority, as Trustee for the benefit of the Applicable Bondholders, and to perform all other necessary and appropriate acts under the Applicable Loan Agreement, or Applicable Obligation, subject to the following conditions: (a) that, unless and until the Authority grants, pledges or assigns such rights under the Applicable Loan Agreement or the Applicable Obligation to the Trustee, the Authority may in its sole discretion unless the consent of the Applicable Credit Facility Issuer, if any, is required, and without the consent of the Trustee or the Bondholders modify, amend or release any provisions of such Applicable Loan Agreement, or the Applicable Obligation only as provided in Article 7 of the Resolution; (b) that the Holders of the Applicable Bonds, if any, 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; (c) that, unless and until the Applicable Trustee shall, in its discretion when an "Event of Default" (as defined in the Applicable Loan Agreement) under the Applicable Loan Agreement shall have occurred and shall be continuing, so elect, by instrument in writing delivered to the Authority and the Institution (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 the Applicable Loan Agreement to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision); the Authority, however, is to remain liable to observe and perform all the conditions and covenants, in the Applicable Loan Agreement to be observed and performed by it; provided, however, that any grant, pledge and assignment by the Authority of moneys, revenues, accounts, rights or other property of the Institution made with respect to the Applicable Loan Agreement pursuant to Section 1.04 of the Resolution shall secure, in the case of the Applicable Loan Agreement or any applicable portion thereof, only the payment of the amounts payable under such Applicable Loan Agreement.

(Sections 1.04)

Refunding Bonds and Additional Obligations

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered to refund all Outstanding Bonds of one or more Series of Bonds, one or more series of bonds or other obligations, a portion of a Series of Outstanding Bonds or a portion of a series of bonds or other obligations, a portion of a maturity of a Series of Outstanding Bonds or a portion of a maturity of bonds or other obligations. The Authority by resolution of its members may issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of Section 2.04 of the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds or by the provisions of the resolution or resolutions authorizing the bonds or other obligations issued by the Authority, as the case may be.

The proceeds, including accrued interest, of such Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or determined in accordance with the Series Resolution authorizing such Refunding Bonds. With respect to the Refunding Bonds issued to refund all or any portion of any bonds or other obligations issued by the Authority, the proceeds, including accrued interest, shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided or as determined in accordance with the resolution or resolutions authorizing such bonds or other obligations.

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien created thereby and pursuant to an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of an Applicable Series of Bonds provided thereby or with respect to the moneys pledged under the Resolution or pursuant to an Applicable Series Resolution.

(Sections 2.04 and 2.05)

Pledge of Revenues

The proceeds from the sale of an Applicable Series of Bonds, the Revenues and all funds authorized thereby and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund, are thereby, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under an Applicable Series Resolution with respect to such Series, all in accordance with the provisions the Resolution and Applicable Series Resolution. The pledge made under the Resolution, subject to the adoption of an Applicable Series Resolution, shall relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds. The pledge made under the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Revenues and all funds and accounts established under the Resolution and pursuant to the Applicable Series Resolution which are pledged under the Resolution and pursuant to the Applicable Series Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds of each Applicable Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Revenues and the funds established under the Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Establishment of Funds

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series of Bonds by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

- Construction Fund;
- Debt Service Fund;
- Debt Service Reserve Fund; and
- Arbitrage Rebate Fund

Accounts and sub accounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created under the Resolution, other than the Applicable Arbitrage Rebate Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely in connection with an Applicable Series of Bonds for the uses and purposes provided under the Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of proceeds from the sale of an Applicable Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in an Applicable Series Resolution authorizing such Series or in the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of an Applicable Series of Bonds shall be deposited in the appropriate account in the Applicable Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Construction Fund

For purposes of internal accounting, an account in an Applicable Construction Fund may contain one or more subaccounts, as the Authority or the Trustee may deem necessary or desirable. As soon as practicable after the delivery of an Applicable Series of Bonds, the Trustee shall deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the appropriate account in the Applicable Construction Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from the Applicable Project.

Except as otherwise provided in Article 5 of the Resolution and in the Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Fund shall be used only to pay the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project(s) in connection with which such Bonds were issued.

Upon receipt by the Trustee of the certificate required pursuant to the Resolution, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the direction of the Authority for the payment of any Costs of Issuance of such Applicable Series of Bonds and Costs of the Applicable Project then unpaid, shall be paid by the Trustee as follows and in the following order of priority:

First: Upon the direction of the Authority, to the Applicable Arbitrage Rebate Fund, the amount set forth in such direction;

Second: To the Applicable Debt Service Reserve Fund, such amount as shall be necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Third: To the Applicable Debt Service Fund for the redemption or purchase of the Applicable Series of Bonds in accordance with the Resolution and the Applicable Series Resolution, any balance remaining.

(Section 5.04)

Deposit of Revenues and Allocation Thereof

The Revenues, including all payments received under the Applicable Loan Agreement, Master Indenture and the Applicable Obligations, shall be deposited upon receipt by the Trustee to the appropriate account of the Applicable Debt Service Fund in the amounts, at the times and for the purposes specified in the Applicable Series Resolution or Applicable Loan Agreement. To the extent not required to pay the interest, principal, Sinking Fund Installments and moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund shall be paid by the Trustee on or before the Business Day preceding each interest payment date as follows and in the following order of priority:

First: To reimburse, *pro rata*, the Applicable Facility Provider, if any, for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to the Applicable Facility Provider, if any;

Second: Upon the direction of an Authorized Officer of the Authority, to the Applicable Arbitrage Rebate Fund in the amount set forth in such direction;

Third: To the Applicable Debt Service Reserve Fund, such amount, if any, necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Fourth: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required hereby, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Applicable Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to the foregoing.

After making the payments required by subdivision 2 of Section 5.05 of the Resolution, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Applicable Construction Fund or the Applicable Debt Service Fund, or paid to the Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created under the Resolution. The Trustee shall notify the Authority and the Institution promptly after making the payments required by subdivision 2 of Section 5.05 of the Resolution, of any balance of Revenues then remaining.

In the event that any payments received by the Trustee under the Resolution are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments shall be applied *pro rata* to each such Series of Bonds based upon the amounts then due and payable.

(Section 5.05)

Debt Service Fund

The Trustee shall on or before the Business Day preceding each interest payment date pay, from the Applicable Debt Service Fund, to itself and any other Paying Agent:

1. the interest due on all Outstanding Bonds of the Applicable Series on such interest payment date;
2. the principal amount due on all Outstanding Bonds of the Applicable Series on such interest payment date;
3. the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series on such interest payment date; and
4. moneys required for the redemption of Bonds of the Applicable Series in accordance with Section 5.09 of the Resolution.

The amounts paid out pursuant to Section 5.06 of the Resolution shall be irrevocably pledged to and applied to such payments.

In the event that on the fourth Business Day preceding any interest payment date the amount in the Applicable Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or for the payment of the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall withdraw from

the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments. The Trustee shall notify the Authority, the Applicable Facility Provider, if any, Credit Facility Issuer, if any, Master Trustee and the Institution of a withdrawal from the Applicable Debt Service Reserve Fund.

Notwithstanding the provisions of subdivision 1 of Section 5.06 of the Resolution, the Authority may, at any time subsequent to the first principal payment date of any Bond Year but in no event less than forty five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Applicable Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by the Institution and delivered to the Trustee in accordance with the Loan Agreement(s) shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, *provided* that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Applicable Outstanding Bonds payable on or prior to the next succeeding principal payment date, the interest on Applicable Outstanding Bonds payable on the next succeeding interest payment date, and the purchase price or Redemption Price of Applicable Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of Applicable Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Applicable Debt Service Fund, such moneys may be applied by the Trustee: (i) in accordance with the direction of an Authorized Officer of the Authority given pursuant to Section 4.03 of the Resolution to the redemption of Bonds as provided in Article 4 of the Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Bond Series Certificate or (ii) as may otherwise be directed by the Authority.

(Section 5.06)

Debt Service Reserve Fund

The Trustee shall deposit to the credit of the Applicable Debt Service Reserve Fund such proceeds of the sale of an Applicable Series of Bonds, if any, as shall be prescribed in the Applicable Series Resolution or the Applicable Bond Series Certificate, and any Revenues, moneys, Government Obligations and Exempt Obligations as, by the provisions of the Loan Agreement(s), are delivered to the Trustee by the Institution for the purposes of the Applicable Debt Service Reserve Fund.

In lieu of or in substitution for moneys, Government Obligations or Exempt Obligations, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Applicable Series of Bonds for all or any part of the Applicable Debt Service Reserve Requirement; provided (i) that any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of such insurance company or association is rated in the highest rating category accorded by a nationally recognized insurance rating agency or (B) obligations insured by a surety bond or an insurance policy issued by such company or association are rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in the highest rating category at the time such surety bond or insurance policy is issued by Moody’s and S&P or, if Outstanding Bonds of a Series are not rated by both Moody’s and S&P, by whichever of said rating services that then rates such Outstanding Bonds and (ii) that any letter of credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law, or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations

secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in at least the second highest rating category by Moody’s and S&P or, if such Outstanding Bonds are not rated by Moody’s and S&P, by whichever of said rating services that then rates such Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of a Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to an Applicable Credit Facility Issuer to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority, and (iii) in the event such Reserve Fund Facility is a letter of credit, an opinion of counsel acceptable to the Trustee substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority or the Institution thereunder or under any applicable provisions of the Debtor and Creditor Law of the State and (iv) the written consent of all Applicable Credit Facility Issuers, if any.

If upon a valuation, the moneys, investments and Reserve Fund Facilities held for the credit of a Debt Service Reserve Fund are less than the Applicable Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority and the Institution of such deficiency and the Institution shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys, Government Obligations, Exempt Obligations or Reserve Fund Facilities the value of which is sufficient to increase the amount in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. If the Institution has not made timely payment, the Trustee shall immediately notify the Authority, the Institution and the Master Trustee of such non-payment and shall seek payment under the Applicable Obligation in accordance with the terms thereof

(Section 5.07)

Arbitrage Rebate Fund

The Trustee shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of Article 5 of the Resolution, shall transfer to the Applicable Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as shall be set forth in such directions.

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

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Applicable Series of Bonds and direct the Trustee to (i) transfer from any other of the Applicable funds held by the Trustee under the Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of Bonds and (ii) pay out of the Applicable Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions under the Resolution, if, upon the computation of assets of an Applicable Debt Service Fund and the Applicable Debt Service Reserve Fund pursuant to Section 5.11 of the Resolution, the amounts held in the appropriate accounts in the Applicable Debt Service Fund and the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds be redeemable, the

Trustee shall so notify the Authority and the Institution. Upon receipt of such notice, the Authority shall request the Trustee to redeem all such Outstanding Bonds unless the Institution objects in writing within five (5) Business Days of receiving notice of such request. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds under the Resolution and by the Applicable Series Resolution as provided in Article 4 of the Resolution.

(Section 5.09)

Investment of Funds Held by the Trustee

Money held under the Resolution by the Trustee in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations Exempt Obligations; *provided, however*, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution.

In lieu of the investments of money in obligations authorized in subdivision 1 of Section 6.02 of the Resolution, the Trustee shall, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest money in the Construction Fund in any Permitted Investment; *provided, however*, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes set forth in the Resolution, *provided, further*, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent 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.

Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held by the Trustee under the provisions of the Resolution 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 to, as the case may be, such fund or account unless otherwise provided in a Series Resolution.

In computing the amount in any fund or account held by the Trustee under the provisions of Section 6.02 of the Resolution, Permitted Investments shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in a Debt Service Reserve Fund shall be valued at the market value thereof, plus accrued interest and except that Investment Agreements shall be valued at original cost, plus accrued interest.

The Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, or present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in Section 6.02 of 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 to the Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee shall advise the Authority and the College on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments 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 in the previous month.

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

(Section 6.02)

Amendment of Loan Agreement and Master Indenture

The Authority may not amend, change, modify, alter or terminate a Loan Agreement or consent to the amendment, change, modification, alteration or termination of the Master Indenture, in either case so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding; **provided, however**, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 7.10 of the Resolution; **provided, further**, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by the Institution under its Applicable Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof or reduce the amount of any payment required to be made under the Obligations held by the Authority. Notwithstanding any provision of Section 7.10 of the Resolution to the contrary, the Authority may consent to the waiver, amendment or removal of any covenant or provision which, pursuant to the Master Indenture, may be waived by the Authority without the consent of the Holders of the Bonds or the Trustee. A Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Projects or which may be added to or adjacent to the Projects or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in a Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement. Notwithstanding anything in Section 7.10 of the Resolution to the contrary, if a Loan Agreement or the Master Indenture expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement or the Master Indenture, such consent shall be required to be obtained as provided in the Loan Agreement or the Master Indenture. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of Section 7.10 of the Resolution, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of an Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the Institution, the Authority and all Holders of Bonds.

For all purposes of Section 7.10 of the Resolution, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Section 7.10)

Modification and Amendment Without Consent

Notwithstanding any other provisions of Article 9 or Article 10 of the Resolution, the Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

- (i) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, *provided* such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(ii) 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;

(iii) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, *provided* that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(iv) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, the Master Indenture, or any Applicable Series Resolution, the Revenues, or any pledge of any other moneys, Securities or funds;

(v) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution in any other respects, *provided* that such modifications shall not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution 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

(vi) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision of the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, *provided* that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, *provided* that such modification shall not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(Section 9.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution and an Applicable Series Resolution may also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders in accordance with and subject to the provisions of the Resolution, such Applicable Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority which shall be deemed to affect an Applicable Series of Bonds and of the Holders of the Bonds of such Applicable Series under the Resolution, in any particular, may be made by an Applicable Supplemental Resolution, with the written consent given as provided in Section 10.02 of the Resolution, (i) of the Holders of at least two thirds (2/3) in principal amount of the Bonds Outstanding of an Applicable Series at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two thirds (2/3) in principal amount of the Bonds of the Applicable Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 10.01 of the Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of an Applicable Series or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds of an Applicable Series the consent of the Holders of which is required to effect any such modification or amendment. For the

purposes of Section 10.01 of the Resolution, an Applicable Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing, the Bonds of an Applicable Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds of an Applicable Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of an Applicable Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Consent of Bondholders

The Authority may at any time adopt an Applicable Supplemental Resolution making a modification or amendment permitted by the provisions of Section 10.01 of the Resolution to take effect when and as provided in Section 10.02 of the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Holders of the Applicable Series of Bonds affected thereby for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed or caused to be mailed by the Trustee at the direction of the Authority to such Bondholders (but failure to mail such copy to any particular Bondholder shall not affect the validity of such Supplemental Resolution when consented to as provided in Section 10.02 of the Resolution). Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consent of such Holders of the percentages of Outstanding Bonds of an Applicable Series specified in Section 10.01 of the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds of an Applicable Series with respect to which such consent is given, which proof shall be such as is permitted by Section 13.01 of the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with Section 13.01 of the Resolution shall be conclusive proof that the consents have been given by the Holders of the Bonds of the Applicable Series described in the certificate or certificates of the Trustee. Any consent given by a Holder of Bonds of an Applicable Series shall be binding upon such Bondholder giving such consent and, anything in Section 13.01 of the Resolution to the contrary notwithstanding, upon any such subsequent Bondholder and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by such Bondholder giving such consent or such subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee provided for is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after such Holders of the required percentages of Bonds shall have filed their consents to such Supplemental Resolution, the Trustee shall make and file with the Authority and the Trustee a written statement that such Holders have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed. At any time thereafter notice, stating in substance that such Supplemental Resolution (which may be referred to as a Supplemental 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 percentages of Bonds of each Applicable Series and will be effective as provided in Section 10.02 of the Resolution, shall be given to such Bondholders by the Trustee at the direction of the Authority by mailing or causing the mailing of such notice to the Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in Section 10.02 of the Resolution provided) and, in the sole discretion of the Authority, by publishing the same at least once not more than ninety (90) days after such Holders of the required percentages of such Bonds shall have filed their consents to such Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in Section 10.02 of the Resolution provided). If such notice is published, the Authority shall file with the Trustee proof of the publication thereof, and, if the same shall have been mailed to the Holders of such Bonds, of the mailing thereof. A transcript, consisting of the papers required or permitted by Section 10.02 of the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent, and the Holders of each Applicable Series

of Bonds upon the filing with the Trustee of proof of the mailing of such notice or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such notice is published, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; *provided, however*, that the Authority, the Trustee and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

(Section 10.02)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds of an Applicable Series under the Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of such Supplemental Resolution certified by the Authority and the consent of the Holders of all of the Bonds then Outstanding of the Applicable Series, such consent to be given as provided in the Resolution, except that no notice to such Bondholders either by mailing or publication shall be required.

(Section 10.03)

Events of Default

An event of default shall exist under the Resolution and under an Applicable Series Resolution (herein called “event of default”) if:

(i) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments or Redemption Price of any such Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(ii) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same shall become due and payable; or

(iii) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of the covenants contained in Section 7.12 of the Resolution and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(iv) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee (unless such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof), which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series; or

(v) The Authority shall have notified the Trustee that an “Event of Default”, as defined in the Applicable Loan Agreement, arising out of or resulting from the failure of the Institution to comply with the requirements of the Applicable Loan Agreement shall have occurred and be continuing and all sums payable by the Institution under the Applicable Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

An event of default under the Resolution in respect of an Applicable Series of Bonds shall not in and of itself be or constitute an event of default in respect of any other Applicable Series of Bonds.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in Section 11.02 of the Resolution, other than an event of default specified in paragraph (c) of Section 11.02 of the Resolution, then and in every such case the Trustee may, and, upon the written request of (i) the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty five per centum (25%) in principal amount of an Applicable Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers, if any, have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Applicable Outstanding Bonds due upon the acceleration thereof, upon the request of the Credit Facility Issuer, if any, or Credit Facility Issuers, if any, making such deposit, shall: (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable immediately and (B) request that the Master Trustee declare all applicable outstanding Obligations to be immediately due and payable. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in any Series Resolution or in the Bonds to the contrary notwithstanding. In the event that a Credit Facility Issuer shall make any payments of principal of or interest on any Bonds pursuant to a Credit Facility and the Bonds are accelerated, such Credit Facility Issuer may at any time and at its sole option, pay to the Bondholders all or such portion of amounts due under such Bonds prior to the stated maturity dates thereof. At any time after the principal of the Bonds 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 shall, with the written consent of the Credit Facility Issuers, if any, which have issued Credit Facilities for not less than twenty five per centum (25%) in principal amount of the Applicable Bonds not then due by their terms and then Outstanding, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, with the written consent of the Applicable Credit Facility Issuers, if any, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under Section 11.03 of the Resolution) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in the Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under Section 11.03 of the Resolution) 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 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in Section 11.02 of the Resolution, then and in every such case, the Trustee may proceed, and upon the written request of the Applicable Credit Facility Issuers, if any, which have issued Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, or of the Holders of not less than twenty five per centum (25%) in principal amount of the Applicable Outstanding Bonds with the consent of the Credit Facility Issuers, if any, or, in the case of a happening and continuance of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, upon the written request of the Applicable Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, shall proceed (subject to the provisions of Section 8.06 of the Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider, if any, under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the

Resolution or under the Applicable Series Resolution or in aid or execution of any power in the Resolution or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Series Resolution or of the Applicable Bonds, with interest on overdue payments of the principal or of interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in any Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Priority of Payments After Default

If at any time the moneys held by the Trustee in the Applicable funds and accounts and under the Applicable Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds of the Applicable Series as the same become due and payable (either by their terms or by acceleration of maturity under the provisions of Section 11.03 of the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in Article 11 of the Resolution or otherwise, shall be applied (after payment of all amounts owing to the Trustee under the Resolution) as follows:

Unless the principal of all the Bonds of the Applicable Series shall have become or been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of such maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds; or

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all of such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If the principal of all of the Bonds of the Applicable Series shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of such Series over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in said Bonds.

The provisions of Section 11.05 of the Resolution are in all respects subject to the provisions of Section 7.02 of the Resolution.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of Section 11.05 of the Resolution, 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 for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder of any Applicable Series or to any other person for any delay in

applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue.

(Section 11.05)

Termination of Proceedings

In case any proceedings taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee, each Credit Facility Issuer, if any, each Facility Provider, if any, the Institution and the Holders of Bonds of the Applicable Series shall be restored to their former positions and rights under the Resolution, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

(Section 11.06)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the consent of the Applicable Credit Facility Issuers, if any, or, in the case of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series with the consent of the Applicable Credit Facility Issuers, if any, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under the Applicable Series Resolution, *provided*, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of the Applicable Series Resolution, and that the Trustee 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 11.07)

Limitation of Rights of Individual Bondholders

No Holder nor the Credit Facility Issuer of a Credit Facility of any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder or Credit Facility Issuer previously 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 per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the Consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series with the consent of the Applicable Credit Facility Issuer, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and thereunder. It is understood and intended that no one (1) or more of the Credit Facility Issuers of an Applicable Series secured by the Resolution and by an Applicable Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner in the Resolution provided, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding

Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of an Applicable Series shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Defeasance

If the Authority shall pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Revenues or other moneys and Securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds shall be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Applicable Loan Agreement(s), and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, shall release the lien of the Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and Securities provided for the payment of such Bonds, and shall execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and shall turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; *provided* that if any, of such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice shall have been given to the Applicable Trustee.

Bonds of an Applicable Series for which moneys shall have been set aside, shall be held in trust by the Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of Section 12.01 of the Resolution. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of Section 12.01 of the Resolution if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in Article 4 of the Resolution, notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with Section 12.01 of the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with Section 12.01 of the Resolution. The Trustee shall

select which Bonds of such Series and which maturity thereof shall be paid in accordance with Section 12.01 of the Resolution in the manner provided in Section 4.04 of the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to Section 12.01 of the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; *provided* that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in the Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amount required above to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement(s) for fees and expenses of the Authority or pursuant to any indemnity; and, then, as directed by the Authority and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement(s).

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of an Applicable Series which remain unclaimed for three (3) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, shall at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; *provided, however*, that, before being required to make any such payment to the Authority, the Trustee or 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.

No principal or Sinking Fund Installment of or installment of interest on a Bond shall be considered to have been paid, and the obligation of the Authority for the payment thereof shall continue, notwithstanding that a Credit Facility Issuer, if any, pursuant to the Credit Facility issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

(Section 12.01)

**SUMMARY OF CERTAIN PROVISIONS
OF THE MASTER INDENTURE**

Appendix E

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**SUMMARY OF CERTAIN PROVISIONS OF THE
MASTER INDENTURE**

The following summarizes certain provisions of the Master Indenture to which reference is made for the detailed provisions thereof. Such summary does not purport to be complete and reference is made to the Master Indenture for full and complete statements of such and all provisions. Defined terms used in the Master Indenture shall have the meanings ascribed to them in this Appendix E.

Definitions

Accounts means any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

Affiliate means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by the Corporation or by any Person which directly or indirectly controls the Corporation or (ii) controls, directly or indirectly, the Corporation. For purposes of this definition, control means the ownership of not less than 25% of the voting securities of a Person or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

Annual Debt Service means the Long-Term Debt Service Requirement for each Fiscal Year.

Audited Financial Statements means the combined financial statements of the Corporation and its subsidiaries, if any, for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants.

Board of Directors means the board of directors of the Corporation.

Capitalization means the sum of the aggregate Long-Term Indebtedness of the Corporation, plus the aggregate unrestricted fund balance of the Corporation, all as calculated in accordance with generally accepted accounting principles.

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

Consultant means a firm or firms which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or any Affiliate, and which is a professional management consultant of national repute for having the skill and experience necessary to render the particular report required by the provision of the Master Trust Indenture in which such requirement appears and which is reasonably acceptable to the Master Trustee.

Corporate Charter means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

Corporate Trust Office means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date of the Master Trust Indenture is located in Buffalo, New York.

Corporation means Highland Hospital of Rochester, a not-for-profit corporation organized and existing under the laws of the State, and its successors and assigns and any surviving, resulting or transferee corporation thereof.

Corporation Representative means the Person at the time designated to act on behalf of the Corporation in a written certificate furnished to the Master Trustee, which certificate shall contain a specimen signature of such

Person and shall be signed on behalf of the Corporation by the Chief Executive Officer or Chief Financial Officer of the Corporation or by his designee.

Derivative Agreement means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Corporation entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

Derivative Indebtedness means all or a portion of any Indebtedness incurred by the Corporation pursuant to or in connection with a Derivative Agreement.

Derivative Period means the time period during which a Derivative Agreement is in effect.

Event of Default means, with respect to the Master Trust Indenture, any one or more of those events set forth in Section 4.01 of the Master Trust Indenture.

Fiscal Year means the fiscal year of the Corporation, which shall be the period commencing on January 1 of any year and ending on December 31 of the following year unless the Master Trustee is notified in writing by the Corporation of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

Fitch means Fitch Ratings Ltd. (formerly known as Fitch IBCA).

Government Obligations means (i) U.S. Treasury Certificates, Notes and Bonds, including State and Local Government Series; (ii) direct obligations of the U.S. Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (iii) obligations of the Resolution Funding Corp. (REFCORP); provided, however, that only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (iv) pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P; provided, however, that if the issue is only rated by S&P then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition; and (v) obligations which are backed by the full faith and credit of the U.S. issued by (a) U.S. Export-Import Bank (Eximbank), direct obligations or fully guaranteed certificates of beneficial ownership, (b) Farmers Home Administration (FmHA), certificates of beneficial ownership, (c) Federal Financing Bank, (d) General Services Administration, participation certificates, (e) U.S. Maritime Administration, guaranteed Title XI financing, (f) U.S. Department of Housing and Urban Development (HUD), Project Notes, local authority bonds, new communities debentures (U.S. government guaranteed debentures), and U.S. Public Housing Notes and Bonds (U.S. government guaranteed public housing notes and bonds).

Governmental Restrictions means federal, state or other applicable governmental laws or regulations affecting the Corporation or its operations placing restrictions and limitations on the (i) fees and charges to be fixed, charged and collected by the Corporation or (ii) the amount or timing of the receipt of such revenues.

Gross Receipts means all Accounts and all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of the Corporation, including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the provisions of the Master Trust Indenture, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible

property, (v) medical or hospital insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by the Corporation, and (d) rentals received from the leasing of real or tangible personal property.

Guaranty means any obligation of the Corporation guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not the Corporation which obligation of such other Person would, if such obligation were the obligation of the Corporation, constitute Indebtedness under the Master Indenture.

Holder means the owner of any Obligation issued in registered form.

Income Available for Debt Service means, with respect to the Corporation, as to any Fiscal Year, the excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) any unrealized gains and losses on investments or (c) any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets, and (2) revenues shall not include income from the investment of funds held in a Qualified Escrow to the extent that such income has been or is required to be applied to the payment of principal of or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

Indebtedness means (i) all indebtedness of the Corporation for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations, incurred or assumed by the Corporation, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness.

Insurance Consultant means a firm or person which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations and, if being retained to evaluate alternative risk management programs, including self-insurance, which has the skill and experience necessary to render such an evaluation.

Issuer means the Dormitory Authority of the State of New York, a public benefit corporation existing under the laws of the State of New York, and any successor thereto.

Lien means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of the Corporation which secures any Indebtedness or any other obligation of the Corporation or which secures any obligation of any Person, other than an obligation to the Corporation.

Long-Term Debt Service Coverage Ratio means for any period of time the ratio determined by dividing the Income Available for Debt Service by Annual Debt Service.

Long-Term Debt Service Requirement means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on Outstanding Long-Term Indebtedness of the Corporation during such period, also taking into account (i) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that, with respect to new Variable Rate Indebtedness, the interest rate for such Indebtedness for the initial interest rate period shall be the initial rate at which such Indebtedness was incurred and thereafter shall be calculated as set forth above; and (ii) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period and for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch,

if rated by Fitch, and S&P, if rated by S&P, and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Corporation on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the Corporation under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term credit rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody’s, if rated by Moody’s, Fitch, if rated by Fitch, and S&P, if rated by S&P, or is in default thereunder, the amount of interest payable by the Corporation shall be the interest calculated as if such Derivative Agreement had not been executed; provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and provided further, however, that notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available in a Qualified Escrow (other than principal and interest so payable solely by reason of the Corporation’s failure to make payments from other sources).

Long-Term Indebtedness means Indebtedness with a term greater than one (1) year.

Master Trust Indenture, Master Indenture or Indenture means the Master Trust Indenture, dated as of June 1, 2005, including any amendments or supplements hereto.

Master Trustee means Manufacturers and Traders Trust Company, Buffalo, New York, in the trusts created under the Master Indenture.

Moody’s means Moody’s Investor Service.

Net Book Value, when used in connection with Property and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property and Equipment or other Property of the Corporation, means the aggregate of the values so determined with respect to such Property and Equipment or other Property of the Corporation determined in such a manner that no portion of Property and Equipment or other Property is included more than once.

New Group shall have the meaning given in Section 3.13 of the Master Trust Indenture.

New Trustee shall have the meaning given in Section 3.13 of the Master Trust Indenture.

Non-Recourse Indebtedness means any Indebtedness secured by a Lien, the liability for which is effectively limited to the Property, the purchase or acquisition or, in the case of vacant land only, the improvement of which was financed with the proceeds of such Non-Recourse Indebtedness and which is subject to such Lien with no recourse, directly or indirectly, to any other Property of the Corporation.

Obligation means the evidence of particular Indebtedness issued under the Master Indenture.

Officer’s Certificate means a certificate signed by (i) the chairman of the Board of Directors, or the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Board of Directors of the Corporation as the context requires or (ii) the Corporation Representative. Each Officer’s Certificate presented under the Master Trust Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of) the Master Trust Indenture and shall incorporate by reference and use in all appropriate instances all terms defined in the Master Trust Indenture. Each Officer’s Certificate shall state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered, or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance, and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

Opinion of Bond Counsel means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

Opinion of Counsel means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Corporation or other counsel acceptable to the Master Trustee.

Outstanding when used with reference to Indebtedness means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, (iii) Defeased Obligations and (iv) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Trust Indenture, Obligations or Related Bonds that are owned by the Corporation or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation shall be deemed not to be Outstanding, provided further, however, that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge as being so owned shall be deemed to be not Outstanding.

Permitted Liens means those Liens described in Section 3.05 of the Master Trust Indenture.

Person means an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

Pledged Assets means all Gross Receipts of the Corporation, now owned or hereafter acquired, and all proceeds thereof.

Property means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

Property and Equipment means all Property of the Corporation which is property and equipment under generally accepted accounting principles.

Qualified Escrow means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness or Related Bonds secured by such Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Corporation's payment obligations with respect to principal of or interest on (a) the Long-Term Indebtedness or Related Bonds secured thereby which are issued under the documents establishing such fund or account or (b) Long-Term Indebtedness or Related Bonds secured thereby which are issued prior to the establishment of such fund or account.

Related Bond Indenture means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

Related Bond Issuer means the issuer of any issue of Related Bonds.

Related Bonds means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof ("governmental issuer"), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or

otherwise made available to (i) the Corporation in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer, or (ii) any Person other than the Corporation in consideration of the issuance to such governmental issuer (A) by such Person of any indebtedness or other obligation of such Person, and (B) by the Corporation of a Guaranty in respect of such indebtedness or other obligation, which Guaranty is represented by an Obligation.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture.

Replacement Master Trust Indenture shall have the meaning given in Section 3.13 of the Master Trust Indenture.

S&P or Standard & Poor's means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

Short-Term Indebtedness means indebtedness with a term of one (1) year or less, but not including accounts payable by the Corporation in the ordinary course of its operations.

State means the State of New York.

Subordinated Indebtedness means Indebtedness of the Corporation that by the terms thereof is specifically junior and subordinate to the Obligations with respect to payment of principal and interest thereon and that is evidenced by an instrument containing provisions substantially the same as those set forth in Exhibit A hereto.

Supplement means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Trust Indenture.

Tax-Exempt Organization means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

Total Operating Revenues means, with respect to the Corporation, as to any period of time, total operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

Transfer means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt or the lease of any such asset.

Variable Rate Indebtedness means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

(Section 1.01)

Execution and Authentication of Obligations.

Each Obligation shall be executed for and on behalf of the issuer thereof, by the chairman of its Board of Directors, its president, chief executive officer, or chief financial officer. The signature of any such officer may be mechanically or photographically reproduced on the Obligation. If any officer whose signature appears on any Obligation ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication no Obligation shall be entitled to the benefits of the Master Trust Indenture.

The Master Trustee's authentication certificate shall be substantially in the following form:

MASTER TRUSTEE'S AUTHENTICATION CERTIFICATE

The undersigned Master Trustee hereby certifies that this Obligation No. ____ is one of the Obligations described in the within-mentioned Master Trust Indenture.

MANUFACTURERS AND TRADERS TRUST COMPANY,
as Master Trustee

By _____
Authorized Signatory

(Section 2.03)

Supplement Creating Indebtedness

The Corporation and the Master Trustee may from time to time enter into a Supplement in order to create Indebtedness under the Master Indenture. Such Supplement shall, with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of, redemption premium, if any, and interest on such Obligation shall be payable, and the form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Trust Indenture.

(Section 2.04)

Security; Restrictions on Encumbering Property; Payment of Principal and Interest

- (a) Except as otherwise provided in any Supplement with respect to the issuance of an Obligation:
 - (i) Any Obligation issued pursuant to the Master Trust Indenture shall be a general obligation of the issuer of such Obligation.
 - (ii) To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by the Corporation of its other obligations under the Master Indenture, the Corporation pledges, assigns and grants to the Master Trustee a security interest in its Pledged Assets.
 - (iii) At least one (1) business day prior to the delivery of the first Obligation under the Master Indenture, there shall be delivered to the Master Trustee duly executed financing statements to evidence the security interest of the Master Trustee in the Pledged Assets in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State in Albany, New York and in the office of the City Clerk of the City of Rochester, New York.
 - (iv) The Corporation shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Trust Indenture as may be necessary or appropriate to include as security under the Master Indenture the Pledged Assets. In particular, the Corporation covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to comply with applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such financing statement, the Master Trustee shall prepare and file or cause the Corporation to prepare and file such continuation statements in a timely manner to assure that the security interest in Pledged Assets shall remain perfected.

(v) Without limiting the generality of the foregoing, such security interest shall apply to all rights to receive Gross Receipts whether in the form of accounts receivable, contract rights or other rights, and to the proceeds thereof. The security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter owned or acquired by the Corporation.

(b) The Corporation covenants that it will not pledge or grant a security interest in any of its Property, except (i) as provided in subsection (a) of this summarized section and (ii) any pledge or grant of a security interest in Property, the purchase or acquisition or, in the case of vacant land only, the improvement of which is financed with the proceeds of Non-Recourse Indebtedness secured by a Lien on such Property with no recourse, directly or indirectly, to any other Property of the Corporation.

(c) The Corporation covenants promptly to pay or cause to be paid the principal of, redemption premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Trust Indenture, in the Supplement and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Except as otherwise provided in any Supplement with respect to the issuance of an Obligation, the Corporation covenants that, subject to the rights, if any, of holders of Permitted Liens, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with the Master Trust Indenture.

(Section 3.01)

Covenants as to Corporate Existence, Maintenance of Properties, Etc.

The Corporation covenants:

(a) Except as otherwise expressly provided in the Master Trust Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing in the Master Trust Indenture contained shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Board of Directors, useful in the conduct of its business.

(b) At all times to cause its Property to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this summarized subsection shall be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of a Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Board of Directors, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing in the Master Trust Indenture contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) To pay promptly all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Indebtedness created and Outstanding under the Master Indenture) whose validity, amount or collectability is being contested in good faith.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; provided, however, that it need not comply with this summarized subsection (g) if and to the extent that its Board of Directors shall have determined in good faith, evidenced by a resolution of the Board of Directors, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Trust Indenture shall remain in force and effect, the Corporation agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or to fail to take any action which action or failure to act (including any action or failure to act which would result in the alteration or loss of its status as a Tax-Exempt Organization) would, in the Opinion of Bond Counsel, result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal income tax purposes.

(Section 3.02)

Insurance

The Corporation agrees that it will maintain, or cause to be maintained, such insurance with respect to the operation and maintenance of its Property (including one or more self-insurance programs considered by an Insurance Consultant to be reasonable and appropriate) of such type and in such amounts as are normally carried by hospital facilities of similar type and size and against such risks as are customarily insured against in connection with hospital operations and hospital facilities of similar type and size.

(Section 3.03)

Insurance and Condemnation Proceeds

(a) Amounts that do not exceed 20% of the Net Book Value of the Property and Equipment of the Corporation received by the Corporation as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Amounts that exceed 20% of the Net Book Value of the Property and Equipment of the Corporation received by the Corporation as insurance proceeds with respect to any casualty loss or as condemnation awards shall be applied in such manner as the recipient may determine; provided, however, that the recipient shall notify the Master Trustee and within twelve (12) months after the casualty loss or taking, deliver to the Master Trustee:

- (i) (A) An Officer's Certificate certifying the expected Long-Term Debt Service Coverage Ratio for each of the two (2) full Fiscal Years following the date on which such proceeds

or awards are expected to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds thirty percent (30%) of the Net Book Value of the Property and Equipment of the Corporation, a written report of a Consultant confirming such certification; or

- (ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in clause (i) of this summarized subsection (b) to be not less than 1.10, or, if in the opinion of the Consultant the attainment of such level is impracticable, at the highest practicable level.

The Corporation agrees that it will use such proceeds or awards, to the extent permitted by law, only in accordance with the assumptions described in clause (i), or the recommendations described in clause (ii), of this summarized subsection (b).

(c) Notwithstanding the foregoing, if, in the opinion of the Consultant delivered pursuant to clause (ii) of subsection (b), attainment of the Long-Term Debt Service Coverage Ratio of at least 1.00 for each of the periods described in clause (i) of subsection (b) is impracticable, such proceeds or awards shall be delivered to the Master Trustee and applied by the Master Trustee, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys incurred or made by the Master Trustee under the Master Trust Indenture as follows:

(A) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(B) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations 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 Obligation over any other Obligation, 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 Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Trust Indenture, then, subject to the provisions of paragraph (B) of this summarized subsection (c) in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (A) of this summarized subsection (c).

Whenever all Obligations and interest thereon have been paid under the provisions of this summarized subsection (c) and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Corporation, its successors, or as a court of competent jurisdiction may direct.

(Section 3.04)

Limitations on Indebtedness

Additional Indebtedness may be incurred by the Corporation as Obligations under the Master Indenture or otherwise; provided that, so long as any Obligations are Outstanding and any Supplement with respect to the issuance of Obligations is in effect, the Corporation shall not incur any additional Indebtedness that is prohibited under the terms of any such Supplement or Supplements.

(Section 3.06)

Consolidation, Merger, Sale or Conveyance

(a) The Corporation covenants that it will not merge into or consolidate with, or sell or convey all or substantially all of its assets to any Person unless:

(i) The successor corporation or entity shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation or entity to assume the due and punctual payment of the principal of, redemption premium, if any, and interest on all Outstanding Obligations issued under the Master Trust Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Trust Indenture and any Supplement hereto and granting to the Master Trustee a security interest in the Pledged Assets of such successor corporation or entity; and

(ii) The successor corporation or entity immediately after such merger or consolidation, or such sale or conveyance, would not be in default in the performance or observance of any covenant or condition of the Master Trust Indenture and the condition described in the section of the Master Trust Indenture entitled "Limitations on Indebtedness" would be met for the incurrence of one (1) additional dollar of Long-Term Indebtedness; and

(iii) If all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion from gross income for purposes of federal income taxation of interest payable on such Related Bond.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation or entity, such successor corporation or entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Trust Indenture as such predecessor. Such successor corporation or entity thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation or entity and subject to all the terms, conditions and limitations in the Master Trust Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation or entity shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation or entity under the Master Indenture shall in all respects have the same security position and benefit under the Master Trust Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Trust Indenture

as though all of such Obligations had been issued under the Master Indenture without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may accept an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this summarized section and that it is proper for the Master Trustee under the provisions of Article VI and of this summarized section to join in the execution of any instrument required to be executed and delivered by this summarized section.

(Section 3.09)

Filing of Audited Financial Statements, Certificate of No Default and Other Information

The Corporation covenants that it will:

(a) Within thirty (30) days after receipt of the Audited Financial Statements but in no event later than one hundred twenty (120) days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of such Audited Financial Statements.

(b) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including its consolidated or combined subsidiaries, including the Corporation) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records, and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request, subject to patient confidentiality and safety concerns.

(c) Within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Trust Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(Section 3.10)

Replacement Master Trust Indenture

Each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds shall surrender such Obligation to the Master Trustee and each Related Bond Trustee for Related Bonds shall, with the prior written consent of the bond insurer, if any, or credit facility provider, if any, for such Related Bonds, surrender any Obligation issued to secure such Related Bonds to the Master Trustee, upon presentation to the Holder or the Related Bond Trustee, as the case may be, of the following:

(a) an original replacement note or similar obligation (the "Substitute Obligation") duly executed, authenticated and issued under and pursuant to an existing or new master trust indenture, trust agreement, bond order, bond resolution or similar instrument (the "Replacement Master Trust Indenture") by which the party or parties purported to be obligated thereby (the "New Group") have agreed to be bound; provided, however, that:

(i) the trustee serving as master trustee under such Replacement Master Trust Indenture (the "New Trustee") shall be an independent corporate trustee (which may be the Master Trustee or the Related Bond Trustee) meeting the eligibility requirements of the Master Trustee as set forth in the Master Trust Indenture; and

- (ii) for so long as any Related Bonds issued by the Issuer are outstanding, the Replacement Master Trust Indenture shall have been approved by the Issuer, unless the Replacement Master Trust Indenture shall be an existing master trust indenture, trust agreement, bond order, bond resolution or similar instrument by which any member of the New Group is already bound and the issuance of bonds secured thereby has already been authorized or approved by the Issuer, in which case the consent of the Issuer will not be required;
- (b) an original counterpart or certified copy of the Replacement Master Trust Indenture pursuant to which each member of the New Group has agreed (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Trust Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Trust Indenture) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the Replacement Master Trust Indenture at the times and in the amounts provided in each such note or obligation;
- (c) an Opinion of Counsel addressed to the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, and the Corporation to the effect that: (1) the Replacement Master Trust Indenture has been duly authorized, executed and delivered or has been duly adopted, as the case may be, by each member of the New Group, the Substitute Obligation has been duly authorized, executed and delivered by the Corporation, and the Replacement Master Trust Indenture and the Substitute Obligation are each a legal, valid and binding obligation of each member of the New Group, enforceable in accordance with their terms, subject in each case to customary exceptions for bankruptcy, insolvency, fraudulent conveyance and other laws generally affecting enforcement of creditors' rights and application of general principles of equity; (2) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Trust Indenture have been complied with and satisfied; and (3) registration of the Substitute Obligation under the Securities Act of 1933, as amended, and qualification of the Replacement Master Trust Indenture under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said Acts have been complied with;
- (d) an Officer's Certificate certifying that the New Group could, after giving effect to the Substitute Obligation, meet the conditions of the Master Trust Indenture for the incurrence of one (1) additional dollar of Long-Term Indebtedness described in the section of the Master Trust Indenture entitled "Limitations on Indebtedness", as demonstrated in such certificate;
- (e) an Opinion of Bond Counsel that the surrender of the Obligation and the acceptance by the Related Bond Trustee of the Substitute Obligation will not adversely affect the validity of any Related Bonds or any exemption for the purposes of federal or state income taxation to which interest on any Related Bonds would otherwise be entitled;
- (f) evidence that (i) written notice of such substitution, together with a copy of such Replacement Master Trust Indenture, has been given by the New Group to each rating agency, if any, then maintaining a rating on any Obligation or Related Bonds and (ii) the then current rating category on each such Obligation or Related Bonds shall not be withdrawn or reduced (without regard to any rating refinement or gradation by numerical modifier or otherwise) by any such rating agency as a result of such substitution;
- (g) evidence that written notice of such substitution and rating confirmation, together with a copy of such Replacement Master Trust Indenture, has been given by the New Group to each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or to the Related Bond Trustee under each Related Bond Indenture, as the case may be, not less than forty-five (45) days prior to the execution and delivery of the Replacement Master Trust Indenture; and
- (h) such forecasts and other opinions and certificates as the Issuer may require and such other opinions and certificates as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Master Trustee or the bond insurer, if any, or credit facility provider, if any, may reasonably require, together with such reasonable indemnities as the Holder of an

Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Master Trustee, the Issuer or the bond insurer, if any, or credit facility provider, if any, may request.

Notwithstanding any other provisions of this summarized section, no Substitute Obligation may extend the stated maturity of or time for paying interest on any Obligation surrendered to the Master Trustee or reduce the principal amount of or the redemption premium or rate of interest payable on such Obligation without the consent of each Holder of such Obligation evidencing and securing Indebtedness other than Related Bonds or the registered owners of all Related Bonds then outstanding, as the case may be.

(Section 3.13)

Events of Default

Event of Default, as used in the Master Trust Indenture, shall mean any of the following events:

(a) The Corporation shall fail to make any payment of the principal of, the redemption premium, if any, or interest on any Obligations issued and Outstanding under the Master Indenture when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or of any Supplement;

(b) The Corporation shall fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Trust Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Corporation by the Master Trustee, or to the Corporation and the Master Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding; provided, however, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such thirty (30) day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture or upon a Related Bond and continue beyond any applicable cure period provided for therein;

(d) The Corporation shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Indenture and Non-Recourse Indebtedness), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall be deemed waived and thereafter not constitute an Event of Default within the meaning of this summarized section for so long as such payment shall be contested in good faith if within thirty (30) days of such acceleration written notice is delivered to the Master Trustee, signed by the Corporation Representative, that the Corporation is contesting the payment of such Indebtedness and the amount of such Indebtedness is less than one-half of one percent (1/2%) of Income Available for Debt Service of the immediately preceding Fiscal Year, or if such Indebtedness is equal to or greater than one-half of one percent (1/2%) of Income Available for Debt Service, within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, the Corporation in good faith shall commence proceedings to contest the obligation to pay or the existence or payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against the Corporation, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Corporation under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of the Corporation or of any substantial part of its Property, or ordering the winding up or liquidation of its

affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and

(f) The institution by the Corporation of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of the Corporation or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

(Section 4.01)

Acceleration; Annulment of Acceleration

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of (i) the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, shall, by notice to the Corporation, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of the Master Trust Indenture to the contrary notwithstanding; provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to said Supplement, the Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplement. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, all interest which accrues thereon from the date of acceleration to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Corporation has paid or caused to be paid or deposited with the Master Trustee moneys or Government Obligations sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Corporation has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Corporation under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may, and upon the written request of Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Obligations Outstanding shall, annul such declaration of acceleration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(Section 4.02)

Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (ii) Suit upon all or any part of the Obligations;
- (iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;
- (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;
- (v) Enforcement of rights, if any, as a secured party under the Uniform Commercial Code of the State of New York; and
- (vi) Enforcement of any other right of the Holders conferred by law or by the Master Trust Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Trust Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Trust Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of the Holders not making such request.

(Section 4.03)

Application of Moneys after Default

During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of Article IV, after payment of (i) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Trust Indenture and (ii) in the sole discretion of the Master Trustee, the payment of the expenses of operating the Corporation, shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations 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 Obligation over any other Obligation, 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 Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of Article IV, then, subject to the provisions of paragraph (b) of this summarized section in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this summarized section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this summarized section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of this summarized section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Corporation, its successors, or as a court of competent jurisdiction may direct.

(Section 4.04)

Remedies Not Exclusive

No remedy by the terms of the Master Trust Indenture conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or existing at law or in equity or by statute on or after the date of the Master Trust Indenture.

(Section 4.05)

Waiver of Event of Default

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by Article IV to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Trust Indenture, or before the completion of the enforcement of any other remedy under the Master Trust Indenture.

(c) Notwithstanding anything contained in the Master Trust Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of the section of the Master Trust Indenture entitled "Acceleration; Annulment of Acceleration", a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call

for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the Corporation, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

(Section 4.09)

Notice of Default

The Master Trustee shall, within ten (10) days after it has knowledge of the occurrence of an Event of Default, mail to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured or properly waived before the giving of such notice; provided that, except in the case of default in the payment of the principal of, redemption premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) of the section of the Master Trust Indenture entitled “Events of Default”, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

(Section 4.12)

Certain Duties and Responsibilities

(a) Except during the continuance of an Event of Default:

(i) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Master Trust Indenture, and no implied covenants or obligations shall be read into the Master Trust Indenture against the Master Trustee; and

(ii) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Master Trustee and conforming to the requirements of the Master Trust Indenture; but in the case of any such certificates or opinions which by any provision of the Master Trust Indenture are specifically required to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Master Trust Indenture.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Trust Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person’s own affairs.

(c) No provision of the Master Trust Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this subsection (c) shall not be construed to limit the effect of subsection (a) of this summarized section;

(ii) the Master Trustee shall not be liable for any error of judgment made in good faith by a chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any

trust officer or assistant trust officer, the controller and any assistant controller or any other officer or employee of the Master Trustee customarily performing functions similar to those performed by any of the above designated officers or with respect to a particular matter, any other officer or employee to whom such matter is referred because of his knowledge of and familiarity with the particular subject, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(iii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Trust Indenture, except under the circumstances set forth in subsection (c) of the section of the Master Trust Indenture entitled “Waiver of Event of Default” requiring the consent of the Holders of all the Obligations at the time Outstanding; and

(iv) no provision of the Master Trust Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial or other liability, directly or indirectly, in the performance of any of its duties under the Master Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of the Master Trust Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this summarized section.

(Section 5.01)

Removal and Resignation of the Master Trustee

(a) The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by the Corporation Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created by the Master Trust Indenture. Written notice of such resignation or removal shall be given to the Corporation and to each Holder at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Corporation Representative, if no Event of Default shall have occurred and be continuing, or at the direction of the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, the Corporation or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

(b) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least Ten Million Dollars (\$10,000,000), if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(c) Every successor Master Trustee howsoever appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to the Corporation an instrument in writing, accepting such appointment under the Master Indenture, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and

such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

(d) Each successor Master Trustee, not later than ten (10) days after its assumption of the duties under the Master Indenture, shall mail a notice of such assumption to each registered Holder.

(Section 5.04)

Supplements Not Requiring Consent of Holders

The Corporation, when authorized by resolution or other action of equal formality by its Board of Directors, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Trust Indenture.
- (b) To correct or supplement any provision in the Master Trust Indenture which may be inconsistent with any other provision in the Master Trust Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Trust Indenture.
- (d) To qualify the Master Trust Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of Indebtedness as permitted under the Master Indenture.
- (f) To obligate a successor to the Corporation as provided in the Master Trust Indenture.
- (g) To comply with the provisions of any federal or state securities law.

(Section 6.01)

Supplements Requiring Consent of Holders

(a) Other than Supplements referred to in the section of the Master Trust Indenture entitled “Supplements Not Requiring Consent of Holders” and subject to the terms and provisions and limitations contained in Article VI of the Master Trust Indenture and not otherwise, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Trust Indenture to the contrary notwithstanding, to consent to and approve the execution by the Corporation, when authorized by resolution or other action of equal formality by its Board of Directors, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Trust Indenture; provided, however, nothing in this summarized section shall permit or be construed as permitting a Supplement which would:

- (i) Effect a change in the times, amounts or currency of payment of the principal of, redemption premium, if any, and interest on any Obligation or a reduction in the principal amount

or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time the Corporation shall request the Master Trustee to enter into a Supplement pursuant to this summarized section, which request is accompanied by a copy of the resolution or other action of its Board of Directors certified by its secretary, and the proposed Supplement and if the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by the Master Trust Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with the Corporation a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as provided in the Master Trust Indenture, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof.

(Section 6.02)

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**SUMMARY OF CERTAIN PROVISIONS OF THE
SUPPLEMENTAL INDENTURE NO. 5 FOR OBLIGATION NO. 4**

The following summarizes certain provisions of the Supplemental Indenture No. 5 for Obligation No. 4 to which reference is made for the detailed provisions thereof. Such summary does not purport to be complete and reference is made to Supplemental Indenture No. 5 for Obligation No. 4 for full and complete statements of such and all provisions.

Definitions

For the purposes of the Supplemental Indenture No. 5 for Obligation No. 4, unless the context otherwise indicates the following words and phrases shall have the following meanings. All terms used in Supplemental Indenture No. 5 for Obligation No. 4 which are defined in the Master Trust Indenture shall have the meanings assigned to them in the Master Trust Indenture.

Accountant means a firm of independent certified public accountants of favorable reputation selected by the Corporation subject to the consent of the Bond Trustee, whose consent shall not be unreasonably withheld.

Additional Indebtedness means Indebtedness incurred by the Corporation subsequent to the issuance of the Bonds.

Affiliate means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by the Corporation or by any Person which directly or indirectly controls the Corporation or (ii) controls, directly or indirectly, the Corporation. For purposes of this definition, control means the ownership of not less than 25% of the voting securities of a Person or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

Annual Debt Service means the Long-Term Debt Service Requirement for each Fiscal Year.

Board of Directors means the board of directors of the Corporation.

Bond Resolution means, collectively, the Dormitory Authority of the State of New York Highland Hospital of Rochester Revenue Bond Resolution, adopted by the Issuer on May 12, 2010, and the Dormitory Authority of the State of New York Series 2010 Resolution Authorizing Up To \$11,000,000 Highland Hospital of Rochester Revenue Bonds, Series 2010, adopted by the Issuer on May 12, 2010, and when amended or supplemented, such resolutions as amended or supplemented.

Bond Trustee means Manufacturers and Traders Trust Company, a banking corporation duly organized and validly existing under the laws of the State of New York, and any successor to its duties under the Bond Resolution.

Bonds means the Dormitory Authority of the State of New York \$11,000,000 Highland Hospital of Rochester Revenue Bonds, Series 2010.

Business Day means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the State of New York are authorized by law to close or (b) a day on which the New York Stock Exchange is closed.

Capitalized Lease means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

Capitalized Rentals means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Bonds that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities” or (ii) if such release (or any successor release) is not published or does not contain such prices on such Business Day, the average of the Reference Treasury Dealer Quotations for such redemption date.

Consultant means a firm or firms which is not, and no member, stockholder, director, officer or employee or which is, an officer or employee of the Corporation or any Affiliate, and which is a professional management consultant of national repute for having the skill and experience necessary to render the particular report required by the provision in Supplement No. 5 in which such requirement appears and which is reasonably acceptable to the Bond Trustee.

Corporation means Highland Hospital of Rochester, a not-for-profit corporation organized and existing under the laws of the State, and its successors and assigns and any surviving, resulting or transferee corporation thereof.

Covenant Defeasance means, with respect to Indebtedness, Indebtedness for which there has been deposited with a trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the holders of such Indebtedness, (i) cash or (ii) non-callable U.S. Government Obligations maturing as to principal and interest at such times and in such amounts as will insure the availability of cash (without consideration of any reinvestment of such principal or interest) or (iii) a combination thereof, in an amount sufficient, taking into account the interest or increment to accrue on such U.S. Government Obligations, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Corporation, to pay the principal of, premium, if any, and each installment of interest on all such Indebtedness on the date that such principal, premium, if any, and interest is due and payable.

Days of Operating Expenses means operating expenses minus depreciation and amortization expense divided by the number of days for the applicable period.

Derivative Agreement means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Corporation entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

Derivative Indebtedness means all or a portion of any Indebtedness incurred by the Corporation pursuant to or in connection with a Derivative Agreement.

Derivative Period means the time period during which a Derivative Agreement is in effect.

Equipment means all machinery, equipment, fixtures, building materials and other personal property acquired, constructed and installed and used and/or to be acquired, constructed and installed and used in connection with the issuance of the Bonds and financed or refinanced with proceeds of the Bonds.

Facilities means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of the Corporation.

Fiscal Year means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of the following calendar year, or such other consecutive twelve-month period as is selected by the Corporation.

Funded Indebtedness means (a) all Indebtedness of a Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of a Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (c) Guaranties of Indebtedness which is not Short-Term; and (d) Capitalized Rentals under Capitalized Leases; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture.

Guaranty means all obligations of a Person guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any Primary Obligor in any manner, whether directly or indirectly including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (1) to purchase such Indebtedness or obligation or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

Hedging Obligation means obligations of any Person pursuant to (i) any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated principal amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same amount, or (ii) any option, futures contract, put, call, straddle or other instrument or technique entered into for hedging or other risk management purposes of such Person, in each case which arrangement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

Improvements means all those building and improvement (i) affixed or attached to the land owned or leased by the Corporation, (ii) financed or refinanced with the proceeds of the Bonds or of any other amounts paid by the Corporation, and (iii) not part of the Equipment, all as they may exist from time to time.

Income Available for Debt Service means, for any given Fiscal Year, the excess of revenues after expenses, less any interest expense, depreciation and amortization, loss on early extinguishments of debt, plus any gain on fixed assets.

Indebtedness means (a) all Guaranties and (b) all liabilities of a Person (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and shall include, without limitation, Non-Recourse Indebtedness; provided that Indebtedness shall not include (i) any Hedging Obligation, or (ii) any Indebtedness subject to Covenant Defeasance.

Independent Counsel means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Corporation or the Bond Trustee.

Issuer means the Dormitory Authority of the State of New York, a public benefit corporation existing under the laws of the State of New York, and any legal successor or successors thereto.

Land, Buildings and Equipment means all Property of a Person which is classified as land, buildings and equipment under generally accepted accounting principles.

Lien means any mortgage, pledge or lease of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved in favor of, or which secures any obligation to, any Person other than the Corporation and any Capitalized Lease under which the Corporation is lessee.

Long-Term Debt Service Coverage Ratio means for any period of time the ratio determined by dividing the Income Available for Debt Service by Annual Debt Service.

Long-Term Debt Service Requirement means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on Outstanding Long-Term Indebtedness of the Corporation during such period, also taking into account (i) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that, with respect to new Variable Rate Indebtedness, the interest rate for such Indebtedness for the initial interest rate period shall be the initial rate at which such Indebtedness was incurred and thereafter shall be calculated as set forth above; and (ii) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period and for so long as the provider of the Derivative Agreement has a long-term credit rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody’s, if rated by Moody’s, Fitch, if rated by Fitch, and S&P, if rated by S&P, and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Corporation on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the Corporation under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term credit rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody’s, if rated by Moody’s, Fitch, if rated by Fitch, and S&P, if rated by S&P, or is in default thereunder, the amount of interest payable by the Corporation shall be the interest calculated as if such Derivative Agreement had not been executed; provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and provided further, however, that notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available in a Qualified Escrow (other than principal and interest so payable solely by reason of the Corporation’s failure to make payments from other sources).

Long-Term Indebtedness means Indebtedness with a term greater than one (1) year.

Maximum Annual Debt Service means the maximum of annual debt service on any Outstanding Long-Term Indebtedness in any Fiscal Year.

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

Net Rentals means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called “percentage lease” shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

Non-Recourse Indebtedness means any Indebtedness the liability for which is effectively limited to Land, Buildings and Equipment and the income therefrom, the cost of which Land, Buildings and Equipment shall have been financed with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of such Person.

Obligation No. 4 means the Obligation issued pursuant to Supplement No. 5.

Officer's Certificate means a certificate signed, in the case of a certificate delivered by a corporation, by the President or any Vice President or any other officer authorized to sign by resolution of such corporation or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person.

Person means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

Primary Obligor means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

Property means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired.

Qualified Escrow means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness secured by such Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Corporation's payment obligations with respect to principal of or interest on (a) the Long-Term Indebtedness secured thereby which are issued under the documents establishing such fund or account or (b) Long-Term Indebtedness secured thereby which are issued prior to the establishment of such fund or account.

Rating Agency means Moody's or Standard & Poor's, and their respective successors and assigns.

Short-Term, when used in connection with Indebtedness, means Indebtedness for money borrowed or credit extended having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

Standard & Poor's means Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., its successors and assigns.

Supplement No. 5 means Supplemental Indenture No. 5 for Obligation No. 4.

Total Operating Revenues means, with respect to the Corporation, as to any period of time, total operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

Treasury Yield means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Unrestricted Cash and Investments means the sum of cash, cash equivalents and unrestricted or unencumbered long-term marketable of liquid investments, board restricted assets and any short-term investments.

Variable Rate Indebtedness means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

Written Request means a request in writing signed by the President or any Vice President of the Corporation, or any other officers designated by the Corporation.

(Section 1)

Payments on Obligation No. 4

(a) Principal of, interest and any applicable redemption premium on, Obligation No. 4 are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in subsection (b) of this summarized section with respect to credits, and Section 4 of Supplement No. 5 regarding prepayment, payments on the principal of, redemption premium, if any, and interest on, Obligation No. 4 shall be made at the times and in the amounts specified in Obligation No. 4 in clearing house funds by the Corporation depositing the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable (or the next preceding business day if such date is a Saturday, Sunday or holiday in the city in which the principal corporate trust office of the Bond Trustee is located), and giving notice to the Master Trustee of each payment of principal, interest or premium on Obligation No. 4, specifying the amount paid and identifying such payment as a payment on Obligation No. 4.

(b) The Corporation shall receive credit for payment on Obligation No. 4, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 4 in an amount equal to moneys deposited in the Debt Service Fund created under the Bond Resolution which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 4.

(ii) On installments of principal on Obligation No. 4 in an amount equal to moneys deposited in the Debt Service Fund created under the Bond Resolution which amounts are available to pay principal or Sinking Fund Installments (as defined in the Bond Resolution) of the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 4.

(iii) On installments of principal of and interest on Obligation No. 4 in an amount equal to the principal amount of Bonds which have been called by the Bond Trustee for redemption or purchase in lieu of redemption prior to maturity and for the redemption or purchase in lieu of redemption of which sufficient amounts in cash are on deposit in the Debt Service Fund created under the Bond Resolution, or otherwise held by the Bond Trustee for redemption or purchase in lieu of redemption by the Bonds, to the extent such amounts have not been previously credited against payments on Obligation No. 4, and interest on such Bonds from and after the date fixed for redemption or purchase in lieu of redemption thereof. Such credits shall be made against the installments of principal of and interest on Obligation No. 4, and interest on such Bonds from and after the date fixed for redemption or purchase in lieu of redemption thereof. Such credits shall be made against the installments of principal of and interest on Obligation No. 4 which would be due, but for such call for redemption or purchase in lieu of redemption, to pay principal of and interest on such Bonds when due at maturity.

(iv) On installments of principal of and interest, respectively, on Obligation No. 4 in an amount equal to the principal amount of Bonds acquired by the Corporation, delivered to the Bond Trustee for cancellation and cancelled by the Bond Trustee. Such credits shall be made against the installments of principal of and interest on Obligation No. 4 which would be due, but for such cancellation, to pay principal of and interest on Bonds at maturity.

(Section 3)

Mutilation, Destruction, Loss and Theft of Obligation No. 4

If (i) Obligation No. 4 is surrendered to the Master Trustee in a mutilated condition, or the Corporation and the Master Trustee receive evidence to their satisfaction of the destruction, loss or theft of Obligation No. 4 and (ii) there is delivered to the Corporation and the Master Trustee such security or indemnity as may be required by

them to hold them harmless, then, in the absence of proof satisfactory to the Corporation and the Master Trustee that Obligation No. 4 has been acquired by a bona fide purchaser and upon the Holder's paying the reasonable expenses of the Corporation and the Master Trustee, the Corporation shall cause to be executed and the Master Trustee shall authenticate and deliver, in exchange for such mutilated Obligation No. 4, a new Obligation No. 4 of like principal amount, date and tenor. Every mutilated Obligation No. 4 so surrendered to the Master Trustee shall be cancelled by it and delivered to, or upon the order of, the Corporation. If any such mutilated, destroyed, lost or stolen Obligation No. 4 has become or is about to become due and payable, Obligation No. 4 may be paid when due instead of delivering a new Obligation No. 4.

(Section 6)

Execution and Authentication of Obligation No. 4

Obligation No. 4 shall be manually executed for and on behalf of the Corporation by its Chief Executive Officer or Chief Financial Officer. If any officer whose signature appears on Obligation No. 4 ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Obligation No. 4 shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication Obligation No. 4 shall not be entitled to the benefits of Supplement No. 5.

(Section 7)

Right to Redeem

Obligation No. 4 shall be subject to redemption, in whole or in part, prior to the maturity, in an amount equal to the principal amount of any Bond called for redemption or purchase in lieu of redemption pursuant to the Bond Resolution, and cancelled by the Bond Trustee. Obligation No. 4 shall be subject to redemption on the date any Bond shall be so redeemed or purchased, and in the manner provided in Supplement No. 5.

(Section 8)

Tax Exempt Status

The Corporation by Supplement No. 5 covenants that so long as all amounts due or to become due on any Bond have not been fully paid to the holder thereof, it will not take any action or suffer any action to be taken by others, including the alteration or loss of its status as a Tax-Exempt Organization, which would result in the interest payable on any Bond becoming includable in gross income of the holder thereof for purposes of federal income taxation under the Internal Revenue Code of 1986, as amended.

(Section 12)

Special Covenants

The Corporation covenants and agrees that the following provisions shall be in effect so long as Obligation No. 4 is Outstanding under the Master Trust Indenture and the Bonds are Outstanding under the Bond Resolution, and such provisions will not be amended or modified without the prior written consent of the owner of Obligation No. 4 so long as Obligation No. 4 is Outstanding under the Master Trust Indenture and the Bonds are Outstanding under the Bond Resolution:

(a) The Corporation agrees to fix, charge and collect rates, fees and charges for the use of, and for the services furnished or to be furnished by, the Corporation, sufficient, together with other available funds, to pay its obligations and expenses and to produce Income Available for Debt Service in each Fiscal Year equal to 120% of the Annual Debt Service on all Long Term Indebtedness for such Fiscal Year (excluding, however, principal and interest with respect to any such indebtedness incurred to pay the cost of Improvements until the first Fiscal Year commencing after the estimated date of occupancy or utilization of such Improvements). If in any Fiscal Year the

Income Available for Debt Service is less than the above-required amounts, within 30 days of the receipt of the audit report for such Fiscal Year the Corporation is required to employ a Consultant (1) to review and analyze the financial condition of the Corporation, including the financial reports required under Supplement No. 5, (2) to inspect the Corporation's facilities and review its operation and administration, and (3) to submit a written report to the Corporation and the Bond Trustee recommending revisions of the rates, fees and charges of the Corporation and the methods of operation of the Corporation that will result in producing the amount so required in such following Fiscal Year. The Corporation will revise its rates, fees and charges, or alter its methods of operation and take such other action as is necessary to comply with such recommendations, to the extent not prohibited by law. If the Corporation complies with all recommendations of the Consultant with respect to its rates, fees, charges and methods of operation, to the extent not prohibited by law, and otherwise complies with the requirements of Supplement No. 5, the failure of Net Income Available for Debt Service to meet the requirements set forth above will not constitute an Event of Default under Supplement No. 5 so long as Net Income Available for Debt Service is not less than 100% of Debt Service on Long-Term Indebtedness for such Fiscal Year.

(b) The Corporation is required to maintain Unrestricted Cash and Investments equal to at least thirty-five (35) Days of Operating Expenses as of December 31 of each year (with each such December 31 being the "Annual Testing Date."). If as of December 31 of any Fiscal Year Unrestricted Cash and Investments is equal to less than thirty-five (35) Days of Operating Expenses, within thirty (30) days of the receipt of the audit report for such Fiscal Year the Corporation will engage a Consultant to make a study of the rates, charges and costs of the Corporation and to present, within thirty (30) days of such engagement, a report and recommendation to the Corporation with respect to adjustments in rates and charges, or adjustments in costs, or both, necessary to achieve compliance with the foregoing liquidity covenant for the current, and if appropriate, subsequent annual periods, within thirty (30) days after receipt of the Consultant's report. The Corporation is required to follow the recommendations of the Consultant, to the extent such recommendations comply with state and federal laws. In the event the recommendations of the Consultant are implemented by the Corporation, even if its Unrestricted Cash and Investments on a subsequent Annual Testing Date does not meet the requirements of the foregoing liquidity covenant, there will be no Event of Default.

(c) To provide additional funds (i) to pay for the costs of Improvements (ii) to complete the payment of the costs of any Improvements which were financed with the proceeds from the sale of any additional bonds, taxable notes or the incurrence of any alternative indebtedness, or (iii) to refund any outstanding Long-Term Indebtedness, Additional Indebtedness of the Corporation may be issued and secured on a parity with the Bonds, at one time or from time-to-time. Additional Indebtedness may be issued for the original cost of Improvements only if, among other things: (i) the Income Available for Debt Service for each of the two preceding Fiscal Years for which audited financial statements are available was not less than 140% of the Maximum Annual Debt Service on all Outstanding and proposed Long-Term Indebtedness as shown on a statement signed by an Accountant and approved by the Corporation, or (ii)(A) the Income Available for Debt Service for each of the two preceding Fiscal Years for which audited financial statements are available was at least equal to 120% of the Maximum Annual Debt Service on all Long-Term Indebtedness for those two Fiscal Years as shown, on a statement signed by an accountant and approved by the Corporation, and (B) the Bond Trustee receives a written report from the Consultant (together with appropriate schedules to support such report) stating that the estimated Income Available for Debt Service for each of the two Fiscal Years immediately following the Fiscal Year in which the additional facilities are estimated to be placed in service is at least 120% of the Maximum Annual Debt Service on all Outstanding Long-Term Indebtedness (including the proposed Additional Indebtedness) in any future Fiscal Year in which Bonds will be Outstanding; provided that, if the principal amount of Long-Term Indebtedness, including such proposed Additional Indebtedness, issued during the current Fiscal Year is not in excess of the 5% of Total Operating Revenues of the Corporation for the most recent Fiscal Year as shown by the Corporation's audited financial statements, and if the Maximum Annual Debt Service on all Outstanding Long-Term Indebtedness (including the proposed Additional Indebtedness) does not exceed 10% of the Corporation's Total Operating Revenues as shown on the Corporation's audited financial statements for the Corporation's most recently completed Fiscal Year, the Corporation may substitute for the report of the Consultant an Officer's Certificate of the Corporation setting forth the same information and stating the required conclusions. The 120% requirements in clauses (ii) (A) and (B) immediately above will be satisfied if such percentage is less than 120% but at least 100% if the Bond Trustee receives a written report from the Consultant stating that the principal reason for Net Income Available for Debt Service falling below 120% of Maximum Annual Debt Service on Long-Term Indebtedness is legislative, regulatory or administrative action by the federal or state government that is applicable to all hospitals of a similar size and nature. Before any

Additional Indebtedness may be issued in accordance with the section summarized by this paragraph to pay for the costs of the completion of any Improvements, the Corporation must determine that the issuance of Additional Indebtedness is necessary to complete the Improvements and the Bond Trustee must receive a certificate of the Corporation (i) giving an estimate of the Completion Date of the Improvements for which such Additional Indebtedness is to be issued and (ii) certifying that the sums then on deposit with the Bond Trustee which are available to pay for the Improvements and which are pledged to secure the Bonds, plus the anticipated proceeds of the Additional Indebtedness which will be available to pay for the Improvements, plus other funds of the Corporation available to pay for costs of the Improvements, will be sufficient to pay for the costs of the Improvements or that the Corporation will reduce the scope of the Project so that such funds will be sufficient.

(d) Additional Indebtedness may be issued to refund any Outstanding Long-Term Indebtedness only if, among other things: (i) Maximum Annual Debt Service on the Long-Term Indebtedness Outstanding after giving effect to the issuance of such Additional Indebtedness will, for the period during which all indebtedness not to be refunded remains Outstanding, be not greater than 110% of the Maximum Annual Debt Service on account of all Long-Term Indebtedness Outstanding immediately prior to the issuance of such Additional Indebtedness; or (ii) the requirements of clauses (ii)(A) and (B) of the immediately preceding paragraph are satisfied with respect to the issuance of the proposed Additional Indebtedness.

(e) The Corporation may incur Short-Term Indebtedness to provide for working capital needs provided that at no time may the aggregate amount of Outstanding Short-Term Indebtedness exceed the greater of (i) 5% of Total Operating Revenues or (ii) 50% of aggregate net accounts receivable as shown in the Audited Financial Statements for the most recent Fiscal Year.

(f) The Corporation may incur Non-Recourse Indebtedness for any lawful corporate purpose, provided that such Non-Recourse Indebtedness does not exceed 10% of Total Operating Revenues.

(g) The Corporation may sell, loan, transfer and dispose of Corporation property to non-Affiliates, in any Fiscal Year, subject to the following conditions: (i) the Income Available for Debt Service for each of the two preceding Fiscal Years for which audited financial statements are available was not less than 140% of the Maximum Annual Debt Service on all Outstanding and proposed Long-Term Indebtedness as shown on a statement signed by an Accountant and approved by the Corporation; (ii) the Corporation will not be in violation of the liquidity covenant summarized in paragraph (b) above, after taking the sale, loan, transfer or disposition of property in to account; and (iii) in the case of Unrestricted Cash and Investments, the value of such property to be sold, loaned, transferred or disposed of does not exceed \$1,000,000 in any Fiscal Year.

(Section 13)

Additional Remedies Upon Certain Events of Default

If an Event of Default shall occur as a result of (i) a failure by the Corporation to make any payment of the principal of, the redemption premium, if any, or interest on Obligation No. 4 when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or Supplement No. 5, (ii) a failure by the Corporation duly to perform, observe or comply with any covenant or agreement on its part under Supplement No. 5 for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Corporation by the Master Trustee, or to the Corporation and the Master Trustee by the Holder of Obligation No. 4, or (iii) an event of default having occurred in connection with the Bonds or any resolution or loan agreement relating thereto and such event of default shall have continued beyond any applicable cure period provided for therein, then, notwithstanding any provisions of the Master Trust Indenture or Supplement No. 5 to the contrary, then the Holder of Obligation No. 4 may, in addition to the other remedies set forth in the Master Trust Indenture and Supplement No. 5, require immediate acceleration of all payments thereunder by providing written notice to the Corporation and the Master Trustee declaring Obligation No. 4 immediately due and payable.

(Section 14)

**FORM OF APPROVING OPINION
OF BOND COUNSEL**

Appendix F

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FORM OF APPROVING OPINION OF BOND COUNSEL

June 25, 2010

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

\$11,000,000
Dormitory Authority of the State of New York
Highland Hospital of Rochester Revenue Bonds, Series 2010

Ladies and Gentlemen:

We have acted as bond counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with the Authority's issuance of its \$11,000,000 principal amount of Highland Hospital of Rochester Revenue Bonds, Series 2010 (the "Series 2010 Bonds"). In such capacity, we have examined the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof, including, but not limited to, the Health Care Financing Consolidation Act and, as incorporated thereby, the New York State Medical Care Facilities Financing Act, being Chapter 392 of the laws of 1973 of the State of New York, as amended (the "Act"), creating the Authority as a body corporate and politic constituting a public benefit corporation of the State of New York. We have also examined a certified record of the proceedings authorizing the execution and delivery of the Loan Agreement (hereinafter mentioned) and showing the adoption on May 12, 2010 of the Dormitory Authority of the State of New York Highland Hospital of Rochester Revenue Bond Resolution (the "Bond Resolution"), and on May 12, 2010 of the Dormitory Authority of the State of New York Series 2010 Resolution authorizing up to \$11,000,000 Highland Hospital of Rochester Revenue Bonds, Series 2010 (the "Series Resolution" and, together with the Bond Resolution, the "Resolutions"), and other such proofs relating to the issuance of the Series 2010 Bonds as we have deemed necessary as a basis for the following opinions.

The Series 2010 Bonds are dated the date of this opinion, mature on July 1 of the years and in the respective principal amounts, bear interest, payable on January 1, 2011 and semi-annually thereafter on January 1 and July 1 in each year, at the respective rates per annum and are subject to redemption prior to maturity in the manner and upon the terms and conditions, all as set forth in the Bond Series Certificate of the Authority with respect to the Series 2010 Bonds and in the Resolutions.

The Series 2010 Bonds are secured by the funds and accounts held under the Resolutions and a pledge of revenues received by the Authority under a Loan Agreement, dated as of May 12, 2010 (the "Loan Agreement"), with Highland Hospital of Rochester (the "Institution"). In addition, the Series 2010 Bonds are secured by payments to be made by the Institution on its Obligation No. 4, dated as of June 25, 2010 (the "Series 2010 Obligation"), issued by the Institution under a Master Trust Indenture, dated as of June 1, 2005, between the Institution and Manufacturers and Traders Trust Company, as master trustee (the "Master Trustee"), as supplemented. The Series 2010 Obligation is being delivered to the Authority as evidence of the Institution's obligation to repay the proceeds of the Series 2010 Bonds. The proceeds of the Series 2010 Bonds will be loaned to the Institution to finance the Project, as defined in the Resolutions.

From such examination, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2010 Bonds thereunder.

2. The Bond Resolution and the Series Resolution have been duly and lawfully adopted by the Authority and the Series Resolution is authorized and permitted by and has been adopted in accordance with the provisions of the Bond Resolution. The Resolutions are in full force and effect, and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2010 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 2010 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and constitutes the legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

5. The Resolutions validly pledge and assign the revenues received by the Authority under the Loan Agreement and the Series 2010 Obligation, and the monies, securities and funds held or set aside under the Resolutions, subject to the application thereof to the purposes and on the conditions permitted by the Resolutions, including the payments of the principal of and interest on the Series 2010 Bonds.

6. Assuming compliance by the Institution and the Authority with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and except as provided in the following sentence, interest on the Series 2010 Bonds is not includable in the gross income of the owners of the Series 2010 Bonds for purposes of federal income taxation under current law. Interest on the Series 2010 Bonds will become includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2010 Bonds in the event of a failure by the Institution or the Authority to comply, subsequent to the issuance of the Series 2010 Bonds, with certain requirements of the Code and covenants regarding use, expenditure and investment of proceeds of the Series 2010 Bonds and the timely payment of certain investment earnings to the United States Treasury. The Institution and the Authority have covenanted, among other things, not to take any action that would cause interest on the Series 2010 Bonds to be includable in the gross income of the holders thereof for federal income tax purposes. Interest on the Series 2010 Bonds is not a specific preference item in calculating the alternative minimum tax on individuals and corporations imposed by the Code, and will not be included in the computation of the alternative minimum tax liabilities on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of such Series 2010 Bonds or the inclusion in certain computations of interest that is excluded from gross income.

7. Interest on the Series 2010 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions.

We have examined a fully executed Series 2010 Bond and, in our opinion, the form of said bonds and their execution are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement and the Series 2010 Bonds against the Authority may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. In rendering the opinions contained in paragraphs 4 and 5 above, we have relied on the opinion of Nixon Peabody LLP, counsel to the Institution, that the Institution has full corporate power and authority to execute, make, deliver and perform the Loan Agreement, the Loan Agreement has been duly

authorized, executed, made and delivered by the Institution and the Loan Agreement creates legal, valid and binding obligation of the Institution, as more fully set forth therein.

In rendering the opinion in paragraph 6 above, we have relied upon the representations made by the Institution with respect to certain material facts within the knowledge of the Institution, which facts and representations we have not independently verified and upon the accompanying opinion of Nixon Peabody LLP, counsel for the Institution, that the Institution is exempt from federal income taxation under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code. Our opinion in paragraph 6 above with respect to the exclusion from gross income of the interest on the Series 2010 Bonds for federal income tax purposes may not be relied on to the extent that such exclusion is adversely affected as a result of any action taken, or not taken, in reliance on an opinion of counsel other than this firm delivered subsequent to the issuance of the Series 2010 Bonds. Other than as described herein, we have not addressed and we are not opining on the tax consequences to any investor of the investment in, the ownership or disposition of or receipt of the interest on, the Series 2010 Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in the regulations or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

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