



\$82,955,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HOSPITAL FOR SPECIAL SURGERY
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS,
SERIES 2009

Dated: Date of Delivery Due: As shown on the inside cover

Payment and Security: The Series 2009 Bonds will be special obligations of the Dormitory Authority of the State of New York (the “Authority”) payable solely from, and secured by a pledge of, payments to be made by New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery, commonly known as the Hospital for Special Surgery (the “Institution” or the “Hospital”) under a mortgage note insured by the United States Secretary of Housing and Urban Development under Section 241 of the National Housing Act (the “Note”), acting by and through the Federal Housing Commissioner, and as provided in the Authority’s Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bond Resolution adopted by the Authority on July 27, 2005 (the “General Resolution”), and the Authority’s Hospital for Special Surgery Series Resolution Authorizing Up To \$100,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2009, adopted by the Authority on September 23, 2009 (the “Series 2009 Resolution”; and collectively with the General Resolution, the “Resolutions”).

The Series 2009 Bonds will be secured by: (i) certain revenues received on behalf of the Authority from payments to be made by the Institution under the Note, and in the event of a default by the Institution thereunder, from the FHA Mortgage Insurance Benefits; and (ii) certain other moneys and funds (including investment income) held under the Resolutions and as may be available therefor to the Trustee (defined below) pursuant to a Loan Agreement dated as of September 23, 2009, between the Institution and the Authority (the “Loan Agreement”) and the Resolutions.

The Series 2009 Bonds will not be a debt of the State of New York nor will the State be liable thereon. The Authority has no taxing power. The Series 2009 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2009 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development (“HUD”) or the Federal Housing Administration (“FHA”).

Description: The Series 2009 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due on August 15, 2010 and on each February 15 and August 15 thereafter) will be payable by check or draft mailed to the registered owners of the Series 2009 Bonds as of the Record Date, as described herein. Principal, Sinking Fund Redemptions and Redemption Price of the Series 2009 Bonds will be payable upon surrender of the Series 2009 Bonds at the principal corporate trust office of The Bank of New York Mellon, New York, the Trustee and Paying Agent.

The Series 2009 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 2009 Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2009 Bonds, payments of the principal and Redemption Price of and interest on such Series 2009 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See “PART 3 —THE SERIES 2009 BONDS - Book-Entry Only System” herein.

Redemption: The Series 2009 Bonds are subject to redemption prior to maturity as more fully described in this Official Statement. All redemptions shall include accrued interest to the date of such redemptions.

Tax Exemption: In the opinion of Winston & Strawn LLP, Bond Counsel to the Authority, based on existing statutes, regulations, rulings, and court decisions, interest on the Series 2009 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance with certain covenants and the accuracy of certain representations. In the further opinion of Bond Counsel, interest on the Series 2009 Bonds is not an “item of tax preference” for purposes of the federal alternative minimum tax on individuals and corporations; and such interest is not includable in adjusted current earnings used to calculate the federal alternative minimum tax imposed on corporations (but not individuals). Bond Counsel is also of the opinion that interest on the Series 2009 Bonds is under existing statutes exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Series 2009 Bonds. See “PART 16 – TAX MATTERS” herein.

The Series 2009 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2009 Bonds may be subject to prior sale, or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality of the Series 2009 Bonds by Winston & Strawn LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Harris Beach PLLC, New York, New York; for the Institution by its counsel, Kurzman Karelsen & Frank LLP, New York, New York; and for the Mortgage Servicer by its counsel, Krooth & Altman LLP, Washington, D.C. The Authority expects to deliver the Series 2009 Bonds in definitive form in New York, New York, on or about December 3, 2009.

Merrill Lynch & Co.
Cabrera Capital Markets, LLC **Goldman, Sachs & Co.** **J.P. Morgan**

\$82,955,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
HOSPITAL FOR SPECIAL SURGERY
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS,
SERIES 2009

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

\$42,150,000 Serial Bonds

Due	Principal Amount	Interest Rate	Yield	CUSIP⁽¹⁾ Number	Due	Principal Amount	Interest Rate	Yield	CUSIP⁽¹⁾ Number
08/15/2012	\$ 725,000	4.00%	1.95%	649905SU1	02/15/2021 [†]	\$1,165,000	5.00%	4.46%	649905TM8
02/15/2013	810,000	5.00	2.40	649905SV9	08/15/2021	1,190,000	4.375	4.46	649905TN6
08/15/2013	835,000	3.25	2.45	649905SW7	02/15/2022 [†]	1,220,000	5.25	4.53	649905TP1
02/15/2014	850,000	4.50	2.86	649905SX5	08/15/2022	1,250,000	4.50	4.53	649905TQ9
08/15/2014	865,000	3.50	2.91	649905SY3	02/15/2023 [†]	1,280,000	5.50	4.60	649905TR7
02/15/2015	885,000	5.00	3.29	649905SZ0	08/15/2023	1,315,000	4.50	4.60	649905TS5
08/15/2015	905,000	3.75	3.33	649905TA4	02/15/2024 [†]	1,350,000	5.50	4.65	649905TT3
02/15/2016	925,000	5.00	3.63	649905TB2	08/15/2024	1,380,000	4.625	4.67	649905TU0
08/15/2016	945,000	4.00	3.63	649905TC0	02/15/2025	1,415,000	4.50	4.77	649905TV8
02/15/2017	965,000	4.50	3.87	649905TD8	08/15/2025	1,445,000	4.75	4.77	649905TW6
08/15/2017	990,000	4.25	3.87	649905TE6	02/15/2026 [†]	1,485,000	6.00	4.77	649905TX4
02/15/2018	1,010,000	5.00	4.03	649905TF3	08/15/2026	1,525,000	4.75	4.82	649905TY2
08/15/2018	1,035,000	4.00	4.03	649905TG1	02/15/2027	1,570,000	4.75	4.89	649905TZ9
02/15/2019	1,060,000	5.00	4.18	649905TH9	08/15/2027	1,605,000	4.75	4.89	649905UA2
08/15/2019	1,085,000	4.25	4.18	649905TJ5	02/15/2028	1,645,000	4.875	4.89	649905UB0
02/15/2020 [†]	1,110,000	5.00	4.34	649905TK2	08/15/2028	1,685,000	4.875	4.89	649905UC8
08/15/2020 [†]	1,135,000	4.375	4.34	649905TL0	02/15/2029	1,725,000	4.875	4.95	649905UD6
					08/15/2029	1,765,000	4.875	4.95	649905UE4

\$19,910,000 6.25% Term Bond Due August 15, 2034, Priced to Yield 5.11%[†] CUSIP Number 649905UF1

\$20,895,000 6.00% Term Bond Due August 15, 2038, Priced to Yield 5.17%[†] CUSIP Number 649905UG9

[†] Priced to August 15, 2019 par call date.

¹ Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2009 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2009 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2009 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2009 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Institution or the Underwriters to give any information or to make any representations with respect to the Series 2009 Bonds, other than the information and representations contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2009 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The Series 2009 Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolutions have not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2009 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2009 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2009 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

The Institution has reviewed the parts of this Official Statement describing the Institution, the Project, estimated sources and uses of funds, estimated debt service schedule, general factors and regulatory changes and Bondholder's Risks which may affect the Institution and Appendix B. The Institution shall certify, as of the dates of sale and delivery by the Authority of the Series 2009 Bonds, that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Mortgage Servicer has reviewed the parts of this Official Statement describing the Mortgage Servicer, the FHA Mortgage Insurance and the FHA Documents and shall certify, as of the dates of sale and delivery by the Authority of the Series 2009 Bonds, that such parts of this Official Statement as they relate to the Mortgage Servicer, the FHA Mortgage Insurance and the FHA Documents do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Mortgage Servicer makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

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

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

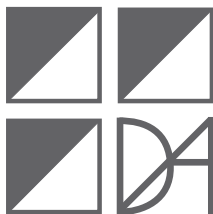
Under no circumstances shall the delivery of this Official Statement, or any sale made after its delivery, create any implication that the affairs of the Authority, FHA or the Institution have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2009 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY – STATE OF NEW YORK – 515 BROADWAY, ALBANY, N.Y. 12207
PAUL T. WILLIAMS, JR. – EXECUTIVE DIRECTOR **ALFONSO L. CARNEY, JR., – CHAIR**

OFFICIAL STATEMENT RELATING TO

\$82,955,000

DORMITORY AUTHORITY OF THE STATE OF NEW YORK HOSPITAL FOR SPECIAL SURGERY FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS, SERIES 2009

PART 1 – INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the Dormitory Authority of the State of New York (the “Authority”) and its \$82,955,000 Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bonds, Series 2009 (the “Series 2009 Bonds”).

The following is a brief description of certain information concerning the Series 2009 Bonds, the Authority and the Institution. A more complete description of such information and additional information that may affect decisions to invest in the Series 2009 Bonds are contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

Purpose of the Issue

The proceeds of the Series 2009 Bonds, together with certain other available funds, are being used to (i) finance the Costs of the Project (as described below), (ii) fund the Reserve Account of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement less an amount equal to the Collateral Account Requirement, if any, and (iii) pay certain Costs of Issuance of the Series 2009 Bonds. See “PART 2 - PLAN OF FINANCING” and “PART 7 - ESTIMATED SOURCES AND USES OF FUNDS”. The proceeds of the Series 2009 Bonds will be loaned by the Authority to the Institution pursuant to the Loan Agreement, dated as of September 23, 2009 between the Institution and the Authority (the “Loan Agreement”) and the portion to be applied to the Costs of the Project will be disbursed by the Authority, as FHA mortgagee, pursuant to the provisions of the Building Loan Agreement and the Servicing Agreement.

Authorization of Issuance

The Series 2009 Bonds will be issued pursuant to the Act, the Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted by the Authority on July 27, 2005 (the “General Resolution”), and the Hospital for Special Surgery Series Resolution Authorizing Up To \$100,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2009, adopted by the Authority on September 23, 2009 (the “Series 2009 Resolution” and, together with the General Resolution, the “Resolutions”). The General Resolution authorizes the issuance of multiple Series of Bonds pursuant to separate series resolutions for the sole benefit of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery, commonly known as the Hospital for Special Surgery (the “Institution”). Each Series of Bonds is to be separately secured by: (i) the funds and accounts (other than the Arbitrage Rebate Fund) established pursuant to the Applicable Series Resolution, and (ii) certain revenues received by the Authority from payments to be made under a note insured by FHA under the National Housing Act and, in the event of a default, from FHA Mortgage Insurance Benefits (as defined herein). Pursuant to the General Resolution, neither the funds and accounts established under any series resolution, nor any loan agreement or mortgage entered into in connection with one Series of Bonds, shall secure any other Series of Bonds. Each Series of Bonds must

be secured by a mortgage insured under the National Housing Act, as amended. The Series Resolution authorizes the issuance of the Series 2009 Bonds in an amount not to exceed \$100,000,000. The Series 2009 Bonds are the second series of Bonds issued under the General Resolution. See “Description of Plan of Finance” below for a discussion regarding priority of mortgage liens and cross defaults. All references to funds and accounts in this Official Statement are to those funds and accounts authorized to be created pursuant to the General Resolution and so designated and established by the Series 2009 Resolution. See “PART 3 – THE SERIES 2009 BONDS”.

Description of Plan of Finance

The proceeds of the Series 2009 Bonds, together with other available moneys, including the Institution’s equity contribution, will provide funds to (1) finance the Costs of the Project, (2) fund the Reserve Account of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement less an amount equal to the Collateral Account Requirement, and (3) pay certain costs relating to the issuance of the Series 2009 Bonds. As evidence of the loan to be disbursed to the Institution pursuant to the Building Loan Agreement, the Institution will deliver to the Authority, as FHA mortgagee, a mortgage note in the principal amount of \$79,308,000 (the “Note”). To secure payment of the Note, the Institution will deliver to the Authority a mortgage (the “Mortgage”) on property owned by the Institution identified therein (the “Mortgaged Property”) in an amount equal to the Note, and a security interest in certain fixtures and equipment located on the Mortgaged Property. The Mortgage constitutes a third mortgage lien on the Mortgaged Property and is subordinate to the mortgage on the Mortgaged Property that is insured by FHA pursuant to Section 242 of the National Housing Act (the “NHA”) and the mortgage on the Mortgaged Property that is insured by FHA pursuant to Section 241 of the NHA, both as described in the next two paragraphs.

In 1994, the New York State Medical Care Facility Finance Agency (“MCFFA”) issued bonds (the “1994 Bonds”) to finance a mortgage loan to the Institution in the amount of \$94,763,000, which loan was secured by an FHA-insured Section 242 mortgage on the Institution’s main hospital facility (the “Main Building”, as described in “PART 10 – THE INSTITUTION – Existing Facilities”). In 1996, the Authority issued bonds (the “1996 Bonds”) to finance an increase to the 242 Mortgage Loan in the amount of \$7,601,000, which mortgage loan was secured by an FHA-insured supplemental mortgage on the Institution’s Main Building. At that time, the two mortgage loans were consolidated to form a single mortgage loan in the amount of \$102,364,000 (as so consolidated, the “Existing Note” and the “Existing Mortgage”). In 1998, the Authority issued bonds to refund the 1994 Bonds and the 1996 Bonds, and the Existing Mortgage Note and Existing Mortgage were modified to accommodate and secure the Authority’s Series 1998 Bonds. The Existing Mortgage constitutes a first mortgage lien on the Mortgaged Property. A default with respect to the Existing Note or the Existing Mortgage will not cause a default with respect to the note or mortgage relating to the 2005 241 Loan but will, at the sole option of HUD, constitute a default with respect to the Note and Mortgage.

In 2005, the Authority issued bonds (the “Series 2005 Bonds”) to finance a mortgage loan to the Institution in the amount of \$57,605,000, which loan is secured by a FHA-insured Section 241 mortgage on substantially all of the Institution’s Mortgaged Property (the “2005 241 Loan”). The mortgage with respect to the 2005 241 Loan constitutes a second mortgage lien on the Mortgaged Property. A default with respect to the note or the mortgage relating to the 2005 241 Loan will not cause a default with respect to the Existing Note or the Existing Mortgage but will, at the sole option of HUD, constitute a default with respect to the Note and Mortgage.

As of September 30, 2009, the outstanding aggregate principal amount outstanding under the Existing Note and the Existing Mortgage and the note and mortgage relating to the 2005 241 Loan is approximately \$126,972,000.

The Mortgage constitutes a third mortgage lien on the Mortgaged Property. A default with respect to the Note or the Mortgage will not cause a default with respect to the Existing Note, the Existing Mortgage or the Note and Mortgage relating to the 2005 241 Loan.

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

Pursuant to the FHA Commitment for Insurance of Advances, dated August 5, 2009, in the amount of \$79,308,000 issued to Bank of America, N.A. (the "FHA Commitment"), FHA has agreed to insure advances of funds under the Note pursuant to Section 241 of the National Housing Act, as amended, and the regulations promulgated thereunder. Under applicable FHA regulations, FHA Mortgage Insurance Benefits are payable following assignment of the Note and Mortgage to FHA upon a default by the Institution under the Note and the Mortgage, in the form of cash, FHA debentures, or any combination thereof, at the option of FHA; however, pursuant to the FHA Commitment, FHA has agreed to pay Mortgage Insurance Benefits in connection with the Note in the form of cash. To the extent that the FHA Mortgage Insurance Benefits are paid in cash, such benefits will be applied to the Extraordinary Mandatory Redemption of the Series 2009 Bonds. See "Appendix C - Summary of Certain Provisions of the General Resolution". See "PART 5 – FHA MORTGAGE INSURANCE" and "PART 2 – PLAN OF FINANCING - Payment of FHA Mortgage Insurance Benefits" for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

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

The FHA Mortgage Insurance does not constitute a guaranty of timely or total payment of the principal of, Redemption Price or interest on the Series 2009 Bonds. FHA Mortgage Insurance Benefits will not be available immediately upon a default under the Note and the Mortgage and assignment thereof to FHA. In addition, processing claims for Mortgage Insurance Benefits may involve certain time delays and such Mortgage Insurance Benefits may be subject to certain deductions. To provide a source of funds for the timely payment of the principal of and interest on the Series 2009 Bonds prior to the receipt of FHA Mortgage Insurance Benefits, the Debt Service Reserve Fund has been established and funded at the Debt Service Reserve Fund Requirement. The use of the Debt Service Reserve Fund, its limitations and the application of Mortgage Insurance Benefits and other moneys if there are insufficient funds to pay the maturing principal of and interest on all Series 2009 Bonds Outstanding are described below under "PART 12 – BONDHOLDERS' RISKS – Adequacy of the Debt Service Reserve Fund," "PART 2 – PLAN OF FINANCING – Payment of FHA Mortgage Insurance Benefits" and "Appendix C – Summary of Certain Provisions of the General Resolution". For a discussion of how the Mortgage Insurance Benefits may be paid in an amount that is less than the outstanding principal amount of the Series 2009 Bonds, and the consequences thereof, see "PART 5 – FHA MORTGAGE INSURANCE" and "PART 12 – BONDHOLDERS' RISKS – Reduction or Loss of Mortgage Insurance".

As further security for the Series 2009 Bonds, and subject to the qualifications set forth in the General Resolution, the Authority will assign and pledge to the Trustee certain of its rights under the Loan Agreement, including the right to receive payments on the Note; provided, however, that so long as no event of default has occurred, the Authority shall retain all rights and obligations as mortgagee under the FHA Documents and may give any consents or approvals permitted or required to be given by, and exercise all rights granted, to the mortgagee under the FHA Documents, subject in all respects to the provisions of the General Resolution. In addition, the Authority will pledge and grant a security interest to the Trustee in the Trust Revenues and all moneys, securities and instruments held from time to time under the Debt Service Fund, the Construction Fund (subject to certain conditions in the General Resolution), the Debt Service Reserve Fund (subject to certain conditions in the General Resolution) and the Redemption Account. For a further description of all of the items to be pledged to the Trustee, see "PART 3 – THE SERIES 2009 BONDS – Security for the Series 2009 Bonds" herein and "Appendix C – Summary of Certain Provisions of the General Resolution".

The Series 2009 Bonds are special obligations of the Authority and under the Resolutions are payable solely from the Trust Revenues pledged for the Series 2009 Bonds including moneys derived from payments of principal and interest under the Note, FHA Mortgage Insurance Benefits in the event of a default under the Note or Mortgage and the assignment thereof to FHA, and certain funds held by the Trustee, including the Debt Service Reserve Fund and the investment income thereon, net of amounts, if any, applied to the Arbitrage Rebate Fund. Pursuant to the terms of the

General Resolution, the funds and accounts established by the Series 2009 Resolution secure only the Series 2009 Bonds, and do not secure any other Series of Bonds issued under the General Resolution regardless of their dates of issue.

The Authority shall not be obligated to pay the principal of, or interest on, the Series 2009 Bonds except from the Trust Revenues and funds pledged therefor under the Resolutions. Neither the faith and credit nor the taxing power of the State of New York or any municipality or political subdivision thereof is pledged to the payment of the principal of, redemption premium, if any, or interest on the Series 2009 Bonds. The Authority has no taxing power.

The Series 2009 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2009 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development (“HUD”) or FHA. In the event of conflict between the provisions of the FHA Documents and the General Resolution, the Series 2009 Resolution or the Loan Agreement, the FHA Documents will control.

Attached hereto as Appendices C and D are summaries of certain provisions of the General Resolution and the Loan Agreement, respectively. Such summaries do not purport to be complete and reference is hereby made to these documents in their entirety for a complete description of all of the terms and provisions thereof. Copies of such documents are available at the offices of the Trustee and the Authority.

The Series 2009 Bonds

The Series 2009 Bonds will be dated their date of delivery and will bear interest from such date, payable on August 15, 2010 and on each February 15 and August 15 thereafter until the maturity or earlier redemption thereof, at the rates set forth on the inside cover page of this Official Statement. See “PART 3 – THE SERIES 2009 BONDS”.

The Authority

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

The Institution

New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery, commonly known as the Hospital for Special Surgery (and referred to herein as the “Institution” or the “Hospital”), is a voluntary, non-profit, acute care teaching hospital located at 535 East 70th Street, New York, New York on the Upper East Side of Manhattan, and is one of the world's leading Orthopedic and Rheumatology specialty hospitals. The Hospital is a New York not-for-profit corporation which is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). See “PART 10 – THE INSTITUTION”.

The Project

The Project is a major expansion and renovation project that will add approximately 60,000 square feet of new space to the East Wing of the Main Building, by adding three additional floors (floors 9-11) and new mechanical rooftop space. In addition, approximately 60,000 square feet of existing space will be renovated. See “PART 9 – THE PROJECT”.

PART 2 – PLAN OF FINANCING

Application of Series 2009 Bond Proceeds and Other Moneys

Proceeds of the Series 2009 Bonds will be deposited (1) in the Mortgage Account of the Construction Fund to pay Costs of the Project; (2) in the Reserve Account of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement for the Series 2009 Bonds less an amount equal to the Collateral Account

Requirement; and (3) in the Costs of Issuance Account of the Construction Fund to pay certain Costs of Issuance of the Series 2009 Bonds. Proceeds of the Series 2009 Bonds deposited in the Construction Fund shall first be applied to the payment of Costs of Issuance, and thereafter applied toward the payment of the Costs of the Project. Upon completion of the Project, the balance of the moneys remaining in the Construction Fund not needed to pay Costs of the Project then unpaid shall be applied in accordance with the Resolutions.

Upon delivery of the Series 2009 Bonds, the Institution is required to deliver to the Trustee an amount equal to the Collateral Account Requirement for deposit into the Collateral Account of the Debt Service Reserve Fund. The deposit of proceeds of the Series 2009 Bonds to the Reserve Account plus the Institution's delivery of the Collateral Account Requirement will satisfy the Debt Service Reserve Fund Requirement. The Collateral Account Requirement may be met with cash, a Letter of Credit, a surety bond or any combination thereof. For a description of the purpose and application of moneys in the Collateral Account, see "Payment of FHA Mortgage Insurance Benefits" below. The Loan Agreement further requires that, upon delivery of the Series 2009 Bonds, the Institution deliver to the Trustee an amount equal to the Investment Income Account Requirement for deposit into the Investment Income Account of the Construction Fund. The amount of such required deposit is equal to the maximum amount which may be required to pay interest on the Series 2009 Bonds prior to commencement of amortization of the Note, less the sum of: (a) the amount to be earned on investment of certain bond proceeds; and (b) the amount to be received as interest on the Note.

The Investment Income Account Requirement and the Collateral Account Requirement, if any, may be initially funded with Letters of Credit from JPMorgan Chase Bank, N.A.

To the extent not previously incurred, the Institution is also required to deliver to the Authority, at or prior to the time of delivery of the Series 2009 Bonds, the Institution's equity contribution to the Project, in the form of a cash contribution, prepaid expenses or any combination thereof or, in lieu thereof, a letter of credit acceptable to the Authority. See "PART 7 - ESTIMATED SOURCES AND USES OF FUNDS". If such equity contribution together with other amounts in the Mortgage Account of the Construction Fund is not sufficient to complete the Project, the Institution is required to provide all additional amounts needed to ensure completion.

The portion of the Debt Service Reserve Fund Requirement deposited in the Reserve Account of the Debt Service Reserve Fund from the proceeds of the Series 2009 Bonds and the funds deposited in the Mortgage Account of the Construction Fund will be invested in Permitted Investments authorized by the Resolutions. The General Resolution provides that net interest income on the Reserve Account will be deposited (i) prior to Final Endorsement, to the credit of the Investment Income Account of the Construction Fund and (ii) after Final Endorsement, to the credit of the Debt Service Account of the Debt Service Fund. Amounts available therefor in the Investment Income Account will be applied, if needed, together with interest payments on the Note, to payment of interest on the Series 2009 Bonds. Pending disbursement, the funds deposited in the Mortgage Account of the Construction Fund will be invested in Permitted Investments authorized by in the Resolutions. Net investment income on the Mortgage Account will be deposited prior to Final Endorsement (as defined herein) to the credit of the Investment Income Account of the Construction Fund.

In the event that the Institution determines after the date of delivery of the Series 2009 Bonds to enter into one or more Investment Agreements with respect to any moneys in any Fund or Account held by the Trustee, the Resolutions require that the Institution first obtain a confirmation from each Rating Service that such Investment Agreement(s) will not cause the rating then in existence from such Rating Service to be lowered or withdrawn.

Construction Fund Disbursements

Concurrently with or prior to the delivery of the Series 2009 Bonds, FHA will initially endorse the Note for FHA Mortgage Insurance (the "Initial Endorsement"). Each month during the construction period, the Institution will submit to the Mortgage Servicer, on behalf of the Authority, as FHA mortgagee, an "Application for Insurance of Advance of Mortgage Proceeds" for payment of the Costs of the Project including interest on the amount of the Note outstanding during the preceding month. This application, together with certain other documentation, will be submitted by the Mortgage Servicer to FHA for approval, which approval is necessary in order for the advance to be entitled to the benefit of the FHA Mortgage Insurance. Upon receipt of FHA's approval of the advance, the Mortgage Servicer will deliver to the Authority the FHA approved advance and other documents or notifications required under the Servicing Agreement, and the Authority will cause payments to be made to the Institution from the Construction Fund for the

Costs approved for such advance; provided, however, that the portion of such Costs representing interest on the Note, less the Servicing Fee, shall be credited to the Investment Income Account.

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

(a) from the Mortgage Account and the Equity Account to the Institution pursuant to the Building Loan Agreement, the Loan Agreement and the Servicing Agreement, for payment of Costs of the Project, including certain costs incurred in connection with the issuance of the Series 2009 Bonds;

(b) from the Costs of Issuance Account for payment of certain costs incurred in connection with the issuance of the Series 2009 Bonds; and

(c) from the Investment Income Account to the Debt Service Account on the last business day preceding each August 15 and February 15, commencing on the last business day prior to August 15, 2010, until final endorsement of the Note, such amount as may be required, together with the amount then on deposit in the Debt Service Account and available to pay interest, to provide funds for the interest becoming due on the Series 2009 Bonds.

Further, moneys in the Construction Fund shall be transferred from the Mortgage Account and the Equity Account to FHA, if FHA so requires, in the event of a default under the Note and Mortgage and assignment of the Note and Mortgage to FHA. If FHA does not require such a transfer, the undisbursed balance in the Construction Fund shall be applied to the Extraordinary Mandatory Redemption of the Series 2009 Bonds. See "PART 3 – THE SERIES 2009 BONDS – Redemption of the Series 2009 Bonds".

Up to and including thirty (30) days prior to the commencement of amortization, the Institution will make monthly payments of interest at the rate of 8.25% per annum on amounts disbursed from the Mortgage Account pursuant to the Building Loan Agreement. Thereafter, the Note provides that interest shall be paid monthly at the rate of 6.08% per annum on the outstanding balance of such principal, although at Final Endorsement it is expected that the interest rate on the Note will be further reduced to 5.82%. See "PART 4 –SCHEDULE OF PRINCIPAL, INTEREST AND ESTIMATED SINKING FUND REDEMPTIONS". Such interest payments, after deduction of the Servicing Fee, will be deposited in the Debt Service Account to the extent paid by the Institution and credited to the Investment Income Account to the extent paid from amounts in the Mortgage Account. Such moneys shall be applied to the payment of interest becoming due on the Series 2009 Bonds each August 15 and February 15 commencing August 15, 2010. Moneys in the Mortgage Account which may be advanced for interest on the Note may not exceed the sum of \$8,191,488, the figure approved in the FHA Commitment for capitalized interest, or such other amount as FHA may approve. In the event a credit therefor is not available from the Mortgage Account, the Institution is expected to make interest payments on the Note from its own resources. Furthermore, in the event that Final Endorsement has not occurred by February 1, 2012, an additional amount of interest may be charged with respect to the Note such that the rate of interest thereon would be set at such rate above 6.08% (but not exceeding 6.60%) until Final Endorsement sufficient to pay the Series 2009 Bonds.

Procedures Upon Completion of Project

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

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

Payment of Note and Series 2009 Bonds

The FHA Mortgage Loan is being insured by FHA pursuant to the FHA Commitment. Amortization of the principal of the Note is required to begin no later than February 1, 2012. Up to and including thirty (30) days prior to the commencement of amortization, the Institution will make monthly payments of interest at the rate of 8.25% per annum on amounts disbursed from the Mortgage Account pursuant to the Building Loan Agreement. Thereafter, the Note provides that interest shall be paid monthly at the rate of 6.08% per annum on the outstanding balance of such principal, although at Final Endorsement it is expected that the interest rate on the Note will be further reduced to 5.82%. See “PART 4 –SCHEDULE OF PRINCIPAL AND ESTIMATED SINKING FUND REDEMPTIONS”. In the event that Final Endorsement has not occurred by February 1, 2012, an additional amount of interest may be charged with respect to the Note such that the rate of interest thereon would be set at such rate above 6.08% (but not exceeding 6.60%) until Final Endorsement sufficient to pay the Series 2009 Bonds.

The maturity and final payment date of the Note shall be January 1, 2037. Such payments will be collected by the Mortgage Servicer on behalf of the Authority and will then be paid by the Mortgage Servicer, after deduction of the Servicing Fee and Mortgagee Advances, if any, to the Trustee for deposit into the Debt Service Account. Following Final Endorsement, net investment income from the Debt Service Reserve Fund (except the portion of the Collateral Account representing the Institution’s contribution to such Fund) will also be transferred to the Debt Service Account.

The General Resolution provides that on the last business day prior to each Interest Payment Date, the Trustee shall pay out of the Debt Service Account the following: (i) interest due on the Series 2009 Bonds on such Interest Payment Date; (ii) principal of the Series 2009 Bonds maturing on such Interest Payment Date; (iii) if the Note and the Mortgage have been assigned to FHA due to a payment failure by the Institution, fees and expenses, as applicable, of the Authority and the Trustee; and (iv) to the extent required by the General Resolution, amounts to be applied to Sinking Fund Redemptions. All net investment earnings in the Debt Service Account shall be used to fund the Surplus Account. Funds in the Surplus Account will be used to pay the Trustee’s annual fee and all fees and expenses of the Authority; any excess in the Surplus Account over \$35,000 will at the direction of the Authority be transferred to the Debt Service Account so long as the Institution is not in default of any of its obligations under the FHA documents and the Loan Agreement.

Payment of FHA Mortgage Insurance Benefits

Pursuant to the terms of the Resolutions, if a payment default occurs under the Note and continues for thirty (30) days subject to the FHA requirements described in “PART 5—FHA MORTGAGE INSURANCE - Default and Payment of Mortgage Benefits”, the Note and the Mortgage shall be assigned to FHA in order to receive FHA Mortgage Insurance Benefits. Upon such event and until final payment by FHA of all FHA Mortgage Insurance Benefits, unless and until such default is waived in accordance with the Resolutions, the Trustee shall transfer from the Reserve Account of the Debt Service Reserve Fund to the Debt Service Account on the second Business Day preceding each Interest Payment Date an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest and principal then due on the Series 2009 Bonds Outstanding. See “PART 6– CERTAIN PROVISIONS OF THE FHA DOCUMENTS”.

No assurance can be given that moneys in the Collateral Account or Reserve Account of the Debt Service Reserve Fund will be sufficient to make all payments of debt service on the Series 2009 Bonds from the time a payment default occurs until final payment of FHA Mortgage Insurance Benefits is made. See “PART 12– BONDHOLDERS’ RISKS” and “PART 5 – FHA MORTGAGE INSURANCE”. The procedure to be followed by the Authority in filing claims for Mortgage Insurance Benefits and the application of Mortgage Insurance Benefits are described in Appendix C under the headings “Summary of Certain Provisions of the General Resolution - Remedies under Mortgage and FHA Mortgage Insurance” and “Application of FHA Mortgage Insurance Benefits”.

In the event of a default under the Note or the Mortgage resulting in an assignment of the Note and Mortgage to FHA and the receipt of FHA Mortgage Insurance Benefits, the Authority shall cause there to be prepared by a Financial Consultant a Cash Flow Statement for the Series 2009 Bonds which applies such Mortgage Insurance Benefits and other available funds in such manner as to provide for the timely payment of the principal of and interest on all the Series 2009 Bonds if the Authority in its discretion determines that such a Cash Flow Statement is appropriate. The Authority shall direct such revenues received with respect to a default under the Note or Mortgage to be applied to the redemption of the Series 2009 Bonds, all in accordance with the provisions of the Resolutions.

Generally, FHA Mortgage Insurance Benefits may be paid in cash or debentures or any combination thereof at the discretion of FHA. However, in the FHA Commitment, FHA has stated that the Mortgage Insurance Benefits will be paid in cash rather than in FHA debentures, and the Trustee has covenanted in the Series 2009 Resolution to request Mortgage Insurance Benefits to be paid in cash. See “PART 5—FHA MORTGAGE INSURANCE” and “PART 2—PLAN OF FINANCING—Payment of FHA Mortgage Insurance Benefits” for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

If cash FHA Mortgage Insurance Benefits, together with all amounts then on deposit in all the funds and accounts (other than the Arbitrage Rebate Fund and the Mortgage Account and the Equity Account of the Construction Fund) established under the Resolutions including any unused portion of any Letter of Credit, are sufficient to redeem the Series 2009 Bonds, with interest to the redemption date and to pay all accrued and estimated fees and expenses of the Authority, the Trustee and the Mortgage Servicer, then any Investment Agreement or investment permitted by the Resolutions in which moneys on deposit in any fund or account have been invested shall be liquidated or sold, and the proceeds thereof together with the proceeds of the FHA Mortgage Insurance Benefits and other available moneys shall be used to pay such fees and expenses and the balance shall be deposited in the Redemption Fund and used to redeem the Series 2009 Bonds.

In the event that such benefits are received from FHA in more than one cash installment, the Authority shall immediately deposit the first such installment in the Redemption Account after providing, by deposit to the Debt Service Account, for the payment of the maturing Principal Amount, if any, and interest due on the Series 2009 Bonds, occurring on or prior to the date set for redemption and apply such moneys to the Extraordinary Mandatory Redemption of a portion of such Series 2009 Bonds. See “PART 3—THE SERIES 2009 BONDS—Redemption of the Series 2009 Bonds”.

In the event of a default under the Note, it is anticipated that the Mortgage Insurance Benefits, together with the Trust Revenues held pursuant to the Resolutions, will be sufficient to pay on a timely basis, the maturing principal of and interest on the Series 2009 Bonds. The Mortgage Insurance, however, does not constitute a guarantee or assurance of the timely payment of the principal or Redemption Price of, and interest on, the Series 2009 Bonds. Furthermore, Mortgage Insurance Benefits, together with other Trust Revenues held on deposit under the Resolutions, may not be sufficient to pay the principal or Redemption Price of, and interest on, the Series 2009 Bonds depending upon the amount, if any, of the offsets made in calculating the payment of a claim for Mortgage Insurance Benefits. See “PART 5 – FHA MORTGAGE INSURANCE”.

Prepayment of Note from Hazard Insurance or Condemnation Proceeds

The Loan Agreement provides that hazard insurance proceeds and condemnation awards which are paid to the Authority as mortgagee under the Mortgage upon a complete or partial destruction or condemnation (including eminent domain) of the Mortgaged Property shall, to the extent not applied for the repairing, replacing or rebuilding of the Mortgaged Property as may be permitted pursuant to the terms of the FHA Documents, the Loan Agreement and the Resolutions, be applied to the prepayment of the Note. For information concerning redemption of Series 2009 Bonds from Note prepayments, see “PART 3 – THE SERIES 2009 BONDS – Redemption of the Series 2009 Bonds”.

PART 3 – THE SERIES 2009 BONDS

Description of the Series 2009 Bonds

The Series 2009 Bonds will be issued as fully registered bonds in the initial aggregate Principal Amount set forth on the cover page hereof. The Series 2009 Bonds will be dated their date of delivery and will bear interest from such date payable on August 15, 2010, and on each February 15 and August 15 thereafter and will bear interest at the rates and mature on the dates set forth on the inside cover page hereof. Interest on the Series 2009 Bonds shall accrue based upon a 360-day year of twelve 30-day months.

The Series 2009 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Series 2009 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC’s Book-Entry Only System. Purchase of beneficial interests in the Series 2009 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2009 Bonds, the Series 2009 Bonds will be exchangeable for other fully registered Series 2009 Bonds in any other authorized denominations of the same maturity

without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the General Resolution. See “Book-Entry Only System” herein and “Appendix C – Summary of Certain Provisions of the General Resolution”.

The principal of and interest on the Series 2009 Bonds will be payable in lawful money of the United States of America. The principal or Redemption Price of the Series 2009 Bonds will be payable at the principal corporate trust office of The Bank of New York Mellon, New York, the Trustee and Paying Agent. Interest on the Series 2009 Bonds will be payable by check or draft mailed to the registered owners thereof at their addresses as shown on the registration books held by the Trustee. Interest is payable to the registered owners who are such registered owners at the close of business on the fifteenth day of the calendar month next preceding an interest payment date. In the event that the Series 2009 Bonds are no longer held in book-entry only form, Bondholders of \$1,000,000 or more aggregate principal amount of Series 2009 Bonds may receive interest by wire transfer to the wire transfer address, within the continental United States specified by such Bondholder, upon the written request of such Holder received not less than 20 days prior to the next interest payment date, which written request may apply to multiple interest payment dates. In such event, such Bondholders may also receive the Redemption Price by wire transfer at the address in the continental United States specified by such Bondholder in a written request to the Trustee upon presentation and surrender to the Trustee of the Series 2009 Bond to be redeemed.

Security for the Series 2009 Bonds

The Principal Amount or Redemption Price of and interest on the Series 2009 Bonds are payable: (1) from payments to be made by the Institution under the Note (other than the Servicing Fee and Mortgagee Advances or late payment charges) and certain amounts payable under the Loan Agreement; (2) from Mortgage Insurance Benefits, in the event of a default by the Institution under the Note and Mortgage and assignment thereof to FHA; and (3) from certain funds and accounts held by the Trustee pursuant to the Resolutions and certain investment income thereon. The Series 2009 Bonds will be separately secured from all other bonds issued under the Resolution and the obligations of the Institution under the Note are secured by the Mortgage and by the corresponding Security Agreement, from the Institution to the Authority, granting to the Authority a lien on certain fixtures and equipment and accounts receivable in the Mortgaged Property (the “Security Agreement”). For further description of the Mortgage Insurance Benefits, see “PART 5 – FHA MORTGAGE INSURANCE”.

The General 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. The Holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series, including the Series 2009 Bonds.

The Resolutions provide for the establishment of a Debt Service Reserve Fund with respect to the Series 2009 Bonds which includes the following accounts: (a) the Reserve Account, funded from the proceeds of the Series 2009 Bonds, in an amount equal to, as of any particular date of computation, not less than the sum of (i) the maximum Principal Amount of the Series 2009 Bonds constituting Serial Bonds and interest thereon anticipated to come due in any twelve (12) month period; (ii) an amount equal to the maximum amount of interest on the Series 2009 Bonds constituting Term Bonds coming due in any twelve (12) month period; (iii) the greater of: (A) one month’s principal and interest on the Note; or (B) one month’s interest only at the interim mortgage rate on the face amount of the Note; and (iv) the Collateral Account Requirement, which may be funded by the Institution with cash, a surety bond or a Letter of Credit in an amount, if any, equal to the Collateral Account Requirement.

The Series 2009 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2009 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD or FHA. The Series 2009 Bonds will not be a debt of the State of New York nor will the State be liable thereon. The Authority has no taxing power.

Redemption of the Series 2009 Bonds

Sinking Fund Redemption. The Series 2009 Term Bonds maturing August 15, 2034 and August 15, 2038 are subject to Sinking Fund Redemption in direct order of maturity (and within a maturity by lot) at a Redemption Price of 100% of the principal amount thereof on February 15 and August 15 from funds remaining in the Debt Service Account and available for such purpose under the Resolutions after providing for the payment of maturing principal and interest

then due on the Series 2009 Bonds. Since the amount of funds available to be applied to make Sinking Fund Redemptions may vary, the Resolutions do not require that Sinking Fund Redemptions be made in any specific amount, but only to the extent that funds are available in the Redemption Account therefor.

Notwithstanding the foregoing, all of the Series 2009 Bonds shall also be subject to Sinking Fund Redemption to the extent Mortgage Insurance Benefits are on deposit and available therefor in accordance with the General Resolution, at a Redemption Price equal to the principal amount to be redeemed on each August 15 and February 15 from funds remaining in the Debt Service Account after providing for the payment of interest then due on the Series 2009 Bonds. Redemption from such amounts shall be in direct order of maturity of the Series 2009 Bonds and within a maturity by lot or in such other manner as the Authority may direct to permit the timely payment of principal of or interest on all Series 2009 Bonds.

Although the final maturity date of the Series 2009 Bonds is August 15, 2038, the payments of principal and interest under the Note have been scheduled to provide sufficient funds, together with funds in the Debt Service Reserve Fund and certain investment earnings thereon, so that in the absence of a default under the Note and Mortgage, all Series 2009 Bonds Outstanding will be redeemed pursuant to Sinking Fund Installments by August 15, 2037. "PART 4 - PRINCIPAL, INTEREST AND ESTIMATED SCHEDULE OF SINKING FUND INSTALLMENTS" sets forth the estimated Sinking Fund Installments for the Series 2009 Bonds. Redemption from such amounts shall be in direct order of maturity of the Series 2009 Bonds and within a maturity by lot, or in such other manner as the Authority may direct to permit the timely payment of the principal of or interest on all Series 2009 Bonds.

Optional Redemption. The Series 2009 Bonds maturing on or prior to August 15, 2019 are not subject to optional redemption prior to maturity. The Series 2009 Bonds maturing on or after February 15, 2020 are subject to Optional Redemption prior to maturity by the Authority, but only upon the request of the Institution, on or after August 15, 2019 in whole or in part at any time at a Redemption Price equal to the principal amount to be redeemed, plus interest accrued to the redemption date.

Special Mandatory Redemption. The Series 2009 Bonds are subject to Special Mandatory Redemption prior to maturity, in part, on the earliest practicable redemption date or dates following completion of the Project from the deposit into the Redemption Account (1) of moneys remaining in the Mortgage Account and the Investment Income Account and (2) of funds required to be deposited in the Redemption Account by the Institution pursuant to the Loan Agreement, at a Redemption Price of 100% of the Principal Amount to be redeemed, plus interest accrued to the redemption date. See "PART 4 - SCHEDULE OF PRINCIPAL AND ESTIMATED SINKING FUND REDEMPTIONS".

Extraordinary Mandatory Redemption. The Series 2009 Bonds are subject to Extraordinary Mandatory Redemption in whole or in part at any time prior to maturity at a Redemption Price of 100% of the Principal Amount to be redeemed, plus interest accrued to the redemption date, on the earliest practicable date following:

1. the deposit into the Redemption Account upon the conditions specified in the Resolutions of proceeds of casualty insurance on, or condemnation of, the Mortgaged Property and other available moneys received by the Authority pursuant to the Loan Agreement as are not applied to the repair, rebuilding or restoration of the Mortgaged Property;
2. the deposit into the Redemption Account, upon the conditions specified in the General Resolution, of amounts of Mortgage Insurance Benefits and certain amounts held in the funds and accounts established under the General Resolution; or
3. the deposit into the Redemption Account, upon the conditions specified in the Resolutions, of proceeds of a refinancing and prepayment under the Note following a default thereunder and a determination by FHA that refinancing of the Note resulting in such prepayment will avoid a claim for Mortgage Insurance Benefits. It is possible that FHA could require a refinancing of all or a portion of the Note. If this occurs, an Extraordinary Mandatory Redemption in whole or in part of the Series 2009 Bonds may occur.

Purchase in Lieu of Optional Redemption. In lieu of calling Series 2009 Bonds for optional redemption, the Series 2009 Bonds are subject to mandatory or voluntary tender for purchase at the direction of the Authority upon request of the Institution in whole or in part (and, if in part, in such manner as determined by the Institution) on any date

on or after August 15, 2019 at a purchase price equal to the principal amount thereof, plus accrued interest to the purchase date. Purchases of tendered Series 2009 Bonds (whether such tender is on a mandatory or voluntary basis) may be made without regard to any provision of the Resolutions relating to the selection of Series 2009 Bonds in a partial optional redemption. Series 2009 Bonds purchased pursuant to any mandatory or voluntary tender(s) are not required to be cancelled, and if not so cancelled, shall, prior to any reoffering to the public, not be deemed Outstanding in connection with any subsequent partial optional redemption solely for purposes of those provisions of the Resolutions relating to the selection of Series 2009 Bonds in a partial redemption. See “Selection of Series 2009 Bonds for Other Than Sinking Fund Redemption” below.

Selection of Series 2009 Bonds for Other Than Sinking Fund Redemption. If fewer than all of the Series 2009 Bonds are to be redeemed, the Trustee shall call for redemption a Principal Amount of such Series 2009 Bonds of each maturity to be so redeemed in an amount as directed by the Authority, which direction may, at the option of the Authority, be based up a Cash Flow Statement prepared by a Financial Consultant which provides for the timely payment of principal of and interest on all Series 2009 Bonds. If less than all Series 2009 Bonds of a particular maturity shall be redeemed, the particular Series 2009 Bonds of such maturity to be redeemed shall be selected by the Trustee by lot by such method as prescribed in the Resolutions provided, however, that Series 2009 Bonds tendered for purchase, whether such tender is on a mandatory or voluntary basis, shall, prior to any reoffering to the public, not be deemed Outstanding in connection with an subsequent partial optional redemption for purposes of those provisions of the Resolutions relating to the selection of Series 2009 Bonds to be redeemed.

In the event Mortgage Insurance Benefits are paid in cash by FHA in installments rather than one lump sum, the Trustee shall select the Series 2009 Bonds to be redeemed by Extraordinary Mandatory Redemption in such order as the Authority shall determine in its discretion to permit the timely payment of the principal or interest on the Series 2009 Bonds until the final installment is paid, in which event all of such Series 2009 Bonds will be redeemed by Extraordinary Mandatory Redemption with the proceeds of the final cash payment together with other moneys available therefor under the Resolutions.

Notice of Redemption. Whenever Series 2009 Bonds are to be redeemed, the Trustee shall give notice of the redemption of such Bonds in the name of the Authority, postage prepaid, to the registered owners of any Series 2009 Bonds which are to be redeemed, at their last known address, if any, appearing on the registration books of the Authority, at least thirty but not more than forty-five days prior to the redemption date except that with respect to any Extraordinary Mandatory Redemption such notice shall be given at least ten but not more than thirty days prior to the redemption date. Such notice shall specify: (i) the Series 2009 Bonds to be redeemed (including date of issue, interest rate and maturity date); (ii) the redemption date; (iii) the Redemption Price; (iv) the source of the funds to be used for the redemption; (v) the numbers, any CUSIP number and other distinguishing characteristics of the Series 2009 Bonds to be redeemed (except in the event that all of the Outstanding Series 2009 Bonds are to be redeemed); (vi) of each such Bond, the Principal Amount thereof to be redeemed; (vii) that such Series 2009 Bonds will be redeemed at the principal corporate trust office of the Trustee giving the address thereof and the name and telephone number of a representative of the Trustee to where inquiries may be directed; and (viii) that no representation is made as to the correctness of the CUSIP number either as printed on the Series 2009 Bonds or as contained in such notice and that an error in a CUSIP number as printed on such Bond or as contained in such notice shall not affect the validity of the proceedings for redemption.

Such notice shall further state that on such date there shall become due and payable on each Series 2009 Bond to be redeemed, the redemption price thereof, together with interest accrued to the Redemption Date, if other than an Interest Payment Date, and that from and after such date, payment having been made or provided for, interest thereon shall cease to accrue. Failure of any registered owner to receive any such notice, or any defect therein, shall not affect the validity of a redemption of the Series 2009 Bonds with respect to which such notice has been given in accordance with the General Resolution.

Any notice of redemption may also state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, if any, and interest on the Series 2009 Bonds to be redeemed or that the Authority retains the right to rescind such notice of redemption on or prior to the scheduled redemption date and that if such moneys are not so received or if the notice of redemption is rescinded such notice shall be of no force or effect and the Series 2009 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal, premium, if any, and interest on the Series 2009 Bonds are not received by the Trustee on or prior to the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of

redemption was given, that such moneys were not so received, that the redemption did not occur and that the Series 2009 Bonds called for redemption and no so paid remain Outstanding. Any Series 2009 Bonds subject to a conditional redemption where redemption has not occurred shall remain Outstanding, and such failure to redeem shall not constitute an Event of Default.

Additional Indebtedness

The Authority, as mortgagee under the Mortgage, may, upon satisfaction of certain requirements set forth in the General Resolution and the FHA Documents, consent to the Institution's incurring indebtedness in addition to the Note, secured by a lien on the Mortgaged Property. See "Appendix C - Summary of Certain Provisions of the General Resolution". Such bonds may be secured on parity with the Series 2009 Bonds or may be separately secured pursuant to the terms of a separate Series Resolution adopted pursuant to the Resolution.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2009 Bonds. The Series 2009 Bonds will be issued as fully-registered bonds 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 2009 Bond will be issued for each maturity of the Series 2009 Bonds, each in the aggregate principal amount of such maturity 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates 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. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, 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 Direct and Indirect Participants (collectively, "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009 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 definitive Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2009 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 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution and other related documents. For example, Beneficial Owners of Series 2009 Bonds may wish to ascertain that the nominee holding the Series 2009 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar for the Series 2009 Bonds and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, and principal and interest payments on the Series 2009 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 (or its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, definitive Series 2009 Bonds are required to be printed and delivered.

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

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or such other successor depository). In that event, Series 2009 Bond certificates will be printed and delivered.

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

So long as Cede & Co. is the registered owner of the Series 2009 Bonds, as nominee for DTC, references herein to the Bondholders, Holders, owners or registered owners of the Series 2009 Bonds (other than under the captions "PART 16 - TAX MATTERS" and "PART 22 - CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2009 Bonds.

PART 4 – SCHEDULE OF PRINCIPAL, INTEREST AND ESTIMATED SINKING FUND REDEMPTIONS

The following table sets forth the debt service schedule for the Series 2009 Bonds, including interest payments to be made on the Series 2009 Bonds, principal payments to be made at maturity of the Series 2009 Bonds and estimated Sinking Fund Redemptions for the Series 2009 Bonds. This schedule is based on the following assumptions: (i) that the first payment of principal of the Note will be made no later than February 1, 2012; (ii) that no event of default will occur under the Note or Mortgage requiring the Authority to assign the Note and Mortgage to FHA; (iii) that net interest income on the Reserve Account will be earned at the rate of approximately 0% per annum, and the net interest income on the Mortgage Account of the Construction Fund will be earned at a rate of approximately 0% per annum until January 1, 2012; (iv) that the interest rate on the Note will be 8.25% per annum up to and including one month prior to the commencement of amortization, 6.08% per annum until Final Endorsement and thereafter, although at Final Endorsement it is expected that the interest rate on the Note will be further reduced to 5.82%; (v) that monthly construction draws from the Mortgage Account will proceed in accordance with an estimated schedule provided by the Institution; and (vi) that no prepayments are made on the Note and the Series 2009 Bonds are not refunded in whole or in part. See, “PART 6-CERTAIN PROVISIONS OF THE FHA DOCUMENTS – The Note”. The interest rates utilized for preparing the following schedule reflects the Institution’s current assumptions of monthly construction draws at the rate at which the Note will bear interest at Initial Endorsement together with the interest earnings on the Investment Agreements. (See “PART 6 - CERTAIN PROVISIONS OF THE FHA DOCUMENTS - The Note”). Under the Resolutions, the Authority may consent to an amendment of the Note to reduce the interest rate following Final Endorsement and, in such event, the actual Sinking Fund Installments in any Bond Year may be reduced. In no event shall any such reduction result in the payment of the interest on the Series 2009 Bonds later than the dates on which the same shall become due or the payment of the principal of each Series 2009 Bond later than its respective maturity date.

The notes which follow the schedule describe circumstances under which the Sinking Fund Installments of the Series 2009 Bonds may vary from that which is set forth in the following table.

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Date	Principal Payments on Series 2009 Serial Bonds	Estimated Sinking Fund Installments on Series 2009 Term Bonds Maturing August 15, 2034	Estimated Sinking Fund Installments on Series 2009 Term Bonds Maturing August 15, 2038	Interest on Series 2009 Bonds	Estimated Debt Service on all Other Bonds Issued for the Institution by the Authority	Total Debt Service
2/15/2010	--	--	--	--	\$ 6,230,996	\$ 6,230,996
8/15/2010	--	--	--	\$3,137,781	6,235,338	9,373,119
2/15/2011	--	--	--	2,241,272	6,236,969	8,478,241
8/15/2011	--	--	--	2,241,272	6,230,723	8,471,994
2/15/2012	--	--	--	2,241,272	6,238,084	8,479,356
8/15/2012	\$ 725,000	\$2,230,000	--	2,241,272	6,237,559	11,433,831
2/15/2013	810,000	10,000	--	2,157,084	6,240,009	9,217,094
8/15/2013	835,000	--	--	2,136,522	6,235,684	9,207,206
2/15/2014	850,000	--	--	2,122,953	6,239,709	9,212,663
8/15/2014	865,000	5,000	--	2,103,828	6,241,456	9,215,284
2/15/2015	885,000	5,000	--	2,088,534	6,242,056	9,220,591
8/15/2015	905,000	--	--	2,066,253	6,239,500	9,210,753
2/15/2016	925,000	5,000	--	2,049,284	6,241,000	9,220,284
8/15/2016	945,000	5,000	--	2,026,003	6,244,388	9,220,391
2/15/2017	965,000	5,000	--	2,006,947	6,241,425	9,218,372
8/15/2017	990,000	--	--	1,985,078	6,246,225	9,221,303
2/15/2018	1,010,000	5,000	--	1,964,041	6,248,538	9,227,578
8/15/2018	1,035,000	5,000	--	1,938,634	6,246,975	9,225,609
2/15/2019	1,060,000	--	--	1,917,778	6,248,125	9,225,903
8/15/2019	1,085,000	--	--	1,891,278	6,251,863	9,228,141
2/15/2020	1,110,000	5,000	--	1,868,222	6,248,075	9,231,297
8/15/2020	1,135,000	5,000	--	1,840,316	6,249,925	9,230,241
2/15/2021	1,165,000	--	--	1,815,331	6,254,088	9,234,419
8/15/2021	1,190,000	5,000	--	1,786,206	6,255,438	9,236,644
2/15/2022	1,220,000	--	--	1,760,019	6,248,988	9,229,006
8/15/2022	1,250,000	5,000	--	1,727,994	6,264,838	9,247,831
2/15/2023	1,280,000	5,000	--	1,699,713	14,977,400	17,962,113*
8/15/2023	1,315,000	5,000	--	1,664,356	2,059,138	5,043,494
2/15/2024	1,350,000	--	--	1,634,613	2,055,338	5,039,950
8/15/2024	1,380,000	5,000	--	1,597,488	2,053,625	5,036,113
2/15/2025	1,415,000	5,000	--	1,565,419	2,060,250	5,045,669
8/15/2025	1,445,000	10,000	--	1,533,425	2,055,875	5,044,300
2/15/2026	1,485,000	5,000	--	1,498,794	2,055,750	5,044,544
8/15/2026	1,525,000	5,000	--	1,454,088	2,059,750	5,043,838
2/15/2027	1,570,000	5,000	--	1,417,713	2,057,750	5,050,463
8/15/2027	1,605,000	5,000	--	1,380,269	2,059,875	5,050,144
2/15/2028	1,645,000	--	--	1,341,994	2,056,000	5,042,994
8/15/2028	1,685,000	5,000	--	1,301,897	2,061,250	5,053,147
2/15/2029	1,725,000	10,000	--	1,260,669	2,060,375	5,056,044
8/15/2029	<u>1,765,000</u>	10,000	--	1,218,309	2,058,500	5,051,809
2/15/2030	--	1,770,000	--	1,174,975	2,060,625	5,005,600
8/15/2030	--	1,870,000	--	1,119,663	2,061,625	5,051,288
2/15/2031	--	1,925,000	--	1,061,225	2,061,500	5,047,725
8/15/2031	--	1,985,000	--	1,001,069	2,065,250	5,051,319
2/15/2032	--	2,050,000	--	939,038	4,827,750	7,816,788*
8/15/2032	--	2,105,000	--	874,975	--	2,979,975
2/15/2033	--	2,160,000	--	809,194	--	2,969,194
8/15/2033	--	2,215,000	--	741,694	--	2,956,694
2/15/2034	--	<u>1,460,000</u>	\$ 780,000	672,475	--	2,912,475
8/15/2034	--	--	2,270,000	603,450	--	2,873,450
2/15/2035	--	--	2,795,000	535,350	--	3,330,350
8/15/2035	--	--	2,530,000	451,500	--	2,981,500
2/15/2036	--	--	2,615,000	375,600	--	2,990,600
8/15/2036	--	--	2,690,000	297,150	--	2,987,150
2/15/2037	--	--	<u>7,215,000</u>	<u>216,450</u>	--	7,431,450*
8/15/2037	--	--	--	--	--	--
2/15/2038	--	--	--	--	--	--
8/15/2038	--	--	--	--	--	--
Totals:	<u>\$42,150,000</u>	<u>\$19,910,000</u>	<u>\$20,895,000</u>	<u>\$82,797,725</u>	<u>\$217,125,598</u>	<u>\$382,898,323</u>

* On February 15, 2023, February 15, 2032 and February 15, 2037, Debt Service Reserve Fund moneys held by the Trustee in the amounts of \$9,030,000, \$4,480,000 and \$6,670,000, respectively, are expected to become available to the Hospital and used to pay a portion of the total estimated debt service on such dates.

The actual Sinking Fund Redemption of the Series 2009 Bonds may vary from the estimated schedule set forth above for various reasons, including, but not limited to, the following:

1. If the principal amount of the Note approved by FHA at Final Endorsement is less than the principal amount of the Note approved at Initial Endorsement because the Costs of the Project as finally approved by FHA are less than originally approved, the remaining payments on the Note will be recast. In such event, each succeeding payment due on the Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2009 Bonds as described in “Special Mandatory Redemption” of “PART 3 – THE SERIES 2009 BONDS” above.

2. If an event of default occurs under the Note and the Mortgage, and the Note and the Mortgage are assigned to FHA, certain funds held pursuant to the Resolutions and certain of the Mortgage Insurance Benefits, or the proceeds thereof when received, will be applied to pay the interest due on the Series 2009 Bonds, any maturing Principal Amount of the Series 2009 Bonds, the fees and expenses of the Trustee, the Authority and the Mortgage Servicer, and Mortgagee Advances, and the balance will be applied to Sinking Fund Redemption of all of the Series 2009 Term Bonds. See “PART 3 – THE SERIES 2009 BONDS - Redemption of the Series 2009 Bonds – Sinking Fund Redemption”. Sinking Fund Redemptions to be made under such circumstances will vary from the amounts set forth on the above schedule.

3. To the extent the Institution prepays the Note and provides other required funds, if any, the Trustee shall redeem Series 2009 Bonds and the remaining payments on the Note will be reduced, thus reducing the amounts available in each succeeding semiannual period for redemption of Series 2009 Bonds. In such event, each succeeding payment due on the Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2009 Bonds as described in “PART 3 – THE SERIES 2009 BONDS – Optional Redemption” above.

4. Any such cash payment made with respect to an event of default under the Note, the Mortgage and Mortgage Insurance Benefits shall be applied to the Extraordinary Mandatory Redemption of Series 2009 Bonds, which would affect future Sinking Fund Redemptions.

5. To the extent the Note is prepaid with the proceeds of hazard insurance, the Trustee shall redeem Series 2009 Bonds and the remaining payments on the Note will be reduced, thus reducing the amounts available in each succeeding semiannual period for redemption of Series 2009 Bonds. In such event, each succeeding payment due on the Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2009 Bonds as described in “Optional Redemption” of “PART 3 – THE SERIES 2009 BONDS”, above.

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

PART 5 – FHA MORTGAGE INSURANCE

General

The Mortgage will be insured by FHA under Section 241 of the National Housing Act, as amended (“Section 241”). The applicable FHA regulations regarding Section 241 are contained in Part 200 and Part 242 of Title 24 of the Code of Federal Regulations, and, with certain exceptions, incorporate by reference the provisions of Subpart B, Part 207, all under of Title 24 of the Code of Federal Regulations covering mortgages, deeds of trust and other similar instruments insured under the National Housing Act, as amended.

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

The National Housing Act, as amended, and the applicable regulations provide that claims for FHA Mortgage Insurance Benefits under mortgages insured pursuant to Section 241 are to be paid in cash, debentures, or in any combination thereof, at the option of FHA. However, in the FHA Commitment, FHA has stated that the Mortgage Insurance Benefits will be paid in cash rather than FHA debentures, and the Trustee has covenanted in the Series 2009 Resolution to request Mortgage Insurance Benefits to be paid in cash.

FHA regulations provide that the maximum insurable mortgage amount cannot exceed 90% of FHA's estimate of the cost of the property or project, including equipment to be used in its operation when the proposed improvements are completed and the equipment is installed, and the mortgage must have a maturity date no longer than 25 years from commencement of amortization. The Mortgage meets these requirements.

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

FHA Insurance Processing

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

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

A mortgage insurance premium in an annual amount equal to one-half of one percent ($\frac{1}{2}$ of 1%) of the face amount of the Note prior to Final Endorsement and one-half of one percent ($\frac{1}{2}$ of 1%) of the outstanding principal balance of the Note thereafter is charged by FHA and collected annually in advance prior to Final Endorsement and thereafter monthly by or on behalf of the FHA mortgagee.

Construction

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

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

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

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

Default and Payment of Mortgage Insurance Benefits

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

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

Notwithstanding the above timetable established by FHA, the General Resolution requires that if the Institution fails to make any payment required under the Note or the Mortgage and such failure continues for a period of thirty days, or, if following a default by the Institution in the performance of any covenant in the Regulatory Agreement or the Mortgage, FHA shall have requested, and the Authority shall have declared an acceleration of the unpaid principal balance of the Note, the Authority shall (not later than one business day after the end of such thirty-day grace period or acceleration, as the case may be) give, or cause the Mortgage Servicer to give, written notice to FHA including, among other things, a statement of (1) the occurrence of such default, (2) the acts or omissions giving rise to the default, (3) the time period, if any, available to cure such default, (4) a schedule of remaining Interest Payment Dates and a schedule of debt service payments due on the Series 2009 Bonds, (5) a schedule of the funds available to make payments as they become due on the Series 2009 Bonds, (6) the Authority's election to assign the Note and the Mortgage to FHA, (7) the Authority's intention to file a claim for the Mortgage Insurance Benefits in cash as provided in the FHA Commitment

and in accordance with FHA regulations, and (8) the fact that the Mortgage was given to secure an issue of tax-exempt bonds. In filing such notice (the "Notice of Assignment"), the Authority or the Mortgage Servicer shall request priority processing of the Mortgage Insurance claim. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer shall request (a) such forms and instructions relating to the assignment of the Mortgage and (b) the endorsement of the title insurance policy for the Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five business days of the receipt of such forms and instructions, the Authority shall submit the legal documentation for review to the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of the Series 2009 Bonds Outstanding within twenty days of the date such notice was sent to FHA, the Authority shall take all actions necessary to assign the Note and the Mortgage to FHA and to recover such claim on the Mortgage Insurance as provided in the FHA Commitment and FHA regulations. Thereafter, the Authority shall continue with diligence to complete (not later than thirty days after the date of recordation of the assignment to FHA) and submit for review to FHA the fiscal documentation and any additional legal documentation in consultation with the Office of Finance and Accounting of FHA. In the event the assignment of the Note and the Mortgage will be completed later than the last business day preceding the thirtieth day following the giving of notice to FHA, notice thereof shall be given by the Authority to the Rating Service.

Notwithstanding the provisions set forth above, the General Resolution provides that in the event of a monetary default under the Note and the Mortgage during a period when a prepayment premium in excess of one (1%) percent is payable under the Note, within one business day following the lapse of the thirty-day grace period, the Authority, as the mortgagee under the Mortgage, shall, or shall cause the Mortgage Servicer to (1) notify FHA and the Rating Service of the default, (2) file with FHA a request for a three-month extension of the time to file its notice of intention and election to file a claim for Mortgage Insurance in connection with such default, and (3) file a copy of such extension request with the Rating Service. In filing such notice, the Authority shall, or shall cause the Mortgage Servicer to, state that it intends to request priority processing of the Mortgage Insurance claim and shall attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice and request, the Authority shall, or shall cause the Mortgage Servicer to, request forms and instructions relating to the assignment of the Mortgage, and within five business days of the receipt of such forms and instructions, the Authority shall, or shall cause the Mortgage Servicer to, submit legal documentation for review to the Office of General Counsel of FHA. The Authority will not request more than one additional extension of the initial extension period approved by FHA and it will not make such request until it receives written confirmation from the Rating Service that the rating for the Series 2009 Bonds will not be affected by such request for extension. If the conditions for such further extension are not met, the Authority will proceed with processing the Mortgage Insurance claim in a timely fashion in the manner described in the paragraph above. If the request by the Authority for the extension is not approved, the Authority, as the mortgagee under the Mortgage, shall, or shall cause the Mortgage Servicer to (1) file with FHA notice of its intention to file an insurance claim and its election to assign the Mortgage within two business days of the receipt of the decision from FHA, (2) file a copy of such intention and election with the Trustee and the Rating Service, and (3) thereafter proceed with the processing of the Mortgage Insurance claim in a timely fashion in the manner described in the above paragraph.

During the extension period approved by FHA (which, except as provided below, shall not be longer than three months), the Authority, as the mortgagee under the Mortgage, shall take the following actions, as appropriate: (1) assist the Institution in arranging a refinancing of the Note to cure the default and avert the filing of the claim for Mortgage Insurance; (2) report to FHA on a monthly basis the progress, if any, in arranging the refinancing; (3) cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the Mortgage Insurance claim; (4) if thirty days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Series 2009 Bonds, notify FHA of such deficiency and request the immediate payment of Mortgage Insurance Benefits in cash; and (5) if a determination is made by the Authority that the refinancing of the Note is infeasible (a) file a request with FHA for its concurrence in such determination, (b) submit to FHA a notice of intention and election to file a claim for Mortgage Insurance, (c) file a copy of such intention and election with the Trustee and the Rating Service, and (d) proceed with the processing of the Mortgage Insurance claim in a timely fashion in the manner followed for a monetary default, as described above.

To the extent a refinancing is arranged and approved by FHA, the General Resolution provides that the Note shall be prepaid, in whole or in part, and the proceeds shall be applied to the Extraordinary Mandatory Redemption of the Series 2009 Bonds; provided, however, that the Authority, as the mortgagee, shall not consent to such refinancing until it has received written confirmation from the Rating Service that the rating for the Series 2009 Bonds will not be affected by such refinancing; provided further, that such refinancing will result in a prepayment of the Note prior to the expiration of the approved extension period. To the extent there is a partial prepayment of the Note pursuant to an

approved refinancing, the Authority, as the mortgagee, shall consent to any subordinate or parity liens on the Mortgaged Property as may be required.

To the extent a refinancing is not approved by FHA, the Authority, as mortgagee, shall, or cause the Mortgage Servicer to (i) file with FHA its intention to file an insurance claim and its election to assign the Mortgage within two business days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Trustee and the Rating Service, and (iii) proceed with the processing of the Mortgage Insurance claim in a timely fashion in the manner described above. To the extent a refinancing cannot be completed within the approved extension period, the Authority, as mortgagee, shall, or shall cause the Mortgage Servicer to (i) file with FHA its intention to file a Mortgage Insurance claim and its election to assign the Mortgage within two business days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Trustee and the Rating Service, and (iii) proceed with the processing of the Mortgage Insurance claim in a timely fashion in a manner described above; provided, however, that at the option of the Authority, as mortgagee, if a refinancing has been arranged and approved by FHA within the approved extension period, and such refinancing can be completed within an additional thirty days, at the Authority's sole discretion, the refinancing will be accepted by the Authority if (1) confirmation is received from the Rating Service that the rating on the Series 2009 Bonds will not be affected, and (2) the Note and the Mortgage have not been assigned to FHA.

To the extent (i) FHA does not immediately pay a claim when requested by the Authority as described above, (ii) the processing of the Mortgage Insurance claim does not proceed as described in the previous four paragraphs or (iii) if the Rating Service does not provide confirmation that the rating on the Series 2009 Bonds will not be affected by a refunding accomplished as described in the above four paragraphs, then the Authority shall proceed in a manner to preserve the Mortgage Insurance of the Note and the Mortgage, and otherwise protect the interest of the Bondholders.

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

(a) Declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Institution, and shall within one business day give, or cause the Mortgage Servicer to give, to FHA, the Trustee and the Rating Service written notice of such default and of the Authority's intention and election to file a claim for Mortgage Insurance Benefits. In filing such notice the Authority or Mortgage Servicer shall request priority processing of the Mortgage Insurance claim. Immediately upon the filing of such notice, the Authority shall request (a) required forms and instructions relating to the assignment of the Mortgage and (b) an endorsement of the title insurance policy for the Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five business days of the receipt of such forms and instructions, the Authority shall submit or cause to be submitted the legal documentation for review by the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of the Series 2009 Bonds Outstanding within twenty days of the date such notice was sent to FHA, the Authority shall take all action necessary to assign the Note and the Mortgage to FHA and to recover such claim on the Mortgage Insurance in cash as provided in the FHA Commitment and FHA regulations. Thereafter, the Authority shall continue with diligence to complete and submit for review to FHA (no later than thirty days after the date of recordation of the assignment to FHA) fiscal documentation and any additional legal documentation in consultation with the Office of Finance and Accounting of FHA; or

(b) Give, or cause the Mortgage Servicer to give, written notice to FHA of the occurrence of such default and enter into an agreement with the Institution, approved by FHA, extending the time for curing such default; provided confirmation has been received from the Rating Service as to its rating for the Series 2009 Bonds.

Prior to the date the Note and Mortgage are assigned to FHA, the Institution may cure a monetary default, in which event the Authority shall withdraw its notice of assignment to FHA. In all cases, the Authority must have first received written confirmation from FHA that the withdrawal of any notice of assignment or election to receive

Mortgage Insurance Benefits of the Note and the Mortgage will not adversely affect the Mortgage Insurance, or be construed as a waiver or reduction thereof.

In connection with an assignment to FHA of the Mortgage, the Mortgage Insurance Benefits are payable in an amount equal to the aggregate of (1) the unpaid principal amount of the Mortgage, computed as of the date of default; plus (2) the amount of all payments made by or on behalf of the Authority, as mortgagee, with respect to taxes, special assessments and water rates which are liens prior to the Mortgage, insurance on the property, mortgage insurance premiums paid after default, and an allowance for reasonable payments made, with FHA approval, for the completion and preservation of the Mortgaged Property; plus (3) an amount equivalent to the FHA debenture interest which would have been earned on the Mortgage Insurance Benefits, if any, paid in cash, such interest being computed from the date of default to the date on which the Mortgage Insurance claim is settled in full (except that interest may be limited in the event that certain notices are not given to FHA within the prescribed time period or if certain action required in connection with the Mortgage Insurance claim is not taken). From the aggregate of the foregoing amount is deducted the total of (a) an assignment fee of 1% of the unpaid principal balance of the Mortgage as of the date of default, (b) certain amounts which have been realized by or on behalf of the Authority, as mortgagee, on account of the Mortgage or from the Mortgaged Property after the date of default, (c) certain cash items held by or on behalf of the Authority, as mortgagee, and not paid over to FHA, and (d) other offsets as described below. The proceeds of the Mortgage Insurance will also not include interest accruing on the Note for the month preceding the date of default on the Mortgage. Notwithstanding the foregoing, if FHA is requested to accept an assignment of a mortgage insured under the Act and it determines that a partial payment of insurance benefits would be less costly to the Federal Government than payment as set forth above, then FHA may request the mortgagee, in lieu of assignment, to accept a partial payment of the claim and recast the mortgage under such terms and conditions as FHA may determine. If the mortgagee accepts this option, the remaining principal balance of the mortgage will remain covered by the FHA Insurance.

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

If the Authority, as mortgagee, fails to give FHA notice of default or fails to take any action required of a mortgagee in connection with a Mortgage Insurance claim by the time stipulated in the regulations, and in a manner satisfactory to FHA, FHA may pay the Authority interest at the debenture rate on the amount of the Mortgage Insurance Benefits for that period only to the date on which the particular required action should have been taken or to which it was extended.

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

When FHA pays Mortgage Insurance Benefits in cash, rather than in FHA debentures, its normal practice is to offset certain cash items against the amount of the Mortgage Insurance Benefits. If FHA were to require the delivery of certain cash items before paying the Mortgage Insurance Benefits, the General Resolution requires that the Trustee transfer to FHA the amount, if any, on deposit in the Construction Fund. Although FHA may require the reduction of the Mortgage Insurance Benefits by the amount of certain cash items, FHA will not require a reduction by the amount held in other funds and accounts held by the Authority except that the amount of such benefits is subject to reduction or surcharge if funds have been disbursed from the Sinking Fund described in "PART 6 - CERTAIN PROVISIONS OF THE FHA DOCUMENTS - The Regulatory Agreement" in a manner or for purposes not in compliance with the Regulatory Agreement.

The timing of payment by FHA is subject to change depending upon overall FHA policy considerations and workload. Mortgage Insurance payments may be delayed if disputes arise as to the amount of the payment, or for other reasons described under “PART 12 – BONDHOLDERS’ RISKS” herein. Although the Debt Service Reserve Fund would be available to pay debt service on the Series 2009 Bonds during the period prior to payment by FHA in full of any Mortgage Insurance claim, there is no assurance that the Mortgage Insurance claim would be paid in full prior to exhaustion of the funds in the Debt Service Reserve Fund.

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

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

Casualty Insurance Requirements

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

Under FHA regulations, if a mortgagee receives proceeds from any policy of casualty insurance, it may exercise its option under the mortgage to use such proceeds for repairing, replacing or rebuilding the mortgaged property, but may not use such proceeds for application to the mortgage indebtedness or make any other disposition of the proceeds without FHA’s prior written approval. If FHA fails to give its approval to the use of the insurance proceeds within sixty days after written request by the mortgagee, the mortgagee may use or apply the funds for the purposes specified in the mortgage without prior FHA approval. In the event that such casualty insurance proceeds are applied to prepayment of the Note, they shall be deposited in the Redemption Account for application to the Extraordinary Mandatory Redemption of all or a portion of the Series 2009 Bonds. See “PART 3 – THE SERIES 2009 BONDS – Redemption of the Series 2009 Bonds” herein.

PART 6 - CERTAIN PROVISIONS OF THE FHA DOCUMENTS

The Note

The Note to be delivered by the Institution to the Authority to evidence the amount of money expected to be advanced by the Authority to the Institution, shall be in the amount of \$79,308,000. Up to and including thirty (30) days prior to the commencement of amortization, the Institution will make monthly payments of interest at the rate of

8.25% per annum on amounts disbursed from the Mortgage Account pursuant to the Building Loan Agreement. Thereafter, the Note provides that interest shall be paid monthly at the rate of 6.08% per annum on the outstanding balance of such principal, although at Final Endorsement it is expected that the interest rate on the Note will be further reduced to 5.82%¹. The first amortization payment shall be due no later than February 1, 2012 and the final maturity of the Note is 24 years and 11 months following the commencement of amortization of principal (January 1, 2037). Payments on the Note are made by the Institution to the Mortgage Servicer on behalf of the Authority, as FHA mortgagee, on the first day of each month (which the Mortgage Servicer is then required to pay, less the Servicing Fee and Mortgagee Advances, if any, to the Trustee immediately upon receipt). Prior to Final Endorsement a portion of interest on the Note is paid from interest capitalized on the Note until the Project is placed in service. In all other instances interest on funds advanced under the Note shall be paid from the Institution's revenues. In the event of a failure by the Institution to make any payment on the Note when due, the entire amount of the Note may be declared due and payable by the Authority, as FHA mortgagee.

If the Series 2009 Bonds are no longer considered to be Outstanding, the Note and Mortgage may be released and assigned for a new issue of bonds. Additional fees must be paid by the Institution which are related to the costs of the Authority to redeem bonds. Upon prepayment in part, payment of the remaining principal amount will be recast over the remaining term to the maturity of the Note so as to be payable in approximately equal monthly amounts which, when applied first to interest on the outstanding balance and the remainder to principal, will be sufficient to repay the amounts due on the Note by its maturity.

The Mortgage

The Mortgage (in a form prescribed by FHA) will be executed and delivered by the Institution. The Mortgage grants a lien on the Mortgaged Property together with all buildings, improvements and fixtures thereon, rents, issues and profits thereof, and all building materials, equipment, furnishings and other property incident to use and occupancy thereof. Until the final payment of the Note, the Institution agrees not to sell, encumber or alienate the Mortgaged Property in any way without the consent of the Authority and FHA. The Institution also covenants that it will not voluntarily create or permit to be created any other lien or liens against the Mortgaged Property or execute or file for record any instrument which imposes a restriction upon the sale or occupancy of the Mortgaged Property on the basis of race, creed or color. The Mortgage constitutes a third mortgage lien on the Mortgaged Property and is subordinate to the mortgage on the Mortgaged Property that is insured by FHA pursuant to Section 242 of the NHA and the mortgage on the Mortgaged Property that is insured by FHA pursuant to Section 241 of the NHA, both as described in the next two paragraphs.

In 1994, MCFFA issued the 1994 Bonds to finance a mortgage loan to the Institution in the amount of \$94,763,000, which loan was secured by an FHA-insured Section 242 mortgage on the Institution's Main Building, as described in "PART 10 – THE INSTITUTION – Existing Facilities"). In 1996, the Authority issued the 1996 Bonds to finance an increase to the 242 Mortgage Loan in the amount of \$7,601,000, which mortgage loan was secured by an FHA-insured supplemental mortgage on the Institution's Main Building. At that time, two mortgage loans were consolidated to form the Existing Mortgage and the Existing Note in the amount of \$102,364,000. In 1998, the Authority issued bonds to refund the 1994 Bonds and the 1996 Bonds, and the Existing Mortgage Note and Existing Mortgage were modified to secure the Authority's Series 1998 Bonds.. The Existing Mortgage constitutes a first mortgage lien on the Mortgaged Property. A default with respect to the Existing Note or the Existing Mortgage will not cause a default with respect to the note or mortgage relating to the 2005 241 Loan but will, at the sole option of HUD, constitute a default with respect to the Note and Mortgage.

In 2005, the Authority issued the Series 2005 Bonds to finance the 2005 241 Loan to the Institution in the amount of \$57,605,000, which loan is secured by a FHA-insured Section 241 mortgage on substantially all of the Institution's Mortgaged Property (the "2005 241 Loan"). The mortgage with respect to the 2005 241 Loan constitutes a second mortgage lien on the Mortgaged Property. A default with respect to the note or the mortgage relating to the 2005 241 Loan will not cause a default with respect to the Existing Note or the Existing Mortgage but will, at the sole option of HUD, constitute a default with respect to the Note and Mortgage.

¹ In the event that Final Endorsement has not occurred by February 1, 2012, an additional amount of interest may be charged with respect to the Note such that the rate of interest thereon would be set at such rate above 6.08% (but not exceeding 6.60%) until Final Endorsement sufficient to pay the Series 2009 Bonds.

As of September 30, 2009, the outstanding aggregate principal amount outstanding under the Existing Note and the Existing Mortgage and the note and mortgage relating to the 2005 241 Loan is approximately \$126,972,000.

The Mortgage constitutes a third mortgage lien on the Mortgaged Property. A default with respect to the Note or the Mortgage will not cause a default with respect to the Existing Note, the Existing Mortgage or the Note and Mortgage relating to the 2005 241 Loan.

In the event the Institution fails to pay any of the sums required to be paid under the Note, the Authority, at its option, may pay such amounts. The Mortgage provides that all sums paid by the Authority may be added to the principal amount of the Note, bear interest at the rate set forth in the Note and will be due and payable on demand.

The Institution agrees that, in addition to payments for debt service due on the Note, it will pay monthly amounts to provide for the payment when due of premiums on the FHA mortgage insurance, casualty insurance, water rates, and taxes and assessments. If not so paid by the Institution, the Authority may pay such items and the amounts so paid shall be added to the Institution's indebtedness. The Institution covenants that it shall keep the buildings in good repair, and the Authority may enter the property to make repairs. The cost thereof shall also be added to the indebtedness. The Institution may make no structural alterations without the consents of the Authority and FHA.

The Institution is required to keep the property insured against casualties as stipulated by FHA, such insurance to be carried for terms and with companies acceptable to the Authority, as FHA mortgagee. Coverage shall not be less than the greater of 80% of the actual cash value of the insurable improvements and equipment or the unpaid balance of the Note. Policies shall be endorsed with a standard mortgage clause payable to the Authority. Any awards or claims for damages arising on account of condemnation are payable or assigned to the Authority, as FHA mortgagee, to the extent of the indebtedness. Under the Mortgage, the Institution covenants that it will not commit or permit waste and that it will maintain the Mortgaged Property in good repair and will promptly comply with all applicable laws and regulations affecting the property. If the Institution fails to make any required inspection, repair, care or attention of any kind to the property, the Authority, in its discretion, may do so. Under the Mortgage, the Institution is not permitted to make any structural alterations without the consent of the Authority and FHA.

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

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

Pursuant to the terms of the Resolutions, the FHA Documents may be amended by the parties thereto, provided that no such amendment may have a material adverse effect on the security for the Series 2009 Bonds.

The Building Loan Agreement

The Building Loan Agreement (in the form prescribed by FHA) will be executed by the Institution in connection with the Project, as borrower and mortgagor, and the Authority, as FHA mortgagee. The Building Loan Agreement provides that: (1) the Project be completed in accordance with the drawings and specifications of the architect; (2) any changes in the specifications be approved by the architect and any changes in construction cost also be approved by FHA; (3) advances for construction be made only for work completed and material and equipment stored on the site, subject to a 10% retainage until completion of the Project (unless a lesser retainage is permitted by FHA); (4) all advances be subject to prior approval of the Authority, as FHA mortgagee, and FHA; (5) the Institution furnish, prior to the first advance, a title insurance policy or policies for the benefit of the Authority, as FHA mortgagee, and FHA which policy or policies will be endorsed to cover each advance; (6) there be deposited with the Authority, as

FHA mortgagee, appropriate liability and casualty insurance policies; and (7) to assure completion of the Project, the contractor provide performance and payment bonds or other assurance required by FHA.

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

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

The Regulatory Agreement

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

The Regulatory Agreement prohibits the use of the Project for any purpose other than the purposes for which it was intended. The Regulatory Agreement also prohibits the conveyance, transfer or encumbrance of any real or personal property comprising the Project. The Regulatory Agreement also provides that the Institution may use all rents and other receipts from the Project only for expenses of the Institution including reasonable operating expenses and necessary repairs and that the Institution may not, without prior written approval of FHA, remodel, add to or demolish any part of the Project. The Institution also is required to maintain the Project in good repair.

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

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

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PART 7 – ESTIMATED SOURCES AND USES OF FUNDS

Estimated Sources of Funds

Principal Amount of Series 2009 Bonds	\$ 82,955,000
Equity Contribution from Institution ⁽¹⁾	29,724,246
Net Original Issue Premium/Discount	<u>3,925,596</u>
Total Sources of Funds	<u>\$116,604,842</u>

Estimated Uses of Funds

Construction and Building Costs	\$ 96,188,387
Debt Service Reserve Fund	6,670,000
FHA Related Fees and Expenses ⁽²⁾	2,676,780
Financing Expenses ⁽³⁾	2,878,227
Capitalized Interest ⁽⁴⁾	<u>8,191,448</u>
Total Uses of Funds	<u>\$116,604,842</u>

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- (1) Consists of prepaid expenses, cash, a letter of credit or a combination thereof.
 - (2) Includes FHA examination and inspection fees, the mortgage banker's fee, mortgage insurance premiums, title and recording fees, equity LOC fees, FHA feasibility study cost, certain legal fees and certain other fees and expenses during the construction period.
 - (3) Includes the NYS bond issuance charge, Underwriters' discount, the Authority fee, DOH fee, certain legal and other fees and expenses related to the financing and the rounding amount.
 - (4) Capitalized interest is based on the amount to be provided by the Building Loan Agreement for interest on the Note during the 27 month period at an interest rate of 8.25%. A portion of such amount will be used to pay the Servicing Fee during construction.

PART 8 – THE MORTGAGE SERVICER

Bank of America, N.A. (“BofA”) will act as mortgage servicer with respect to the Note. BofA is the parent of Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”), the senior managing underwriter of the Series 2009 Bonds.

BofA will enter into a subservicing agreement with Prudential Huntoon Paige Associates, Ltd. (“Huntoon”) to perform its obligations as servicer for the Project. Until October 1989, when it was sold, Huntoon was known as Merrill Lynch MBS, Inc. and was a wholly-owned subsidiary of Merrill Lynch. As of October 1, 2009, Huntoon was serving as subservicer under subservicing agreements with BofA for 7 hospital and nursing home loans insured by FHA with a total original principal amount of approximately \$1,198,200,000 and with an affiliate of Merrill Lynch, Merrill Lynch Mortgage Lending, Inc., for an additional 24 hospital and nursing home loans insured by FHA with a total original principal amount of approximately \$1,400,000,000.

PART 9 – THE PROJECT

The Series 2009 Bonds will be utilized to fund a \$79,308,000 FHA-insured mortgage loan under Section 241 of the National Housing Act, as amended, by the Authority to the Hospital to finance the majority of the cost of the Project. The remaining balance of the cost of the Project (\$29,724,246) will be funded out of Hospital equity.

To meet the current demand for its services and to support the future needs of its widespread service area population, the Hospital is undertaking a major expansion and renovation project (the “Project”). The Project will add approximately 60,000 square feet of new space to the East Wing of the Main Building, by adding three additional floors (floors 9-11) and new mechanical rooftop space. In addition, approximately 60,000 square feet of existing space in the Main Building will be renovated. The new and renovated space will provide for the following:

- Two additional inpatient nursing units.
- New and expanded space for the Hospital’s Pharmacy and Pediatric Rehabilitation departments.

- A 10 bed (all private rooms) dedicated pediatric inpatient unit that will address the unique needs of the Hospital's pediatric population.
- Additional pediatric physician office space (including an expanded waiting area) and an additional pediatric radiology room.
- Five additional inpatient operating rooms and an expanded inpatient recovery area.
- Two additional MRI units and the upgrade of three existing units.
- The expansion and renovation of the Hospital's lobby.
- An extension of the three existing East Wing elevators and the installation of a fourth East Wing elevator to service the three additional East Wing floors.
- Expanded space for pain management and minor surgery procedure rooms.
- Other various renovations and equipment purchases in support of the Hospital's services, as well as infrastructure enhancements to accommodate the expanded space.

The estimated cost of the Project is \$109,032,246, with \$79,308,000 to be financed from the FHA-insured mortgage loan funded by the Series 2009 Bonds, and \$29,724,246 funded by a Hospital equity contribution. All required certificate of need approvals have been received from the New York State Department of Health and all required land use and zoning approvals have been received from The City of New York.

PART 10 – THE INSTITUTION

Introduction

New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery (“HSS” or the “Hospital” or the “Institution”) is a voluntary, non-profit, acute care teaching hospital located in Manhattan, New York. The Hospital is a New York not-for-profit corporation and is exempt from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). Founded in 1863, the Hospital is one of the world's leading Orthopedic and Rheumatology specialty hospitals. For the 19th consecutive year, HSS was top ranked in the Northeast in orthopedics in 2009 by U.S. News and World Report in its “America's Best Hospitals” survey. In addition, for 2009 HSS ranked second in the nation in orthopedics and third in rheumatology. During 2008 the Hospital performed over 22,000 surgeries. Early in 2007, HSS became the first hospital in New York State to be re-designated for Magnet recognition by the American Nurses Credentialing Center. Magnet recognition is recognized as the nation's highest honor for nursing excellence. Members of the Hospital's medical staff serve as team physicians for major professional sports teams including the New York Giants, New York Mets, New York Knicks, Nets Basketball, New York Liberty, and New York Red Bulls, as well as the athletic programs of several colleges and universities. The Hospital is an affiliate of the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences of Cornell University (“Cornell”) and a member of the New York-Presbyterian Healthcare System.

As HSS has grown in size, it has become a magnet referral center for patients locally, nationally, and internationally who require its unique and specialized services. The Hospital provides its services to patients from a broad geographic area. During 2008, 84% of inpatient admissions were from outside of Manhattan, 64% were from outside New York City's five boroughs, 15% were from outside the New York Metropolitan area and 1% were from outside the United States.

Clinical Services and Programs

As of August 31, 2009, HSS utilized 162 medical-surgical inpatient beds (its current certified bed component is 188), 28 operating rooms, radiology facilities (including an MRI center with seven units dedicated exclusively to orthopedics), rehabilitation facilities, and laboratory facilities. Services provided on an inpatient and outpatient basis include Anesthesiology, Endocrinology, Neurology, Nursing, Orthopedic Surgery, Pain Management, Pathology, Pediatrics, Psychiatry, Podiatry, Radiology and Imaging, Rehabilitation, Rheumatology, and Sports Medicine. In addition, the Hospital sponsors over 30 outpatient clinics, including cerebral palsy, scoliosis, the comprehensive arthritis

program, Rheumatology services, sports and shoulder, metabolic bone, physiatry, the skeletal dysplasia center, limb lengthening, pain management, neurology, dermatology and other ambulatory service programs which provide specialized care and treatment of the foot and ankle, knee, elbow, hand, hip, shoulder and spine for both pediatric and adult patients.

Research Division

With a budget in excess of \$30 million, the Hospital's Research Division occupies an influential position in the world of musculoskeletal science. HSS's commitment to both basic and clinical research is a component of the overall Hospital mission and is critical to the Hospital maintaining and enhancing its standing as a nationally recognized and premier hospital in the fields of orthopedics and rheumatology. A major goal of the Research Division is to foster translational research through the establishment of teams that bring clinicians and basic scientists together to solve disease-related problems and to translate research findings and accomplishments into new technologies that improve patient care and outcomes. Major areas of focus include autoimmunity and inflammation, arthritis and tissue degeneration, biomechanics, musculoskeletal integrity, and tissue engineering and repair. The Hospital has been at the forefront of advances in the diagnosis and treatment of musculoskeletal conditions. The Hospital is a National Institutes of Health grant recipient as a Core Center in Musculoskeletal Integrity Research and also leads the way in publishing its groundbreaking research in journals such as *The New England Journal of Medicine*, *Nature Immunology*, and *Science*.

Other Services and Programs

The Hospital seeks to secure new sources of future revenue streams by entering into agreements with outside organizations whereby HSS's proven areas of scientific and clinical expertise are applied in the development of technologies and products that will enhance patient care in orthopedics and rheumatology. Innovation and technology development have a rich history at HSS. Shared bench-to-bedside insights and experiences have led to new discoveries, technologies, and systems to diagnose, heal and prevent disease. Our surgeons and engineers have collaborated to develop joint replacements for the hip, knee, ankle, shoulder, elbow and wrist as well as devices for enhancing spine fusion and improving spinal stabilization. HSS has also led the way to novel imaging protocols as well as the design of revolutionary fiber optic probes for distinguishing healthy and diseased cartilage during surgery. The concepts and inventions developed at HSS have led to industry interactions and marketable products that continue to advance and improve the care of our patients. Activities include industry sponsored research and clinical collaborations, pre-clinical product testing and post-market product validation, and product development through license and royalty agreements.

Affiliated Corporations

The following is a description of the corporations affiliated under common control with the Hospital. None of the affiliated corporations are obligated with respect to payments under the Series 2009 Bonds, the Loan Agreement, the Mortgage, or the Note, which are solely obligations of the Hospital:

The Hospital for Special Surgery Fund, Inc. ("HSS Fund Inc.") is a not-for-profit corporation organized under the Not-for-Profit Corporation Law of the State of New York for the purpose of supporting the charitable, educational and scientific purposes of the Hospital and other related healthcare organizations. It is a tax-exempt organization under Section 501(c)(3) of the Code. HSS Fund Inc. is governed by a Board of Trustees consisting of all of the voting members of the Hospital's Board of Trustees.

HSS Properties Corporation ("Properties") is a not-for-profit corporation organized under the Not-For-Profit Corporation Law of the State of New York. Properties owns, leases, and operates real estate for Hospital purposes. It is a tax-exempt organization under Section 501(c)(3) of the Code. Properties is governed by a Board of Trustees consisting of all of the members of the Hospital's Board of Trustees. However, no ex officio member, other than the President & CEO, is a voting member of the Board. HSS Fund Inc. is the sole member of Properties.

HSS Horizons, Inc. ("Horizons") is a not-for-profit corporation organized under the Not-for-Profit Corporation Law of the State of New York for the purpose of supporting the charitable, educational, and scientific purposes of the Hospital. It is a tax-exempt organization under Section 501(c)(3) of the Code. Horizons is principally a holding company for investments that were acquired in connection with the Hospital's research and development of new technologies for patient care and is currently inactive with total assets of less than \$100,000. Horizons is governed by a

Board of Trustees consisting of three members elected by HSS Fund Inc. HSS Fund Inc. is the sole member of Horizons.

HSS Ventures, Inc. (“Ventures”) is a for-profit corporation organized under the laws of the State of Delaware and is the principal vehicle through which the Hospital pursues non-tax-exempt research and technology development activities and investments and is currently inactive with total assets of less than \$100,000. Ventures is governed by a Board of Directors consisting of three members. HSS Fund Inc. is the sole shareholder of Ventures.

Medical Indemnity Assurance Company, Ltd. (“MIAC”) is a Cayman Islands corporation, licensed under Cayman Islands law to conduct an insurance and reinsurance business. MIAC’s activities are the insurance and reinsurance of portions of the Hospital’s workers’ compensation and professional and comprehensive general liability risks together with the medical malpractice liability risks of a majority of the Hospital’s medical staff. HSS Fund Inc. owns all of the outstanding stock of MIAC. MIAC’s Board of Directors is composed of four directors, including two Hospital management representatives, one Hospital Board member, and one Hospital attending physician.

Hospital for Special Surgery PHO, Inc. (“PHO”) is a Physician Hospital Organization which was formed in recognition of the common interests of the Hospital and the physicians who are members of its medical staff. It is a not-for-profit corporation organized under Section 402 of the Not-for-Profit Corporation Law of the State of New York. Its Board consists of six medical staff representatives and six Hospital representatives comprised of management and trustees.

Canadian Friends of Hospital for Special Surgery (“Canadian Friends”) is a corporation established in Canada to raise funds and collect and receive monies and property by contributions, legacies, grants and otherwise to be used to provide for and support charitable activities (such as research and education) at the Hospital and elsewhere. Canadian Friends has applied to the Canada Revenue Agency to be registered as a tax-exempt charitable corporation in Canada. Its application was originally rejected by the Canada Revenue Agency. Canadian Friends has filed a letter in opposition to the refusal letter and is awaiting the decision of the Canada Revenue Agency.

Graduate Medical Education

An historic commitment to excellence in education continues to influence the Hospital’s present day mission and vision. The Hospital is a teaching affiliate of the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences of Cornell University (“Cornell”) with HSS medical staff holding appointments on the Cornell faculty. The Hospital sponsors an orthopedic surgery residency program for 42 residents. The orthopedic residency programs are accredited by the Accreditation Council on Graduate Medical Education. The Hospital administers programs for approximately 68 fellowships in the subspecialties of orthopedic surgery (sports medicine, hand surgery, foot and ankle surgery, spine surgery/scoliosis, adult reconstruction, metabolic bone, limb lengthening, trauma, and pediatric orthopedic surgery) and the specialties of musculoskeletal radiology, rheumatology, neurology, physiatry, and anesthesiology. Each year, HSS also meets the training needs of several hundred medical students who rotate through the various services fulfilling their training requirements prior to applying for residency programs. The active Alumni Association (consisting of graduates of HSS programs) spans the globe with over 1,100 members located in 33 foreign countries and 47 U.S. States.

Existing Facilities

The Hospital currently owns and occupies the following facilities:

The Main Hospital Facility at 535 E. 70th Street, Manhattan, New York City (the “Main Building”)

The Main Building is a 424,000 square foot facility comprised of two physically connected and fully integrated wings (the “East Wing” and the “West Wing”). The West Wing is a nine floor steel and masonry structure originally erected in 1955 and substantially renovated in the mid 1990’s and the mid 2000’s. This wing houses the Hospital’s inpatient and ambulatory surgical suites, MRI facilities, physician offices, administrative offices and ancillary service facilities. The East Wing is a seven floor expansion built on a platform over the FDR Drive, the highway which runs along the east side of Manhattan. The first six floors were completed in January 1996 and the seventh floor was completed in November 2006. This wing houses the Hospital’s inpatient nursing units and certain radiological and mechanical facilities. The Main Building is encumbered by the Hospital’s existing FHA Section 242 and FHA Section

241 insured mortgages and will be further encumbered by the mortgage securing the loan to be made by the Authority from the proceeds of the Series 2009 Bonds.

Caspary Research Building at 537-545 East 71st Street, Manhattan, New York City (“Caspary Building”)

The Caspary Building is an 8 story 89,000 square foot building located directly across 71st Street from the Main Building. A bridge on the second floor connects the two facilities. The Caspary Building was originally erected in 1961, and was substantially renovated over a three-year period from 2000 to 2003. This structure houses the Hospital’s Research Division.

The Hospital’s affiliated corporation, Properties, currently owns the following facilities in Manhattan, New York City:

- 1) Belaire Building (525 East 71st Street) – The Belaire Building is a 413,000 square foot partially-owned building located directly across 71st Street from the Main Building and adjacent to the Caspary Building. The first 13 floors and basement parking facility (189,420 square feet) are owned by Properties and the remaining part of the building is privately owned and consists of luxury condominiums. The condominium also has an easement for a portion of the fourth floor owned by Properties to operate a health club and pool. Along with a parking facility and residential apartments for Hospital visitors, the remaining portion of the building owned by Properties is leased to the Hospital and houses the Hospital’s sports medicine rehabilitation facility, computer data center, administrative space, cafeteria, radiology facilities and offices for the use of Hospital medical staff.
- 2) 310 East 71st Street Apartment Building – This is a 68 unit residential apartment building located on 71st Street between First and Second Avenues. This building is used to house HSS employees and staff.

Properties also owns Caspary Lodge, which consists of two separate single family residences totaling 5,900 square feet situated on 4 acres of property in Livingston Manor, New York. The residences are used primarily by HSS medical staff for meetings and retreats.

Properties also holds leases at the following locations near the Main Building:

- 1) 510 East 73rd Street (39,000 square feet) - sublet to the Hospital and houses various Hospital administrative and support functions.
- 2) 525 East 72nd Street (27,275 square feet) - sublet to the Hospital and houses the Hospital’s Finance and Patient Billing departments.
- 3) 521-523 East 72nd Street (58,698 square feet) - sublet to the Hospital and houses radiology facilities and offices for the use of Hospital medical staff.
- 4) 515-519 East 72nd Street (15,270 square feet) - sublet to the Hospital and houses radiology facilities and offices for the use of Hospital medical staff.
- 5) 517 East 71st Street (8,647 square feet) - sublet to the Hospital and houses various Hospital administrative and support functions.
- 6) 405 East 72nd Street (5,000 square feet) – sublet to the Hospital and houses various Hospital administrative and support functions.

Properties also holds leases at several MD office locations outside the immediate area of the Main Building, including Manhattan, New York (Madison Avenue); Princeton, New Jersey; Greenwich, Connecticut; and Uniondale, New York. These locations are sublet to the Hospital and house offices for the use of Hospital medical staff, as well as other ancillary services.

Capital Expenditures/Future Plans

In 2007 and 2008 the Hospital incurred capital expenditures (excluding expenditures relating to the Project) of \$22.4 million and \$20.4 million, respectively. Included in these expenditures were costs for the acquisition of new and replacement medical equipment, investment in information technology, renovations to accommodate needed

additional/enhanced physician office, radiology, and other patient care space, and infrastructure-related costs. Also included were costs associated with the following large projects:

- 1) During 2005, the Hospital commenced the implementation of an inpatient clinical information system. Through December 31, 2008, \$11.3 million has been expended, including \$5.0 million in 2007 and \$1.0 million in 2008.
- 2) During 2004, the Hospital commenced the implementation of a PACS radiology system and related hardware upgrades. Through December 31, 2008, \$17.0 million has been expended including \$1.1 million in 2007 and \$1.0 million in 2008.

The 2009 capital budget is approximately \$29.5 million, including pending Certificate of Need applications for the addition of an 8th MRI unit and the construction of an additional ambulatory surgery operating room as well as expansion of the pre-surgical screening department and the renovation of space for additional physician offices and radiology rooms.

The Hospital has an approved Certificate of Need application in the amount of \$61 million (\$50 million to be funded by Hospital equity and \$11 million to be funded from a commercial mortgage loan) for the construction of a 4-story (40,000 square foot) new building (the “River Building”) on a platform in air space over the FDR Drive adjacent to the Caspary Building. The new space will accommodate additional physician offices and radiology facilities. New York City (“NYC”) land use and zoning approvals that were required for the River Building, as well as the construction of the additional East Wing floors that are part of the Project, were received in October 2008. In December of 2008, an Article 78 proceeding challenging the NYC approvals was filed by some neighbors of the Hospital. In June of 2009, a settlement agreement was reached which enabled construction commencement of the additional East Wing floors in return for the Hospital agreeing to defer the construction of the River Building for at least two years.

Properties has made an offer and is currently in negotiations to purchase a medical office building five blocks from the Main Building on East 75th Street. The building is approximately 30,000 square feet, consisting of six floors plus basement space. If purchased, the price is estimated at \$26.0 million and Properties will lease the space to the Hospital. The Hospital will renovate the space for use as medical staff offices, radiology facilities, and procedure rooms.

Corporate Relationship with New York Presbyterian Hospital

In 1998, The Society of the New York Hospital and The Presbyterian Hospital in the City of New York (“Presbyterian”) merged to form the New York Presbyterian Hospital (“NYPH”). Subsequently, the Hospital, NYPH and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences of Cornell University (“Cornell”) agreed to restructure their relationship, prompted in large measure by regulatory and operational issues raised by the addition of Presbyterian, a hospital with an established orthopedics department. The restructuring resulted in a Corporate Relationship Agreement (the “Agreement”) that reaffirms and continues the Hospital’s medical and clinical affiliation with NYPH by permitting and requiring the Hospital to continue to function as the principal orthopedic and rheumatology facility for NYPH at its East 68th -East 70th Street facility (East Campus).

As part of the restructuring, the Hospital also concluded an agreement with Cornell that established the orthopedics department at the Hospital as the Department of Orthopedics at Cornell. Additionally, the Hospital, NYPH and Cornell developed a tri-partite agreement pertaining to the academic affiliation of the institutions, which maintains and enhances the historical clinical and academic relationship among the parties.

Governance

The Hospital is governed by a Board of Trustees consisting of elected and ex officio members (as listed below). There are five classes of elected Board members serving staggered five year terms and one class of elected physician members (consisting of two physicians) serving staggered two year terms. In addition, there are Life Trustees who, although not entitled to vote, do receive Board materials, may attend Board meetings, and may serve on Board committees.

Under the Agreement with the NYPH (see “Corporate Relationship with New York Presbyterian Hospital”), the Hospital became a membership corporation, with the five Hospital members elected by an NYPH affiliate, subject to specific affiliation guidelines for each of the five member positions. These require three of the Hospital members to

come from the Hospital’s Board of Trustees (with one of the three to also serve on the Board of the NYPH affiliate). The members have the authority to elect the Hospital’s Board of Trustees, as nominated by the Governance Committee of the Hospital’s Board of Trustees or by a member. As a result of certain procedural elements of the Agreement, the Hospital has not had any significant changes in the nominating process for, or in the composition of, its Board of Trustees. The Agreement did not involve a merger of the institutions and the Hospital’s net assets remain under the Hospital’s control.

Regular meetings of the Board of Trustees are scheduled five times per year (including the annual meeting). Officers, consisting of two Co-Chairs, one Vice-Chair, the President and Chief Executive Officer, a Medical Director, three Executive Vice Presidents (including a Treasurer) and a Senior Vice President/Secretary, are elected by the Board at its annual meeting. The following are active committees of the Board:

- Audit and Corporate Compliance
- Development
- Executive
- Executive Compensation
- Finance (supported by the Subcommittees of Capital Commitment and Insurance)
- Governance
- Investment
- Legal Advisory
- Marketing and Public Relations
- Planning
- Research

The present members of the Board including their affiliations, year appointed and term expirations are listed below:

<u>Name</u>	<u>First Year Appointed</u>	<u>Year Term Expires</u>	<u>Affiliation</u>
Dean R. O’Hare (1)	1990	2009	Trustee / Civic Leader
Aldo Papone (1)	1983	2012	Senior Advisor, American Express
Daniel G. Tully (2)	2003	2013	Managing Director & Founding Principal, Altaris Capital Partners, LLC
Atiim Barber	2008	2013	Today Show
James M. Benson	1996	2011	President & CEO, Clark & Wamberg
Richard A. Brand, M.D.	2004	2012	Editor In Chief, Clinical Orthopaedics and Related Research
Mathias P. Bostrom, M.D.	2009	2011	Hospital for Special Surgery
Peter L. Briger, Jr.	2005	2010	Co-President, Fortress Investment Group
Michael C. Brooks	2008	2013	Venrock
Charles P. Coleman, III	2006	2011	Tiger Technology Management
Leslie Cornfeld	2008	2013	Office of the Mayor (NYC)
Cynthia Foster Curry	2009	2014	Cushman & Wakefield
Barrie M. Damson	2002	2011	President & Chairman, Damson Financial Resources, Inc.
James G. Dinan	2009	2014	York Capital Management
Melvin J. Glimcher, M.D.	2001	2013	Director, Laboratory for the Study of Skeletal Disorders, Children's Hospital (Boston)
Winfield P. Jones	1976	2009	Trustee / Civic Leader

Monica Keany	2009	2011	Managing Director, Morgan Stanley
David H. Koch	2004	2009	Executive Vice President, Koch Industries
Lara Lerner	2007	2012	Trustee / Civic Leader
Marylin B. Levitt	2000	2009	Trustee / Civic Leader
Alan S. MacDonald	1988	2011	Vice Chairman, Citibank Chief Client Officer of Citigroup
David M. Madden	2005	2010	Chairman, President & CEO, Adolor Corporation
Richard L. Menschel (3) *	1989	2010	Senior Director, The Goldman Sachs Group L.P.
Carl F. Nathan, M.D.	2002	2012	Chairman, Department of Microbiology and Imaging, Weill Medical College of Cornell University
Gordon Pattee	2008	2013	MAP Capital Corporation
Charlton Reynders, Jr.	1987	2012	Trustee / Civic Leader
Scott A. Rodeo, M.D.	2008	2010	Hospital for Special Surgery
Susan W. Rose	2005	2010	Trustee / Civic leader
William R. Salomon	1979	2011	Citi
Jonathan Sobel	2009	2014	DTF Holdings, LLC
Robert K. Steel	2009	2014	Trustee / Civic Leader
Mrs. Douglas A. Warner, III	1999	2009	Trustee / Civic leader
Russell F. Warren, M.D.	1993	2013	Hospital for Special Surgery
Torsten N. Wiesel, M.D.	2000	2009	President Emeritus, Rockefeller University
Kendrick R. Wilson, III	1998	2011	Trustee / Civic Leader
Philip D. Wilson Jr., M.D	1972	2011	Surgeon-in-Chief Emeritus, Hospital for Special Surgery
Ellen M. Wright	2008	2013	Trustee / Civic Leader

* Goldman Sachs & Co., an affiliate of The Goldman Sachs Group, L.P., is a co-managing underwriter for the Series 2009 Bonds.

⁽¹⁾ Co-Chair

⁽²⁾ Vice Chair

⁽³⁾ Chairman, Emeritus

Ex Officio Board Member

<u>Name</u>	<u>First Year Appointed</u>	<u>Affiliation</u>
Charles N. Cornell, M.D.	2007	Clinical Director of Orthopedic Surgery, Hospital for Special Surgery
Steven R. Goldring, M.D.	2006	Chief Scientific Officer, Hospital for Special Surgery
David L. Helfet, M.D.	2000	Director of Orthopedic Trauma, Hospital for Special Surgery
Stephen A. Paget, M.D.	1995	Physician-in-Chief, Hospital for Special Surgery
Thomas P. Sculco, M.D.	1995	Surgeon-in-Chief and Medical Director, Hospital for Special Surgery
Louis A. Shapiro	2006	President / CEO, Hospital for Special Surgery

Conflict of Interest

The Hospital's Conflict of Interest Policy and Procedures require all Board members, members of Board committees, officers, Medical Staff and Allied Professional Staff members, Research Professional Staff, management and other key personnel to complete Financial Interest Disclosure Statements on an annual basis and to update such Disclosure Statements whenever there is a change to any of the information disclosed. Additional disclosure requirements apply with respect to the conduct of research and continuing medical education programs at the Hospital, and with respect to any transaction or arrangement in the Hospital's day-to-day operations that might benefit the private interest of a person in the categories listed above.

Further, with respect to particular matters under Board consideration, Board members must disclose all potential conflicts of interest and such disclosures are then made a matter of record. In addition, a Board member who has any such potential conflict of interest is excluded from the attendance count required for determining whether a quorum is present and may not participate in the deliberation or vote on the matter under consideration, nor may he or she use personal influence on such matter.

HSS Senior Management

The senior management of the Hospital consists of the President and Chief Executive Officer, the Executive Vice President and Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Executive Vice President for External Affairs, the Senior Vice President for Legal Affairs, the Vice President of Patient Care Services and Chief Nursing Officer, and the Vice President of Human Resources and Service Excellence.

Louis A. Shapiro (age 49) – President and Chief Executive Officer, joined the Hospital in October 2006. In this role, he oversees all administrative, operational, clinical, academic and research activities at the Hospital. He is a graduate of the University of Pittsburgh, where he received a Bachelor of Science degree in 1981 and a Masters in Health Administration in 1984. He is also a Fellow of the American College of Healthcare Executives and has served in leadership and Board capacities with many Pennsylvania-based community organizations including the United Way, Leukemia Society, and the American Heart Association. He is also the President and a member of the Board of Directors of MIAC.

Mr. Shapiro also served as Executive Vice-President and Chief Operating Officer for Clinical Enterprise of Geisinger Health System in Pennsylvania. Prior to Geisinger, Mr. Shapiro served as a leader in the healthcare practice at McKinsey and Company and began his career at Allegheny General Hospital where he served in a number of capacities in the Pittsburgh-based system.

Lisa A. Goldstein (age 53) - Executive Vice President and Chief Operating Officer, joined the Hospital in March 1997. She received her Bachelor of Science Degree in Industrial and Labor Relations from Cornell University in 1977 and her Master of Professional Studies Degree in Health Services Administration from the Business School at Cornell University in 1979.

Prior to joining the Hospital, Ms. Goldstein served as Vice President and Chief Operating Officer at Wayne General Hospital in Wayne, New Jersey from 1986-1996. Ms. Goldstein is a Fellow of the American College of Healthcare Executives.

Stacey L. Malakoff (age 46) - Executive Vice President and Chief Financial Officer, joined the Hospital in November 1990 as Director of Reimbursement. Effective August 1992, she was named Controller and effective September 1996, Vice President of Finance. She was appointed to her current position as Executive Vice President and Chief Financial Officer in August 1998. She received her Bachelor of Science Degree in Business Administration from Washington University in Saint Louis, MO in 1985 and was licensed as a Certified Public Accountant in 1987.

Prior to joining the Hospital, Ms. Malakoff served as manager in the audit division of Ernst & Young LLP. She is a member of the New York State Society of CPAs, the American Institute of CPAs, the Greater New York Hospital Association Fiscal Policy Committee, and is an advanced member of the Healthcare Financial Management Association. She is also the Treasurer and member of the Board of Directors of MIAC. In 2001, she was honored by Crain's Magazine in their "40 under 40" issue listing of top executives in the New York City area.

Deborah M. Sale (age 61) - Executive Vice President for External Affairs, joined the Hospital in October 1995. She received a Bachelors degree from Rhodes College in 1970.

Prior to joining the Hospital, Ms. Sale served as Chief of Staff to New York State Lieutenant Governor Stan Lundine. She serves on the boards of many civic and cultural organizations including Public Health Solutions, Dance Theater Workshop, The Community Service Society, and the Citizens Budget Commission.

Constance B. Margolin (age 63) – Senior Vice President for Legal Affairs, joined the Hospital in September 1993. Ms. Margolin received a Bachelor of Arts degree from Brown University in 1968 and a J.D. degree from Harvard Law School in 1971. She also received a Masters degree in Public Health from Columbia University in 1987. She is a member of the Bars of New York, New Jersey, and the District of Columbia.

Prior to joining the Hospital, Ms. Margolin was Associate General Counsel at Montefiore Medical Center. Ms. Margolin volunteers as a member of the Board of Directors of HealthRight International, a not-for-profit international health and human rights organization.

Stephanie J. Goldberg (age 57) – Vice President of Patient Care Services and Chief Nursing Officer, joined the Hospital in April 2005. Ms. Goldberg received a Diploma in Nursing from Holy Name Hospital School of Nursing in 1973; a Bachelor of Science degree in Nursing from William Paterson University in 1982; and a Masters in Nursing from Rutgers University in 1987. Prior to joining the Hospital, Ms. Goldberg served as the Vice President of Nursing at the Hackensack University Medical Center.

Ms. Goldberg is a Certified Nurse Administrator (CNAA-BC) and is affiliated with the New York Organization of Nurse Executives, American Organization of Nurse Executives, New York State Nurses Association, Sigma Theta Tau, and serves as a Magnet surveyor for the American Nurses Credentialing Center. In 2001, Ms. Goldberg received the Tribute to Women in Industry Award. Ms. Goldberg was honored by her Alma Mater, William Paterson University, with the presentation of the Distinguished Alumni Award for 2005.

Bruce Slawitsky (age 54) – Vice President of Human Resources and Service Excellence, joined the Hospital in September 2005 as Assistant Director of Organizational Learning and was promoted to Assistant Vice President – Service Excellence/Organizational Learning in 2008. He was appointed to his current position as Vice President of Human Resources and Service Excellence in April 2009. He received a Bachelor of Arts degree from the University of Scranton in 1976, a Masters degree in International Relations from The Hebrew University of Jerusalem in 1982 and a Masters of Administrative Science degree from Fairleigh Dickinson University in 2004.

Prior to joining the Hospital, Mr. Slawitsky served as Director of Organizational Development at Hackensack University Medical Center. Mr. Slawitsky has been a member of the Malcolm Baldrige National Quality Program Board of Examiners since 2005.

Service Area

The Hospital's primary service area consists of the five boroughs of New York City (Manhattan, Queens, Brooklyn, Bronx and Staten Island). The secondary service area consists of the New York counties of Nassau, Suffolk, Westchester, Putnam, Rockland and Orange; the New Jersey counties of Passaic, Bergen, Morris, Essex, Union, Hudson, Middlesex and Monmouth; and Fairfield County in Connecticut. The following table summarizes the Hospital's inpatient utilization by service area for 2007 and 2008.

Table A
Inpatient Utilization for the Hospital By Service Area
2007 and 2008

	Percent of Total Admissions	
	2007	2008
Primary Service Area:		
Manhattan	15.8%	15.9%
Queens	8.2%	7.9%
Brooklyn	6.3%	6.8%
Bronx	2.7%	2.7%
Staten Island	2.0%	2.3%
Total Primary Service Area	35.0%	35.6%
Secondary Service Area:		
Portions of New Jersey	17.4%	17.3%
Nassau and Suffolk County, New York	18.6%	17.2%
Portions of Northern Metropolitan New York	11.1%	10.8%
Fairfield Country, Connecticut	3.6%	4.0%
Total Secondary Area	50.7%	49.3%
Total Primary and Secondary Service Area	85.7%	84.9%
Other Service Areas	14.3%	15.1%
	100.0%	100.0%

Source: Hospital records

Medical Staff

The following is a summary, by specialty, of the Hospital's active medical staff as of September 30, 2009. Numerous sub-specialties are represented within each of the below specialties. The average age of the medical staff is 49 and 92% are Board certified. Hospital policy is that all members of its medical staff must become Board certified. Those physicians who are not Board certified are either physicians with less than two years in practice who are not yet eligible to apply for Board certification or graduates of foreign medical schools who are generally not Board eligible and the HSS Medical Board has thus waived the requirement.

Table B
Medical Staff, by Specialty
As of September 30, 2009

Specialty	Number of Physicians	Percent Board Certified Physicians	Average Age
Orthopedic Surgery	89	89%	50
Rheumatology	42	90%	46
Primary Sports Medicine	4	100%	46
Pediatric Medicine	4	100%	42
Physical Medicine/Rehabilitation (Physiatry)	11	100%	42
Anesthesiology	37	95%	47
Pain Management (Anesthesiology)	6	100%	49
Neurology	5	100%	49
Pathology	5	100%	61
Radiology	14	93%	51
Other	13	85%	57
Total	230	92%	49

The majority of the active HSS medical staff are on-site full time in facilities owned or leased by HSS in or near the Main Building pursuing patient care, academic teaching, Hospital administrative activities, research, and private practice activities. For their private practice activities, physicians are either employed by HSS under contractual agreements or operate their private practices independently. Physicians not employed by HSS pay fair market value rent to HSS for space and other HSS resources utilized in their private practice. Physicians who provide teaching, administrative, and research services to the Hospital are compensated for such services. In addition to the active medical staff, there are over 200 physicians who hold appointments at NYPH who are on the HSS medical staff as consulting physicians. These consulting physicians are in specialties other than those of the active medical staff and generally do not have admitting privileges at HSS.

During the nine months ended September 30, 2009, a total of 108 physicians admitted patients to the Hospital. Orthopedic surgeons accounted for 99% of year-to-date 2009 admissions and the top ten admitting surgeons (average age of 51) accounted for 35% of total admissions.

Utilization

Table C sets forth selected utilization statistics of the Hospital for the years ended December 31, 2007 and 2008 and for the eight months ended August 31, 2008 and 2009.

Table C
Selected Utilization Statistics

	<u>Year Ended December 31</u>		<u>Eight Months Ended August 31</u>	
	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
<u>Inpatient Statistics</u>				
Admissions	10,641	11,927	7,855	8,669
Patient Days	47,151	50,979	33,674	34,396
Average length of stay (days)	4.43	4.27	4.29	3.97
Average daily census	129	139	138	142
Case Mix Index	2.61	2.60	2.58	2.48
<u>Outpatient Statistics</u>				
Ambulatory Surgeries	9,591	10,773	6,966	7,323
Minor Procedures (a)	7,092	7,253	4,804	4,793
Infusion Therapy Visits	2,875	3,727	2,424	2,386
Clinic Visits	24,544	25,227	17,491	17,632
Private MRI Procedures	19,623	23,588	15,509	16,983
Other Private Ancillary Visits	187,921	208,874	137,985	154,135
Total	<u>251,646</u>	<u>279,442</u>	<u>185,179</u>	<u>203,252</u>
<u>Available Capacity</u>				
Staffed Beds	162	162	162	162
Licensed Beds	188	188	188	188
Operating Rooms	27	27	27	28

(a) Includes epidural injections and other pain management procedures, as well as discograms, myelograms and other radiology procedures.

Management's Discussion of Utilization

For the year ended December 31, 2008, inpatient admissions increased by 1,286 (12.1%) compared to the year ended December 31, 2007, while average length of stay ("ALOS") decreased by 0.16 days. Ambulatory surgery volume increased by 1,182 (12.3%), while overall outpatient volume increased by 27,796 (11.0%).

For the eight months ended August 31, 2009, inpatient admissions increased by 814 (10.4%) compared to the eight months ended August 31, 2008 while ALOS decreased by .32 days. Ambulatory surgery volume increased by 357 (5.1%), while overall outpatient volume increased by 18,073 (9.8%).

While volume has consistently grown over the last decade, the increases in 2008 and the first eight months of 2009 exceeded the Hospital's average historical growth rate. These strong and accelerating growth trends are attributable to the increasing demand for HSS's services. As per Table A, HSS attracts patients from each of the markets in the New York City tri-state area, as well as a sizable number of patients from the domestic and international market. The increasing demand is attributable to a variety of factors, including:

- Increased awareness of HSS's unique and specialized services and outstanding outcomes
- Continued and growing acceptance of joint replacement, spine surgery, sports medicine, and other Orthopedic procedures due to new technologies and capabilities, superior devices and implants, high success rates, and quick recovery periods
- The general aging of the population
- A growing number of younger individuals electing to have orthopedic procedures in order to maintain their active lifestyles
- An expected increase in the number of revision surgeries to replace implants that have reached the end of their useful life due to the significant growth in primary joint replacements since 1980, and longer life expectancies

HSS has been able to accommodate this demand by adding operating rooms, inpatient beds, and other ancillary capacity; as well as implementing initiatives to reduce average length of stay and operating room throughput. However, HSS's current utilization rates are once again approaching full capacity and the Project will address these capacity constraints.

Sources of Patient Revenue

The Hospital receives the majority of its patient revenue from third party payors. Table D below indicates the source of inpatient admissions and ambulatory surgeries by payor class for the years ended December 31, 2007 and 2008 and the eight months ended August 31, 2008 and 2009.

Table D
Hospital Utilization by Payor Class

	Year Ended December 31		Eight Months Ended August 31	
	2007	2008	2008	2009
<u>Inpatient Admissions</u>				
Medicare	44%	44%	44%	43%
Medicaid	3%	3%	3%	2%
Managed Care/Commercial	47%	48%	48%	50%
Workers' Compensation/No-Fault	5%	4%	4%	4%
Self pay/International	1%	1%	1%	1%
Total	100%	100%	100%	100%
<u>Ambulatory Surgeries</u>				
Medicare	16%	15%	16%	13%
Medicaid	2%	1%	1%	1%
Managed Care/Commercial	72%	74%	73%	77%
Workers' Compensation/No-Fault	9%	9%	9%	8%
Self pay/International	1%	1%	1%	1%
Total	100%	100%	100%	100%

Source: Hospital records

Reimbursement Methodologies

The following is a summary discussion of the reimbursement methodologies applicable to the Hospital. See “PART 11 - GENERAL FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE INSTITUTION” for additional information.

Medicare and Medicaid Programs

Medicare and Medicaid are the commonly used names for hospital reimbursement payment programs governed by certain provisions of the Federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal, state, and local program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age and older, disabled or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to the medically indigent, and is funded by federal and state appropriations, and administered by the various states. Hospital benefits are available under each participating state’s Medicaid program, within prescribed limits, to persons meeting certain income or other eligibility requirements.

Medicare Hospital Reimbursement

Acute care hospitals are paid for services to Medicare inpatients on a per discharge basis under the Federal Prospective Payment System (“PPS”) by which payments are based on standard national rates depending on the patient’s diagnosis and procedures (“Diagnosis Related Group” or “DRG”). The Hospital also receives payment for both direct and indirect costs of medical education and capital related costs. PPS permits additional payments, within specified limitations, to be made for certain higher cost cases.

A prospective payment system also applies to hospital outpatient services (“Outpatient PPS”). Under Outpatient PPS, most outpatient services are grouped into one of approximately 500 Ambulatory Patient Classifications and paid at a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service.

Non-Medicare Hospital Reimbursement

Pursuant to the New York Health Care Reform Act of 1996 (“NYHCRA”), commercial carriers, HMOs, and self-insured plans negotiate rates with hospitals or are billed at a hospital’s established charges in the absence of negotiated rates. Payment for services rendered to Medicaid, Worker’s Compensation and No-Fault patients are paid at hospital rates promulgated by the New York State Department of Health.

Under NYHCRA, mechanisms are established for the financing of public goods pools. Funds from these pools are distributed to support expenses incurred for indigent care, health care initiatives (i.e. expansion of coverage of special need categories) and graduate medical education. Third-party payors are encouraged through fiscal incentives to make payments directly to public good pools, although they have the choice of paying providers directly.

Managed Care Arrangements

The Hospital’s managed care strategy has been to balance the objective of maximizing patient access to HSS’s services with the objective of negotiating rates of payment with payors that are sufficient to cover the costs of providing such services. The Hospital currently has contracts with commercial insurance/managed care payors that accounted for 46% of the Hospital’s 2008 inpatient admissions. In addition, 3% of 2008 inpatient admissions were from commercial insurance/managed care payors with whom the Hospital did not have a contract.

Uncompensated Care

In keeping with its mission, the Hospital provides significant amounts of partially or totally uncompensated patient care. The Hospital’s charity care policy offers free or discounted care to those with incomes up to 500% of the federal poverty level. Patients are notified of the availability of the discounts by postings throughout the Hospital and on the Hospital’s website, at admission, and on each bill. The Hospital also operates clinics for the medically indigent, which operate at a substantial loss and are subsidized by the Hospital. The Hospital also conducts substantial teaching through its residency and fellowship programs and research and offers numerous outreach and education programs, all of which benefit the communities it serves.

Employees

As of August 31, 2009, the Hospital had 2,876 full-time equivalent employees, including physicians and physician staff. This represents an increase of approximately 2% since December 31, 2008, primarily due to increased patient volume. Eligible employees receive benefits that include group health insurance, short and long-term disability, life insurance, retirement benefits, dental insurance, and other miscellaneous benefits. The Hospital has no collective bargaining agreement with any union and considers its relations with its employees to be excellent.

Nursing

Early in 2007, HSS became the first hospital in New York State to be re-designated for magnet recognition by the American Nurses Credentialing Center. Magnet recognition is recognized as the nation's highest honor for nursing excellence. As of August 31, 2009, the Hospital had 856 full-time equivalent ("FTE") employees in the Nursing Department, including registered nurses, licensed practical nurses, surgical technicians, nursing technicians, unit assistants, registrars, central sterile technicians, and nursing management staff. This represents an increase of approximately 4% since December 31, 2008, primarily due to increased patient volume. In 2008, there were approximately 400 registered nurses employed on a full time basis by the Hospital. The turnover rate for the registered nursing staff at the Hospital during 2008 was approximately 7.35% (in 2007, the RN turnover rate was 9.8% in NYC and 13% statewide per the Healthcare Association of New York State). In recent years, the Hospital has not experienced difficulty in recruiting an adequate number of nursing staff.

Licensure and Accreditation

The Hospital has an operating certificate from the New York State Department of Health and is accredited by the Joint Commission for a three-year period ending May 27, 2010. The Hospital is also accredited by the Accreditation Council on Graduate Medical Education for its residency and fellowship programs and is approved for participation in the Medicare and Medicaid programs.

Summary of Historical Operations

The following selected financial data of the Hospital for the years ended December 31, 2008 and 2007 are derived from the audited financial statements of the Hospital. The financial data for the eight month periods ended August 31, 2009 and 2008 are derived from unaudited financial statements. Operating results for the eight months ended August 31, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. The data should be read in conjunction with the financial statements, related notes, and other financial information included in Appendix B to this Official Statement and "Management's Discussion of Historical Operations" below.

Summary of Historical Operations (000s)

	Year Ended December 31		Eight Months Ended August 31 (Unaudited)	
	2007	2008	2008	2009
	<u>Hospital Operations</u>			
Net patient service revenue	\$ 367,210	\$ 425,906	\$ 274,636	\$ 319,404
Other operating revenue	56,001	41,976	33,824	34,348
Net assets released from restrictions for operations	17,838	19,245	13,218	13,324
Total operating revenue	441,049	487,127	321,678	367,076 (1)
Total operating expenses	424,538	475,426	310,442	344,617
Operating income before research operations and change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	16,511	11,701	11,236	22,459
<u>Research Operations</u>				
Net assets released from restrictions for research operations	29,663	30,375	20,403	18,105
Operating expenses	31,702	31,677	20,914	19,989
Net research operations	(2,039)	(1,302)	(511)	(1,884)
Change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	(1)	(1,610)	(411)	931
Operating Income	14,471	8,789	10,314	21,506
Net assets released from restrictions for capital expenditures	8,806	7,531	6,018	973
Change in net unrealized gains and losses on investments	(9,017)	(13,043)	(5,669)	4,788
Net assets reclassification	-	(10,572)	-	5,758
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods	-	(41,207)	-	-
Change in additional minimum pension liability and effect of change in accounting for defined benefit pension and other postretirement plan	(35,796)	(1,842)	-	-
(Decrease)increase in unrestricted net assets	\$ (21,536)	\$ (50,344)	\$ 10,663	\$ 33,025

(1) The Hospital's policy on investment losses states that continuous unrealized losses in excess of 25% of cost for a period of greater than 12 months will be reflected as realized. In September and October of 2009, in accordance with this policy, the Hospital recorded realized losses on investments of approximately \$10.2 million, which will result in total operating revenue for the two months ended October 31, 2009 being less than total operating revenue for the two months ended October 31, 2008.

Management's Discussion of Historical Operations

Eight Months Ended August 31, 2009 Compared to Eight Months Ended August 31, 2008

The Hospital reported operating income of \$21,506,000 for the eight months ended August 31, 2009 compared to \$10,314,000 for the eight months ended August 31, 2008. This increase is primarily due to the significant increase in patient volume. Net patient service revenue increased by \$44,768,000 (16.3%) to \$319,404,000 primarily due to the increase in inpatient and outpatient volume, increases to payment rates, and the impact of various revenue enhancement programs. Operating expenses from hospital operations increased by \$34,175,000 (11.0%) to \$344,617,000 primarily due to the hiring of additional employees to accommodate the growth in patient volume (as well as to improve services to patients), employee salary increases, increases to pension expense and employee benefit costs, increases to non salary expenses relating to patient volume growth, vendor price increases, and an increase in depreciation expense.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

The Hospital reported operating income of \$8,789,000 for the year ended December 31, 2008 compared to \$14,471,000 for the year ended December 31, 2007. When investment income (including realized gains/losses on the sale of investments) and the change in the unrestricted interest in The Hospital for Special Surgery Fund, Inc. are excluded, operating income for 2008 is \$17,476,000 (compared to \$4,094,000 in 2007). This increase is primarily due to the significant increase in patient volume. Net patient service revenue increased by \$58,696,000 (16.0%) to \$425,906,000 primarily due to the increase in inpatient and outpatient volume, increases to payment rates, and the impact of various revenue enhancement programs. Operating expenses from hospital operations increased by

\$50,888,000 (12.0%) to \$475,426,000 primarily due to the hiring of additional employees to accommodate the growth in patient volume (as well as to improve services to patients), employee salary increases, increases to pension expense and employee benefit costs, increases to non salary expenses relating to patient volume growth, vendor price increases, malpractice rate increases, and an increase in depreciation expense.

Outstanding Indebtedness

The following is a summary of long-term debt at December 31, 2008 and August 31, 2009 (in thousands). See the Hospital's audited financial statements for the years ended December 31, 2008 and 2007 in Appendix B.

<u>Description</u>	<u>Year Ended December 31, 2008</u>	<u>Eight Months Ended August 31, 2009 (Unaudited)</u>
FHA Section 242 insured mortgage loan (1998)	\$ 75,444	\$ 73,137
FHA Section 241 insured mortgage loan (2005)	55,133	54,243
Construction payable	2,906	3,323
Commercial mortgage loan	14,069	13,366
Equipment loans and capital lease obligations	18,310	18,795
Bridge loan	28,731	33,200
Subtotal	194,593	196,064
Less current portion	(11,352)	(12,212)
Long-term portion	<u>\$183,241</u>	<u>\$183,852¹</u>

1. Total long term debt increased by \$1,471,000 during the period January 1, 2009 through August 31, 2009 due to an increase in the bridge loan balance of \$4,469,000 and an increase in the construction payable balance of \$417,000 relating to the Project and the addition of an equipment loan of \$3,870,000, which amounts were partially offset by \$7,285,000 of principal payments made by the Hospital on other long term debt obligations. Total long term debt decreased by \$791,000 during the period September 1, 2009 through September 30, 2009 due to principal payments made by the Hospital on long term debt obligations of \$1,251,000, which amount is offset by an increase in the construction payable balance of \$460,000 relating to the Project. During the period October 1, 2009 through October 31, 2009, the Hospital projects that total long term debt will increase by an additional \$5,096,000 due to the addition of a tax exempt equipment loan in the amount of \$5,980,000, which amount is anticipated to be offset by principal payments to be made by the Hospital of approximately \$884,000 on other long term debt obligations.

Previous FHA Insured Mortgage Loans

In December 1994, the Hospital entered into a \$94.763 million mortgage loan agreement to finance the construction of the East Wing of the Main Building, as well as major renovations to the West Wing of the Main Building. The mortgage loan is insured under the provisions of the Federal Housing Administration ("FHA") Section 242 Program with the Authority. In September 1996, the Hospital obtained an additional mortgage loan in the amount of \$7.6 million, which is also insured under the provisions of the FHA Section 242 Program with the Authority, to primarily provide for the construction of four additional operating rooms. During 1998, the outstanding mortgage loans were refinanced, resulting in a consolidated mortgage loan with an interest rate of 6.08%, reduced from 7.15% and 6.68%, respectively. The mortgage loan is primarily collateralized by the Main Building.

In October 2005, the Hospital entered into a \$57.605 million mortgage loan agreement to finance an expansion to the East and West Wings of the Main Building. The mortgage loan has an interest rate of 4.80% and is insured under the provisions of the FHA Section 241 program with the Authority. The mortgage loan is primarily collateralized by the Main Building.

Insurance

Since 1981, MIAC has reinsured the Hospital's primary professional liability exposure, along with the professional liability exposure of the majority of the Hospital's medical staff. In addition, MIAC reinsures the Hospital's primary general liability exposure on the Main Building. MIAC also directly insures a buffer layer above the primary policy. MIAC's total limits are \$3 million per claim/\$32.5 million annual aggregate, with excess limits of \$100 million provided by a commercial carrier. MIAC also reinsures \$150,000 of each workers compensation claim. Excess coverage above the MIAC reinsured primary level is purchased from the same commercial carrier as provides the primary policy.

The Hospital also maintains the following other insurance coverage with appropriate limits: property including builders risk, boiler & machinery and business interruption insurance, internet/privacy liability, general liability for all operations other than the main hospital building, automobile liability, clinical trials/products liability, pollution liability and first party clean up expenses, advertising/media liability, fiduciary liability, directors and officers, employment practices liability, crime, medical billing errors and omissions and excess contingent design errors and omissions insurances.

Strategic Plan

A Strategic Plan (the "Plan") was developed in 2005 and updated in 2008 to reflect the current operating environment and institution priorities. The Plan is a key tool in aligning HSS's medical staff and employees and is divided into five categories as follows:

- I. People – creating an environment that engages all members of the HSS family and encourages teamwork.
- II. Quality – setting the standard in clinical quality and operational excellence
- III. Service – providing a premium experience that exceeds the expectations of patients, families, and colleagues
- IV. Growth – pursuing opportunities to increase market position, develop services, and expand facilities.
- V. Economics – optimizing financial performance to support current and future strategic initiatives.

The Plan and the above summary are not a representation or agreement by the Hospital as to the occurrence or likelihood of occurrence of any facts, events or results described in the Plan or the summary herein.

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 11 - GENERAL FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE INSTITUTION

The following discussion of risks to holders of the Series 2009 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2009 Bonds, in addition to other risks described throughout this Official Statement.

The revenues and expenses of the Institution 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, capital expenditures, and the costs of graduate medical education. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Institution to an extent that cannot be determined at this time.

General

The Series 2009 Bonds are not a debt or liability of the State of New York or any political subdivision thereof, but are special and limited obligations of the Authority payable solely from the Revenues which consist of payments payable by the Institution, payments by the Institution pursuant to the Series 2009 Obligations, the funds and accounts held by the Trustee pursuant to the Series 2009 Resolutions (except the Arbitrage Rebate Fund) and certain investment income thereon. The Authority has no taxing power. No representation or assurance can be made that revenues will be realized from the Institution in amounts sufficient to provide funds for payment of debt service on the Series 2009 Bonds when due and to make other payments necessary to meet the obligations of the Institution. Further, there is no assurance that the revenues of the Institution can be increased sufficiently to match increased costs that may be incurred.

No representation or assurance can be made that revenues will be realized from the Institution in amounts sufficient to provide funds for payment under the Note when due and to make other payments necessary to meet the obligations of the Institution. Further, there is no assurance that the revenues of the Institution can be either maintained or increased sufficiently to match increased costs that may be incurred. The receipt of future revenues by the Institution 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 Institution of future changes in federal, state and private policies cannot be determined at this time. Loss of established managed care contracts by the Institution could also adversely affect the future revenues thereof.

Future conditions, which may include periods of inflation and other conditions such as changes in the demand for healthcare services, the ability of the Institution to provide services desired by patients, the relationship of the Institution with physicians, the success of the Institution's strategic plans, turnover in the management of the Institution, reductions in grants and contributions, change in referring physicians' and self-referred patients' confidence in the Institution, economic and demographic developments in the United States and in the Institution's service areas, increased competition from other healthcare institutions, increases in malpractice claims and other litigation, changes in interest rates, and changes in rates, costs, payor mix, third-party payments, and governmental regulations concerning payment and regulatory compliance activities, are among other factors which may adversely affect revenues and expenses and, consequently, the Institution's ability to make payments pursuant to the Notes. See "PART 10 – THE INSTITUTION" and "APPENDIX B – Hospital for Special Surgery Financial Statements (and Report of Independent Auditors)".

Legislative, Regulatory and Contractual Matters Affecting Revenue

The healthcare industry is heavily regulated by the federal and state governments. Approximately 35% of the Institution's patient revenue comes 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. The likelihood that substantial additional changes will occur in the future is relatively high. Future payments made under such programs may not remain at levels comparable to the present levels or be sufficient to cover all existing costs.

The Institution has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Institution-specific data. The current Medicaid, Medicare and other third party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports have been settled through 2006. Other years remain open for settlement as are numerous years related to the New York State Medicaid program. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Institution is not aware of any

allegations of noncompliance that could have a material adverse effect on its financial statements and believes that it is in material compliance with all applicable laws and regulations. However, the Institution is subject to the investigations noted below in “*Regulatory Reviews, Audits and Investigations*”, and cannot be certain that the regulators will not find additional issues or agree that the issues raised in the current investigation or such other issues as may be found are not material.

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

Managed Care and Other Private Initiatives

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

Managed care programs generally include various payment methodologies and utilization controls. Payment methodologies include per diem rates, per discharge rates, discounts from established charges and fee schedules. Utilization controls often attempt to use bureaucratic constraints (e.g., preauthorization requirements for expensive services) and financial incentives (e.g., shared financial risk) to limit costs. Managed care programs are expected to continue to influence the manner in which healthcare services are delivered and paid for in the future, including levels of utilization. The Institution’s financial condition could be adversely affected by these trends.

Medicare Reimbursement and Related Federal Legislation

Medicare and Medicaid Program. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendments of 1965. The government uses reimbursement as a key tool to implement health care policies, to allocate health care resources and to control utilization, facility and provider development and expansion, and technology use and development. Medicare Part A covers institutional health services, including hospital, home health care, nursing home care, inpatient rehabilitation, and certain other services, and Medicare Part B covers certain physician services, outpatient hospital services, medical supplies, and durable medical equipment. The Medicare Advantage Program, also known as Medicare Part C, enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of risk-based plans. The Medicare Part D Program covers most outpatient prescription drugs. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable State.

Medicare. Medicare is administered by the Centers for Medicare and Medicaid Services (“CMS”), an agency of the U.S. Department of Health and Human Services (“DHHS”), which delegates to the states the process for certifying those organizations to which CMS will make payment. DHHS’s rule-making authority is substantial and the rules governing Medicare are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS.

Medicare claims are processed by non-government organizations or agencies that contract to serve as the fiscal agent between providers and the federal government. These claims processors are known as “intermediaries” and “carriers”. They apply the Medicare coverage rules to determine the appropriateness of claims. CMS selects organizations (generally insurance companies) to act as intermediaries and carriers in various states or regions, and enters into a “prime contract” with each. Institutions that participate in the Medicare program must agree to be bound by the terms and conditions of the program such as meeting the standards for rendering covered services and adopting and enforcing policies to protect patients from certain discriminatory practices.

Medicare Part A pays acute care hospitals for most inpatient services under a payment system known as the “Prospective Payment System” or “PPS”. Under PPS, the amounts payable for services are set in advance of the services being rendered. The Institution must budget and manage its resources to attempt to provide the reimbursed item or services within the payment amount for the services. As a consequence, any adverse development or change in Medicare reimbursement for acute care services could have a material adverse effect on the financial condition and results of operations of the Institution.

Acute care hospitals such as the Institution are paid a specified amount towards their operating costs for inpatient services based on the Diagnosis Related Group (“DRG”) to which each Medicare patient is assigned, as part of a prospective payment system. The amount paid is determined by the diagnosis and procedure and other factors for each particular inpatient stay. Hospitals are also reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. The amount paid for each DRG is established prospectively by CMS and is not directly related to a hospital’s actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays (“outliers”), CMS will provide additional payments above those specified for the DRG. Medicare also provides additional payments for hospitals with teaching programs, and for hospitals that treat a disproportionate number (“disproportionate share”) of Medicaid or low income patients. The Institution receives payments from Medicare in connection with its teaching programs but does not receive any “disproportionate share” payments.

Hospital outpatient services are also paid under a prospective payment system, pursuant to which services are classified into groups called Ambulatory Payment Classes or APCs. Services in each APC are expected to be similar clinically and in terms of the resources they require. A payment rate is established for each APC.

Certain physician services are reimbursed on the basis of a national Medicare fee schedule. The Medicare physician fee schedule establishes payment amounts for physician services, including services of provider-based physicians, and is subject to annual updates. Statutory limits on the growth of Medicare payments for physician services may result in lower Medicare payments for physician services over time.

Payments from Medicare do not generally cover the costs incurred by the Institution in treating Medicare patients. DRG rates may be adjusted annually as part of the federal budget reconciliation process and, thus, are subject to deficit reduction activities involving the federal budget generally and/or the Medicare program specifically. Teaching payments, in particular, are targeted to be cut. On May 12, 2009, the Social Security and Medicare Board of Trustees published a report indicating that Medicare, if retained in its current form, could be subject to bankruptcy by 2017. Such projections could give rise to future legislation reducing benefits to providers in an effort to improve the financial position of Medicare.

The Institution cannot assess or predict the likelihood of unfavorable changes to the Medicare program.

Medicaid and Other State Healthcare Programs. Unlike Medicare which is an exclusively federal program, Medicaid is a partially federally-funded state program of medical care for the poor. States obtain federal funds for their Medicaid programs by obtaining the approval of CMS of a “state plan” which conforms to Title XIX of the Social Security Act and its implementing regulations. Within broad national guidelines which the Federal government provides, each of the States establishes its own eligibility standards, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state, as well as within each state over time. After its state plan is approved, a state is entitled to federal matching funds for Medicaid expenditures.

Medicaid operates as a vendor payment program. Subject to federally-imposed upper limits and specific restrictions, States may either pay providers directly or may pay for Medicaid services through various prepayment arrangements such as HMOs. Providers participating in Medicaid must accept Medicaid payment rates as payment in full. States must make additional payments to qualified hospitals that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients (which, again, are not paid to the Institution), and an additional payment is made for teaching services. Medicaid payments currently do not cover the costs incurred by the Institution in treating Medicaid patients.

New York State’s 2009 – 2010 budget’s objective is decreasing the growth in statewide Medicaid spending and reform via an investment in primary care and ambulatory care paid for by a reduction in inpatient spending. The

Institution contemplated these items in its 2009 budget. See “PART 10 – THE INSTITUTION – Reimbursement Methodologies.” The Institution cannot assess or predict the likelihood of future unfavorable changes in the Medicaid program.

Medicare and Medicaid Managed Care

Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. Medicare enrollees in managed care products have their healthcare managed and paid for by the applicable managed care plan. The managed care plan is paid by the Medicare program a monthly per-beneficiary amount for each Medicare enrollee who voluntarily enrolls in a managed care plan; and the managed care plan is responsible for paying providers. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan seeks to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. If, as proposed, health care reform results in a decrease in Medicare’s payments to Medicare managed care plans, then payments to the Institution for services provided to Medicare managed care enrollees may also decrease.

In order to control Medicaid expenditures, the State of New York has sought to enroll large numbers of Medicaid patients in managed care 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 Institution are similar to those for Medicare managed care programs.

A significant portion of the Medicaid-eligible population has been enrolled in managed care plans. The Institution has agreements with a few such health plans, and is trying to add plans with which it contracts. The teaching component of managed Medicaid reimbursement continues to be paid by the State of New York directly to the hospitals. Payments from Medicaid managed care plans generally do not cover the costs incurred by the Institution in treating such patients.

The Institution cannot assess or predict whether enrollment in Medicare or Medicaid managed care will grow or decrease, or the impact of such growth or decrease, if any.

Federal Anti-Fraud and Abuse Law

There are a broad range of federal (and state) laws and regulations that govern the operation of healthcare providers, and particularly that pertain to the specific manner in which services must be provided and billed for under programs that are paid for, in whole or in part, by the Federal government. The most significant of these laws are the federal Anti-Kickback Law, the federal False Claims Act, the federal Stark Law, and the federal Civil Monetary Penalties Law, all discussed below.

There are additional laws and regulations, the violation of which could result in substantial penalties, fines and exclusion from participation in Medicare and other federally-funded healthcare programs. Third party payors, including Medicare and Medicaid, also may retroactively determine that certain payments previously made to providers should be recouped, and such recoupment may be material, depending upon the facts and circumstances. Because of the complexity of federal rules pertaining to reimbursement, it is even possible that a provider can inadvertently be paid funds to which it is not lawfully entitled. Upon discovery of such overpayments, a provider is required by law to return such funds to the government. Such recoupment or repayment could have a material impact on a provider’s revenues.

The specifics of the various anti fraud and abuse laws and regulations, and reimbursement rules have historically changed over time, and enforcement priorities often shift materially from year to year. It is not possible to predict changes in such laws, their interpretation, or enforcement policies.

The Anti-Kickback Law

The federal Anti-Kickback Law makes it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in return for or to induce business that may be paid for, in whole or in part, under a Federal health care program including, but not limited to, the Medicare or Medicaid programs. The Anti-Kickback Law also prohibits knowingly and willfully soliciting, receiving, offering or paying any remuneration in return for or to induce

the purchasing, leasing, ordering or arranging for (or recommending any of the same) any good, facility item or service that may be paid for, in whole or in part, by a federal health care program including but not limited to the Medicare or Medicaid Programs. In addition to criminal penalties, including fines of up to \$25,000 and five years imprisonment, violations of the Anti-Kickback Law may lead to civil monetary penalties and/or exclusion from Federal health care programs. A violation may also be actionable under the False Claims Act discussed below. The scope of potentially prohibited activities covered by the Anti-Kickback Law is very broad and includes, among other things, economic arrangements involving hospitals, physicians and other health care providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices, management and personal services contracts and employment arrangements. Certain statutory exceptions to the Anti-Kickback Law exist. In addition, OIG has published certain “safe harbor” regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. Failure to squarely meet an exception or a safe harbor does not mean that the arrangement is per se illegal. Indeed, the exceptions and the safe harbors do not cover a wide range of economic relationships that many hospitals, physicians and other health care providers consider to be legitimate business arrangements.

The Institution may have certain relationships with physicians and other referral sources which do not meet all of the requirements of each applicable exception or safe harbor. Nonetheless, management of the Institution believes that it is currently in material compliance with the Anti-Kickback Law. However, there can be no assurance that the Institution will not be found to have violated the Anti-Kickback Law, and if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Institution.

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 specified “designated health services,” and prohibits such entity from presenting or causing to be presented a claim for payment under the Medicare or Medicaid program for “designated health services” furnished pursuant to a prohibited referral, unless an applicable exception is met. The “designated health services” subject to these prohibitions include clinical laboratory services, physical and occupational therapy services, radiology (including magnetic resonance imaging, computerized axial tomography scans and ultrasound) services, radiation therapy services and supplies, durable medical equipment and supplies, parenteral and enteral nutrients, equipment and supplies, orthotics, prosthetics and prosthetic devices, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services.

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

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

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

Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violation of the Stark laws and regulations may

lead to denial of payment for prohibited referrals, the need to refund payments received, significant civil monetary penalties and/or exclusion from Federal health care programs. It may also lead to False Claims Act liability. Enforcement actions for violations of Stark could have a material adverse impact on the financial condition of a health care provider, including the Institution. Management of the Institution believes that it is currently in material compliance with Stark. However, there can be no assurance that the Institution will not be found to have violated Stark, and if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Institution

The Federal False Claims Act.

The federal False Claims Act (the “FCA”) is another broad statute the government often utilizes in fighting fraud and abuse. In the health care field, the most commonly used provisions under the FCA prohibit a person from “knowingly” presenting or causing to be presented a false or fraudulent claim for payment or approval to the federal government, from “knowingly” making, using or causing to be made a false record or statement material to a false or fraudulent claim, and from “knowingly” concealing or improperly avoiding or decreasing an obligation to pay or transmit money or payments to the federal government. These prohibitions extend to claims submitted to federal health care programs, including but not limited to Medicare and Medicaid.

Importantly, the FCA broadly defines the terms “knowing” and “knowingly”. Specifically, knowledge will have been proven for purposes of the FCA if the person: (1) has actual knowledge of the information; (2) acts in deliberate ignorance of the truth or falsity of the information; or (3) acts in reckless disregard of the truth or falsity of the information. Moreover, the FCA specifically provides that a specific intent to defraud is not required in order to prove that the law has been violated. It also defines “claim” as a request for payment submitted to the federal government or to any contractor, or grantor of the government if the government has provided the funds for the payment in question.

A person found to have violated this statute is liable for a per claim civil penalty of not less than \$5,500 and not more than \$11,000, plus three times the amount of damages sustained by the federal government. In certain limited cases involving prompt disclosure of FCA Act violations, the statute provides for double, rather than treble, damages. In addition, the FCA also authorizes “qui tam” actions in which a private person (known as a “relator”) sues on behalf of the government. If the lawsuit is successful, the relator is eligible to receive a percentage of the recovered amount. This powerful incentive appears to have spurred an increase in FCA cases.

Violations of the FCA may also result in temporary or permanent exclusion from the federal health programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Institution). If determined adversely to a hospital involved, such actions could have a materially adverse effect on such hospital. FCA cases may arise in a variety of contexts in which hospitals (including the Institution) and health care providers operate. Amendments to the FCA adopted in 2009 are generally reflected in the description above. These changes served to reverse certain judicial opinions that had restricted the FCA’s application, and expanded its reach.

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

Civil Monetary Penalties

The federal Civil Monetary Penalty Act (“CMPA”) provides for administrative sanctions against healthcare providers for a broad range of billing and other abuses. A healthcare provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement, including, for example, unbundling of hospital outpatient services under Medicare, Medicaid, and the Maternal Child Health Services as well as block grant programs. A hospital that participates in arrangements known as “gainsharing” and pays a physician to limit or reduce services to Medicare fee-for-service beneficiaries or which offers an inducement to a beneficiary to obtain services would also be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty (“CMP”) of up to \$10,000 for each item or service improperly claimed. The Institution conducts a variety of activities, which pose varying degrees of risk under the CMP. While the Institution is not aware of any 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 how such matters would be viewed by a third party or a government agency.

Exclusions from Medicare or Medicaid Participation

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. The New York State Office of the Medicaid Inspector General also has the authority to exclude individuals and entities from participation in Medicaid. Providers are excluded for reasons that may include program-related convictions, patient abuse or neglect convictions, and licensing board disciplinary actions. The Institution is not aware of any activity that would place it at risk of exclusion at this time.

Enforcement Activity

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

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

Increased Enforcement Affecting Clinical Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also increased enforcement of laws governing the conduct of clinical research at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally-funded research. In addition, the NIH significantly increased the number of facility inspections that its agencies perform. The FDA also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, in its recent "Work Plans" the OIG has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the NIH and other agencies of the U.S. Public Health Service. The Institution receives payments for health care items and services under many of these grants and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Institution to sanctions as well as repayment obligations.

State Department of Health Regulations

The Institution is subject to regulations of the New York State Department of Health. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Institution's ability to add services or beds and to modify existing services materially is also subject to New York State Department of Health review and approval. The New York State Department of Health has substantial discretion in approving or

disapproving projects, and the process to obtain the necessary approvals may involve substantial delay and may require substantial changes in the proposed project. Accordingly, the Institution's ability to make changes to its service offerings and respond to changes in the environment may be limited.

Privacy and Security of Individually Identifiable Information

The Institution is subject to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which mandates protection of the privacy and security of individually identifiable health information, as well as other federal and state laws that are designed to ensure protection for individually identifiable information. Under recent amendments to HIPAA and under the Federal Trade Commission's "Red Flags Rules" (to the extent applicable), the Institution is required to notify patients of certain breaches of their individually identifiable health information. Further, the recent amendments to HIPAA tightened confidentiality requirements, enhanced damages, and afforded state Attorneys General the right to enforce its provisions. The Institution is not aware of any intentional failure to comply with these privacy and security laws, although there is always the risk that violations will be found and substantial damages assessed.

Other Governmental Regulation

The Institution is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and by, among others, the National Labor Relations Board, professional and industrial associations of staff and employees, applicable professional review organizations, the Joint Commission, the Environmental Protection Agency, the Internal Revenue Service ("IRS"), the Federal Trade Commission, and other federal, state and local governmental agencies, and by the various federal, state and local agencies created by the National Health Planning and Resources Development Act and the Occupational Safety and Health Act of 1970.

Renewal and continuation of certain of the Institution's licenses, certifications and accreditations (see "PART 10 – THE INSTITUTION – Licensure and Accreditation") are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Institution. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Institution's scope of licensure, certification or accreditation, reduce payments received by the Institution, or require repayment of amounts previously remitted to the Institution.

OIG Compliance Guidelines

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

Tax-Exempt Status

As a not-for-profit tax-exempt organization, the Institution is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of tax-exempt healthcare organizations. Areas that have come under examination have included pricing practices, billing

and collection practices, provision of charity care, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. Any suspension, limitation, or revocation of the tax-exempt status of the Institution or assessment of significant tax liability could have a material adverse effect on the Institution.

Internal Revenue Code Limitations

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

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

Any suspension, limitation, or revocation of the tax-exempt status of the Institution or assessment of significant tax liability could have a material adverse effect on the Institution and might lead to loss of tax exemption of interest on the Series 2009 Bonds.

Revocation of the tax-exempt status of the Institution 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 2009 Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt healthcare providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Institution.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an “excess benefit transaction” with a “disqualified person.” Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve “excess benefit.” “Excess benefit transactions” include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. “Disqualified persons” include “insiders” such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person.

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

Tax Audits

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

Regulatory Reviews, Audits and Investigations

The Institution, like other healthcare institutions, is subject to regulatory review, audit and investigation of its governmental reimbursement. Based on the results of such reviews, the Institution may be required to repay previously received reimbursement. The Institution cannot determine at this time whether any review will result in a material repayment obligation. The following investigations of the Institution are active at this time.

The U.S. Attorney's Office for the Western District of New York ("USAOWD") is conducting a review into the Medicare billing for inpatient admissions related to a certain spinal operation, used to treat vertebral compression fractures. The USAOWD sent the Institution a request (but not a subpoena) for information concerning such procedures done at the Institution. We understand similar requests have been sent to many other hospitals throughout the country. The issue being reviewed by the USAOWD is whether some of these operations should have been done on an outpatient, rather than an inpatient, basis. The Institution is cooperating with the request for information. While the outcome of this review cannot be assured, the Institution believes that it acted appropriately in admitting these patients on an inpatient basis.

On or about December 4, 2008, the Institution was served with an administrative *subpoena duces tecum* issued by the OIG in coordination with the Civil Division of the Office of the United States Attorney for the Southern District of New York. The subpoena seeks documents relating to miscellaneous cost report and billing issues. The Institution is cooperating with the investigation, and has produced all documents responsive to the subpoenas as limited by the OIG in discussions with the Institution. While the outcome of the investigation cannot be assured, in reviewing the responsive documents provided to the OIG, management has not found any issue likely to result in material liability.

Certain Accreditations

The Institution is currently accredited by the Joint Commission, and its accreditation is subject to periodic review against the standards promulgated by the Joint Commission. Although the Institution believes it is in material compliance with those standards and intends to maintain its accreditation, no assurance can be given as to its continuing accreditation. Failure to maintain accreditation would have a material adverse effect on the operations and financial condition of the Institution. In addition, no assurance can be given as to the effect on the Institution's future operations of its complying with the Joint Commission's existing, or subsequently amended, standards for accreditation.

In addition, the Institution sponsors programs of graduate medical education training for residents and fellows ("GME Programs"), which programs are accredited by the Accreditation Council for Graduate Medical Education ("ACGME") (for medical programs). All GME Programs are subject to periodic review by the applicable specialty Residency Review Committee of the ACGME. No assurance can be given as to (i) the outcome of future reviews of these GME Programs, (ii) such programs' continued accreditation, or (iii) the continuing eligibility of the costs associated therewith for graduate medical education reimbursement. See "PART 10 – THE INSTITUTION – Licensure and Accreditation."

Antitrust

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

Institution is or becomes affiliated is determined to have violated the antitrust laws, the Institution may be subject to liability as a joint actor.

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

Environmental Matters

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

Insurance

Although the number of professional liability lawsuits filed against physicians and hospitals has stabilized in recent years, the dollar amounts of patient damage recoveries still remain potentially significant. The Institution and the majority of the members of its medical staff are insured for professional liability and workers compensation through a combination of commercial insurance and a "captive" insurance company, Medical Indemnity Assurance Company Ltd. ("MIAC"), which is affiliated with the Institution. For a description of MIAC, see "PART 10 – THE INSTITUTION – Affiliated Corporations" herein. The Institution believes that available coverage will be sufficient to meet existing and foreseeable claims, but there can be no assurance that this will be the case.

The Institution currently also carries directors' and officers' liability, general liability, and other insurance that management of the Institution considers adequate. Coverage amounts and coverage availability for all of the Institution's insurance may vary in the future due to cost, availability of capacity, and other factors. Accordingly, no assurance can be given that in the future the Institution will maintain coverages and coverage amounts currently in place. For a discussion of the insurance coverage of the Institution, see "PART 10 – THE INSTITUTION – Insurance" herein.

Litigation and Claims

The Institution has been sued by the purchasers of a billing company that was doing business at the Institution at the time of the acquisition, claiming that the Institution, through its former CEO, fraudulently induced them to purchase the company, and then improperly terminated its agreements with the company. While the outcome of such suit cannot be assured, the Institution denies liability and is vigorously defending against the claim. In addition, the Institution is involved in litigation and claims which are not considered unusual to its business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the Institution.

Competition

The Institution faces and will continue to face competition from other providers, including institutions, integrated delivery systems and ambulatory surgery facilities that offer similar healthcare services. Maintenance of patient volume is important in maintaining financial stability. There can be no assurance that the volume needed to maintain the financial stability of the Institution will be achieved. In addition, 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 Institution will occur.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2009 Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Institution's capabilities and the financial conditions and results of operations of the Institution.

Bankruptcy

The Series 2009 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 2009 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the 2009 Loan Agreements and the Mortgages. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the 2009 Loan Agreements and the Mortgages 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 2009 Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the holders of the Series 2009 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If the Institution were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Institution and its property, including the commencement of foreclosure proceedings under the Mortgages. The Institution would not be permitted or required to make payments of principal or interest under the 2009 Loan Agreements and the Obligations, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2009 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Institution, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also affect the ability of the Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Institution under the Obligations, the Mortgages, and the 2009 Loan Agreements, and may adversely affect the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

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

be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired there under and does not discriminate unfairly.

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Resolution and the 2009 Loan Agreements permit the Institution to incur additional indebtedness, including Additional Bonds. Such indebtedness would increase the Institution's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2009 Bonds.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Institution, or the market value of the Series 2009 Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payer health program with national, statewide, or otherwise regulated rates.
- Increased unemployment or other deterioration of economic conditions in the service area of the Institution, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payers to control or restrict the operations of certain health care facilities.
- Reduced demand for the services of the Institution that might result from decreases in population or innovations in technology.
- Bankruptcy of an indemnity/commercial insurer, managed care plan, or other payer with which the Institution has contracted.

PART 12 – BONDHOLDERS' RISKS

The discussion herein of risks to holders of the Series 2009 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 2009 Bonds. However, holders of the Series 2009 Bonds should be aware that these matters and other potential risks and factors could adversely affect the Institution's ability to make payments on the Note which supports the Series 2009 Bonds, including the factors listed under "PART 11 – GENERAL FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE INSTITUTION". Other sections of this Official Statement should be referred to for a more detailed description of risks described in this Section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal office of the Trustee.

General

The Series 2009 Bonds are special obligations of the Authority payable solely from the amounts payable under the Note, certain payments under the Loan Agreement, the Mortgage Insurance Benefits, and from certain amounts in the Debt Service Reserve Fund and other funds held pursuant to the General Resolution and the Series 2009 Resolution (excluding the Arbitrage Rebate Fund).

The Series 2009 Bonds may be redeemed earlier or later than described above under "PART 4 – SCHEDULE OF PRINCIPAL AND ESTIMATED SINKING FUND REDEMPTIONS" due to various factors. See "PART 4 – SCHEDULE OF PRINCIPAL AND ESTIMATED SINKING FUND REDEMPTIONS" herein for a description of those factors.

Adequacy of Revenues

The primary security for the Series 2009 Bonds is the Note, the Mortgage and the FHA Mortgage Insurance Benefits. Reliance has been placed by the Authority upon the underwriting criteria utilized by FHA in insuring the Mortgage and as evidence of the adequacy of the Institution's revenues to maintain the Mortgaged Property and make the payments required under the Note and the Mortgage. The Underwriters have not made any independent evaluations of such revenues and makes no representations as to the adequacy of such revenues to maintain the Project and to make payments required under the Note and the Mortgage.

The ability of the Institution to make payments under the Note depends, among other things, on the capabilities of management, economic conditions including the demand for health care services, the ability of the Institution to provide services required by patients and physicians, confidence in the Institution, competition from other health care facilities in the Institution's service area, various third-party reimbursement programs (including Medicare and Medicaid), and other factors. See "PART 11 – GENERAL FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE INSTITUTION".

Reduction or Loss of Mortgage Insurance

As more fully discussed above under "PART 5 – FHA MORTGAGE INSURANCE," the failure to maintain adequate casualty insurance on the Project may result in the loss of Mortgage Insurance Benefits in the event of damage to or destruction of the Project. Mortgage Insurance Benefits may also be lost for failure to pay required mortgage insurance premiums to FHA and failure to provide FHA with required notices or otherwise to comply with FHA rules and regulations governing insurance claims. The Servicing Agreement requires that the Mortgage Servicer supervise the Institution with regard to the payment of casualty and Mortgage Insurance premiums, and that the Mortgage Servicer provide FHA with required notices, in some cases at the direction of the Authority. To the extent offsets are made in the payment of the Mortgage Insurance Benefits, depending upon the amount of such offsets, the total amount of the Mortgage Insurance Benefits may not be adequate to provide for the timely payment of the principal amount of and interest on the Series 2009 Bonds.

A default under the FHA Documents is the only basis upon which the Authority may present a claim for Mortgage Insurance Benefits. A default under the Loan Agreement, the General Resolution or any other document to which the Institution is a party which is not also a default under the Note, the Mortgage or the FHA Regulatory Agreement will not entitle the Authority to present a claim for Mortgage Insurance Benefits.

Event of Taxability

If the Institution does not comply with certain covenants of the Institution set forth in the Loan Agreement or if certain representations or warranties made by the Institution in the Loan Agreement or in certain certificates of the Institution are false or misleading, the interest paid or payable on the Series 2009 Bonds may become subject to inclusion in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2009 Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that the interest on the Series 2009 Bonds should become subject to inclusion in gross income for federal income tax purposes, the General Resolution does not provide for payment of any additional interest on the Series 2009 Bonds, the redemption of the Series 2009 Bonds or the acceleration of the payment of principal on the Series 2009 Bonds.

Maintenance of 501(c)(3) Status

The federal tax-exempt status of the Series 2009 Bonds presently depends upon maintenance by the Institution of its status as an organization described in Section 501(c)(3) of the Code. The Institution has been determined to be a tax-exempt organization described in Section 501(c)(3) of the Code. To maintain such status, the Institution must conduct its operations in a manner consistent with representations previously made to the Internal Revenue Service (the "IRS") and with current and future IRS regulations and rulings governing tax exempt healthcare facilities.

Compliance with current and future regulations and rulings of the Internal Revenue Service could adversely affect the ability of the Institution to charge and collect revenues, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of the Series 2009 Bonds. Although the Institution has covenanted to maintain its status as a tax-exempt organization, loss of tax-exempt status would likely have a significant adverse effect on such organization and its operations and could result in the includability of interest

on the Series 2009 Bonds in gross income for federal income tax purposes retroactive to their date of issue. See “PART 16 - TAX MATTERS” herein.

The tax-exempt status of nonprofit corporations, and the exclusion of income earned by them from taxation, has been the subject of review by various federal, state and local legislative, regulatory and judicial bodies. This review has included proposals to broaden and strengthen existing federal tax law with respect to unrelated business income of nonprofit corporations.

There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Institution by requiring it to pay income, real estate or other taxes.

The status of the Institution as an organization described under Section 501(c)(3) of the Code is one of the bases for the exemption afforded the Series 2009 Bonds from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). Should the Institution lose its status under Section 501(c)(3) of the Code, the holder of the Series 2009 Bonds could be precluded from selling the Series 2009 Bonds absent the application of a separate exemption from the registration requirements of the Securities Act.

Adequacy of the Debt Service Reserve Fund

As described in “PART 3 – THE SERIES 2009 BONDS – Security for the Series 2009 Bonds” and “PART 2 – PLAN OF FINANCING – Payment of FHA Mortgage Insurance Benefits”, the Debt Service Reserve Fund has been established to provide additional funds for payment of the maturing principal of and interest on the Series 2009 Bonds in the event of a default under the Mortgage and the assignment thereof to FHA because the Mortgage Insurance Benefits will not be paid immediately in the event of a default under the Mortgage. FHA regulations, however, do not permit the Trustee to give notice of assignment to FHA following a payment default on the Note and Mortgage until after the expiration of a 30-day grace period. It is expected that the Mortgage Insurance Benefits and certain other moneys held by the Trustee should be sufficient to provide for the payment of all of the Series 2009 Bonds Outstanding prior to their maturity in the event of a default under the Mortgage and the assignment thereof to FHA. In addition, certain funds deposited in the Debt Service Reserve Fund should be sufficient, together with certain other moneys held by the Trustee for such purpose, to pay interest on and maturing Principal Amount of the Series 2009 Bonds, pending receipt of full payment of the Mortgage Insurance Benefits, for a period of twelve months. However, no assurance can be given that the Mortgage Insurance Benefits and the amounts available in the Debt Service Reserve Fund will be sufficient to pay in full the maturing Principal Amount of and interest on the Series 2009 Bonds in the event of a default under the Mortgage and the assignment thereof to FHA if the final payment of the Mortgage Insurance Benefits is not made prior to the third Interest Payment Date from the date of default under the Mortgage.

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

PART 13 – THE AUTHORITY

Background, Purposes and Powers

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

was given the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

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

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

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

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

At September 30, 2009, the Authority had approximately \$40.5 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority’s bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

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

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at September 30, 2009 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
State University of New York Dormitory Facilities	\$ 2,250,196,000	\$ 943,590,000	\$ 0	\$ 943,590,000
State University of New York Educational and Athletic Facilities	13,243,272,999	5,698,118,149	0	5,698,118,149
Upstate Community Colleges of the State University of New York	1,590,645,000	666,520,000	0	666,520,000
Senior Colleges of the City University of New York	9,935,931,762	3,040,924,213	0	3,040,924,213
Community Colleges of the City University of New York	2,394,073,350	494,235,787	0	494,235,787
BOCES and School Districts	2,436,626,208	1,896,100,000	0	1,896,100,000
Judicial Facilities	2,161,277,717	724,132,717	0	724,132,717
New York State Departments of Health and Education and Other	5,808,800,000	4,100,145,000	0	4,100,145,000
Mental Health Services Facilities.....	7,460,120,000	4,063,400,000	0	4,063,400,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	985,555,000	781,415,000	0	781,415,000
Totals Public Programs	<u>\$ 49,039,973,036</u>	<u>\$ 22,408,580,866</u>	<u>\$ 0</u>	<u>\$ 22,408,580,866</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.....	\$ 17,954,180,260	\$ 8,987,987,488	\$ 35,975,000	\$ 9,023,962,488
Voluntary Non-Profit Hospitals	13,963,224,309	8,100,385,000	0	8,100,385,000
Facilities for the Aged.....	1,996,020,000	925,580,000	0	925,580,000
Supplemental Higher Education Loan Financing Program.....	95,000,000	0	0	0
Totals Non-Public Programs.....	<u>\$ 34,008,424,569</u>	<u>\$ 18,013,952,488</u>	<u>\$ 35,975,000</u>	<u>\$ 18,049,927,488</u>
Grand Totals Bonds and Notes	<u>\$ 83,048,397,605</u>	<u>\$ 40,422,533,354</u>	<u>\$ 35,975,000</u>	<u>\$ 40,458,508,354</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At September 30, 2009, the Agency had approximately \$344.0 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at September 30, 2009 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	\$ 3,255,000
Insured Mortgage Programs	6,625,079,927	333,035,000
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	7,670,000
Total Non-Public Programs	<u>\$ 9,265,549,927</u>	<u>\$ 343,960,000</u>
Total MCFFA Outstanding Debt.....	<u>\$ 13,082,780,652</u>	<u>\$ 343,960,000</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 expires on March 31, 2010.

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, 2010.

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 an Executive Vice President and the Chief Financial 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 has previously served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller and as Co-Executive Director of the New York Local Government Assistance Corporation (LGAC). 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. Mr. Jiha has 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, 2010.

BRIAN RUDER, Scarsdale.

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

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 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 Executive Director and chief administrative and operating 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 Deputy Executive Director of the Authority, and assists the Executive Director in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

PORTIA LEE is the Managing Director of Public Finance 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.

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

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

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 2009 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 14 – LEGALITY OF THE SERIES 2009 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2009 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 of the State may properly and legally invest funds in their control.

The Series 2009 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 15 – NEGOTIABLE INSTRUMENTS

The Series 2009 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the General Resolution and in the Series 2009 Bonds.

PART 16 – TAX MATTERS

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2009 Bonds in order that interest on the Series 2009 Bonds will be and remain not includable in gross income under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, required ownership of the financed facilities by a Section 501(c)(3) organization or a governmental unit, limits on the amount of tax-exempt financing of capital expenditures incurred on or before August 5, 1997 from which certain users of the facilities resulting from such expenditures (and related parties) may benefit, and the rebate to the United States of certain earnings with respect to investments. Failure to comply with the continuing requirements may cause interest on the Series 2009 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the General Resolution, the Series 2009 Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Institution have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. Bond Counsel will not independently verify the accuracy of those representations and certifications, nor will it verify ongoing compliance with such covenants.

In the opinion of Winston & Strawn LLP, New York, New York (“Bond Counsel”), based upon an analysis of existing statutes, regulations, rulings and court decisions, interest on the Series 2009 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance by the Authority and the Institution (and their successors) with the covenants, and the accuracy of the representations and certifications (as to which Bond Counsel has made no independent investigation) referenced above. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Exhibit E hereto.

In addition, Bond Counsel has relied on the opinion of Kurzman Karelsen & Frank, LLP, counsel to the Institution, regarding the current qualification of the Institution as an organization described in Section 501(c)(3) of the Code, and other matters. Neither Bond Counsel nor Kurzman Karelsen & Frank, LLP can give or has given any opinion or assurance about the future activities of the Institution or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of the Institution to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest payable with respect to the Series 2009 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2009 Bonds.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel’s legal judgment as to exclusion of interest on the Series 2009 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the IRS or any court. Further, Bond Counsel cannot give, and has not given, any opinion or assurance about the future activities of the Authority or the Institution, or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service. The Authority and the Institution have covenanted, however, to comply with the requirements of the Code.

Certain requirements and procedures contained or referred to in the General Resolution, the Series 2009 Resolution, the Loan Agreement, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2009 Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Bond Counsel is further of the opinion that interest on the Series 2009 Bonds is not an “item of tax preference” for purposes of the federal alternative minimum tax on individuals and corporations. Pursuant to the American Recovery and Reinvestment Act of 2009, interest on the Series 2009 Bonds owned by corporations will not be included in the calculation of adjusted current earnings used to calculate the federal alternative minimum tax imposed on corporations (but not individuals). Corporate purchasers of the Series 2009 Bonds should consult their tax advisors concerning the computation of any alternative minimum tax.

Certain maturities of the Series 2009 Bonds have been initially offered to the public at prices less than the principal amount thereof payable at maturity. If the first price at which a substantial amount of the Series 2009 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and the principal amount constitutes original issue discount with respect to each Series 2009 Bond of the same maturity (the "Discount Bonds"). Bond Counsel is of the opinion that original issue discount, as it accrues, is not includable in gross income for federal income tax purposes, and is not subject to the alternative minimum tax, to the same extent as interest on the Series 2009 Bonds. Original issue discount accrues in each taxable year over the term of the Discount Bonds under the "constant yield method" described in the regulations interpreting Code Section 1272, with certain adjustments. Accruals of original issue discount are treated as tax-exempt interest earned by owners of Discount Bonds who are on the accrual basis of tax accounting and as tax-exempt interest received by owners of Discount Bonds who are on the cash basis of tax accounting, even though no cash corresponding to the accrual is received in the year of accrual. The tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to such owner's purchase price of such Discount Bond, the original issue discount that has accrued. Owners of Discount Bonds should consult their own tax advisors with respect to the calculation of the amount of original issue discount that will be treated for federal income tax purposes as having accrued for any taxable year (or portion thereof) of such owner and with respect to other federal, state, and local tax consequences of owning and disposing of the Discount Bonds.

Certain maturities of the Series 2009 Bonds have been initially offered to the public at prices in excess of their principal amounts (the "Premium Bonds"). Bond Counsel is of the opinion that the initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium that is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of such Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own advisors with respect to the federal, state and local tax consequences of owning and disposing of such Premium Bonds.

Information reporting requirements apply to interest (including original issue discount) paid on tax-exempt obligations, including the Series 2009 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2009 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2009 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Prospective purchasers of the Series 2009 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of, tax-exempt obligations may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors as to any possible collateral tax consequences in respect of the Series 2009 Bonds. Bond Counsel expresses no opinion regarding any such collateral tax consequences.

In the opinion of Bond Counsel, interest on the Series 2009 Bonds is exempt under existing statutes from personal income taxes of New York State and any political subdivision thereof (including The City of New York).

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2009 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009 Bonds. No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, clarification of the Code or court decisions will not cause interest on the Series 2009 Bonds to be subject, directly or indirectly, to federal or State or local income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2009 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations, rulings or litigation. Further, no assurance can be given that future court decisions or clarification of the Code, the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to regulation, ruling or selection of the Series 2009 Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2009 Bonds, or obligations which present similar tax issues, will not affect the market price of the Series 2009 Bonds.

Bond Counsel's engagement with respect to the Series 2009 Bonds ends with the issuance of the Series 2009 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Institution or the beneficial owners of the Series 2009 Bonds regarding the tax status of interest on the Series 2009 Bonds in the event of an audit examination by the Internal Revenue Service. The Internal Revenue Service has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Internal Revenue Service does audit the Series 2009 Bonds, under current procedures parties other than the Authority, the Institution and their appointed counsel, including the beneficial owners of the Series 2009 Bonds would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with any audit examination of tax-exempt bonds is difficult, obtaining an independent judicial review of Internal Revenue Service positions with which the Authority or the Institution legitimately disagrees, may not be practical. Any action of the Internal Revenue Service, including but not limited to selection of the Series 2009 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market prices for, or the marketability of, the Series 2009 Bonds, and may cause the Authority, the Institution and the beneficial owners of the Series 2009 Bonds to incur significant expense.

PART 17 – STATE AND FHA NOT LIABLE ON THE SERIES 2009 BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The General Resolution specifically provides that the Series 2009 Bonds are not a debt of the State nor shall the State be liable thereon.

The Series 2009 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2009 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD or FHA.

PART 18 – COVENANT BY THE STATE

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

PART 19 – LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2009 Bonds by the Authority are subject to the approval of Winston & Strawn LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2009 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix E hereto.

Certain legal matters will be passed upon for the Institution by its counsel, Kurzman Karelsen & Frank LLP, New York, New York, for the underwriters by their counsel, Harris Beach PLLC, New York, New York, and for the Mortgage Servicer by its counsel, Krooth & Altman LLP, Washington, D. C.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2009 Bonds or questioning or affecting the validity of the Series 2009 Bonds or the proceedings and authority under which they are to be issued. There is no litigation pending which in any manner questions the right of the Authority to finance the Project in accordance with the provisions of the Act, the Resolutions and the Loan Agreement.

PART 20 – RATING

The Series 2009 Bonds are expected to be rated "AAA" by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies and "Aa2" by Moody's Investors Services, Inc. based on the Note and Mortgage being insured by FHA on the date of delivery of the Series 2009 Bonds. Each credit rating reflects only the view of the credit rating agency that has issued the credit rating, and an explanation of the significance of such credit rating may be obtained from the rating agency furnishing the same. There is no assurance that either credit rating, or both, will continue for any given period of time or that either or both will not be revised or withdrawn entirely by the applicable credit rating agency, if, in the judgment of the applicable credit rating agency, circumstances so warrant. Any downward revision or withdrawal of a credit rating may have an adverse effect on the market price of the Series 2009 Bonds.

PART 21 – UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2009 Bonds from the Authority at an aggregate purchase price equal to \$86,059,342.25, representing the principal amount of the Series 2009 Bonds (\$82,955,000), plus net original issue premium of \$3,925,596.75 less the Underwriters' discount of \$821,254.50, and to make a public offering of the Series 2009 Bonds at prices that are not in excess of the public offering prices stated on the cover page of this Official Statement. The Underwriters will be obligated to purchase all such Series 2009 Bonds if any are purchased. The Series 2009 Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

The following two sentences have been provided by J.P. Morgan Securities Inc.: J.P. Morgan Securities Inc., one of the underwriters of the Series 2009 Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2009 Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009 Bonds with UBS Financial Services Inc.

PART 22 – CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Institution has undertaken in a written agreement (the "Continuing Disclosure Agreement") for the benefit of the Series 2009 Bondholders to provide to Digital Assurance Certification LLC ("DAC"), on behalf of the Authority as the Authority's disclosure dissemination agent, on or before 120 days after the end of each fiscal year of the Institution, commencing with the fiscal year ending December 31, 2009, for DAC to electronically file with the Municipal Securities Rulemaking Board ("MSRB") and its Electronic Municipal Market Access ("EMMA") system, as the sole repository for the central filing of electronic disclosure pursuant to Rules 15c2-12, on an annual basis, operating data and financial information of the type hereinafter described which is included in "PART 10 – THE INSTITUTION" of this Official Statement (the "Annual Information"), together with the Institution's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of

America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if the audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for electronic filing with the MSRB.

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

The Annual Information will consist of (a) financial and operating data of the type included in this Official Statement, which shall include information as described in "PART 10 – THE INSTITUTION" herein relating to the following: (1) utilization data of the type set forth under the headings "Selected Utilization Statistics"; (2) operating data and a summary of annual revenue and expenses of the type included under PART 10 – THE INSTITUTION - Summary of Historical Operations" and "–Management's Discussion of Historical Operations"; unless such information is included in the audited financial statements of the Institution; (3) information on the sources of revenue by payor of the type included herein under "PART 10 – THE INSTITUTION – Hospital Utilization by Payor Class"; and (4) outstanding indebtedness, unless such information is included in the audited financial statements of the Institution, together with (b) such narrative explanation as may be necessary to avoid misunderstanding and assist the reader in understanding the presentation of financial and operating data concerning the Institution and in judging the financial and operating condition of the Institution.

The Institution also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, the Authority and the Trustee will undertake to provide such notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Institution, the Trustee or the Authority, DAC will electronically file the Notices with the MSRB in a timely manner. With respect to the Series 2009 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC's obligation to electronically file the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent it has been provided such information pursuant to the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by the Institution or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Institution, the Holders of the Series 2009 Bonds or any other party. DAC has no responsibility for the Authority's, the Institution's or the Trustee's failure to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Institution, the Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Institution, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement. In the event that the obligations of DAC as the Authority's disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Series 2009 Bondholders.

The Notices include notices of any of the following events (the "Event Notices") with respect to the Series 2009 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 2009 Bonds; (7) modifications to the rights of Holders of the Series 2009 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2009 Bonds; and (11) rating changes. In addition, DAC will undertake to provide to the MSRB, in a timely manner, notice of any failure by the Institution to provide the Annual Information and annual consolidated financial statements by the date required in the Institution's undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of DAC, the Institution and/or the Authority, and no person, including any Holder of the Series 2009 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the Institution may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by

any Holder of Outstanding Series 2009 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2009 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 2009 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 2009 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement does not constitute an Event of Default under the Resolution, the Loan Agreement or the Continuing Disclosure 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, will 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. Where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement may be amended or modified without the consent of the holders of Series 2009 Bonds under certain circumstances set forth therein. Copies of the executed Continuing Disclosure Agreement are on file at the principal office of the Authority.

PART 23 – MISCELLANEOUS

References in this Official Statement to the Act, the General Resolution, the Series 2009 Resolution, the Loan Agreement, the Servicing Agreement and the FHA Documents do not purport to be complete. Refer to the Act, the General Resolution, the Series 2009 Resolution, the Servicing Agreement, the FHA Documents and the Loan Agreement for full and complete details of their provisions. Copies of the General Resolution, the Series 2009 Resolution, the Servicing Agreement, the FHA Documents and the Loan Agreement are on file with the Authority and the Trustee. The agreements of the Authority with Holders of the Series 2009 Bonds are fully set forth in the General Resolution. Neither any advertisement of the Series 2009 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2009 Bonds.

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

The information regarding the Plan of Financing (except for (i) the two undesignated paragraphs immediately preceding “Construction Fund Disbursements”, and (ii) “Payment of FHA Mortgage Insurance Benefits” and “Prepayment of Note from Hazard Insurance or Condemnation Proceeds”), the Project and the Institution was supplied by the Institution. The Authority believes that this information is reliable, but the Authority and the Underwriters make no representations or warranties as to the accuracy or completeness of this information.

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

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

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

The Institution has prepared “PART 2 – PLAN OF FINANCING (except for (i) the two undesignated paragraphs immediately preceding “Construction Fund Disbursements”, and (ii) “Payment of FHA Mortgage Insurance Benefits” and “Prepayment of Note from Hazard Insurance or Condemnation Proceeds”), “PART 10 – THE INSTITUTION” and “PART 11 – GENERAL FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE INSTITUTION” and has reviewed other sections of this Official Statement relating to the Institution. The Institution shall certify as of the dates of sale and delivery of the Series 2009 Bonds that such parts do not contain any

untrue statement of material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading.

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

The Institution has agreed with the Authority to furnish, or cause to be furnished, no later than 45 days subsequent to the last day of each of the first three quarters in each fiscal year and no later than 90 days subsequent to the fourth quarter of each fiscal year to (i) the Authority, (ii) the MSRB through its EMMA system, and (iii) each Series 2009 Bondholder who is the registered owner of in excess of an aggregate \$1 million principal amount of Series 2009 Bonds and who has so requested, the following information: (a) the unaudited combined financial statements of the Institution including the balance sheet as of the end of such quarter, the statement of operations, changes in net assets and cash flow, with unaudited combining financial statements for the Institution for the balance sheet and the statement of operations; (b) utilization statistics for such quarters, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits, ambulatory surgery visits and home care visits (if applicable); and (c) discharges by major payor mix for such quarters. In the event that the Institution satisfies its requirement to provide annual information in accordance with the Continuing Disclosure Agreement prior to 90 days subsequent to the fourth quarter of any fiscal year, the submission under the Continuing Disclosure Agreement will satisfy the requirement of the fourth quarter.

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

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

By: /s/ Paul T. Williams, Jr.
Executive Director

DEFINITIONS

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DEFINITIONS

The following definitions of certain terms are for the use of this Official Statement only. Capitalized terms used herein without other definition have the meanings set forth in the Resolution.

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

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

Affiliate means any person or entity, which directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with a specified person or entity. For purposes hereof, the terms “control”, “controlled”, or “controlling” with respect to a specified person or entity shall include, without limitation, (i) the ownership, control or power to vote ten percent (10%) or more of (x) the outstanding shares of any class of voting securities or (y) beneficial interests, of any such person or entity, as the case may be, directly or indirectly, or acting through one or more persons or entities, (ii) the control in any manner over the shareholder(s) or the election of more than one director or trustee (or persons exercising similar functions) of such person or entity, or (iii) the power to exercise, directly or indirectly, control over the management or policies of such person or entity.

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

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

Arbitrage Rebate Fund means each such fund authorized to be created pursuant to the Resolution and so designated and established by a Series Resolution.

Architect means, with respect to an Applicable Series of Bonds, any architect(s) or engineer(s) retained by the Institution with the approval of the Authority and FHA.

Assignment means, with respect to one or more Applicable Series of Bonds, the Assignment, dated as of or prior to the date of delivery of such Series of Bonds, pursuant to which all right, title and interest of the Mortgage Servicer or other approved FHA mortgagee in and to the Commitment is assigned to the Authority.

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

Authority Fee means a fee payable to the Authority upon the issuance of a Series of Bonds in an amount set forth in the Applicable Loan Agreement.

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

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

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

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

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

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

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

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

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

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

Book Entry Bond means a Bond authorized to be issued, and issued to and registered in the name of, a Depository for the participants in such Depository or the beneficial owner of such Bond.

Building Loan Agreement means, with respect to one or more Series of Bonds, the Building Loan Agreement, if any, entered into between the Institution and the Authority (as mortgagee under the Mortgage).

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

Capital Accumulator Bond means any of the Bonds designated as such in an Applicable Series Resolution or Bond Series Certificate.

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

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

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

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

Collateral Account Requirement means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds, as of any particular date of calculation, the amount, if any, by which (A) the aggregate principal amount of Applicable Series of Bonds then Outstanding plus interest on such Bonds accrued to such date plus thirty (30) days thereafter, exceeds (B) the sum of (i) amounts on deposit in the Applicable Reserve Account, the Applicable Debt Service Account, the Applicable Redemption Account (not including amounts attributable to Bonds of such Series which are no longer deemed Outstanding) (including interest accrued on any investment in such Funds and Accounts on such date) ; plus (ii) if the calculation is made (1) prior to Final Endorsement and prior to commencement of amortization on the Note, the face amount of the Note as of the date of Initial Endorsement reduced by the amount of any prepayments of the principal of the Note, less one percent (1%) of and thirty (30) days' interest on such face amount at an interest rate set forth in the Applicable Note; or (2) prior to Final Endorsement but after commencement of amortization on the Note, the outstanding principal amount of the Note, which amount shall equal the total of Mortgage Advances made reduced by the amount of any payments or prepayments of principal of the Note plus amounts on deposit in the Applicable

Mortgage Account, less one percent (1%) of and thirty (30) days' interest on such balance of such Note at an interest rate set forth in such Note, or (3) after Final Endorsement, the outstanding principal amount of the Note less one percent (1%) of and thirty (30) days' interest on the outstanding principal amount of such Note (at the interest rate set forth in such Note).

Commissioner means the Commissioner of Health of the State, or any officer, board, body, agency or instrumentality of the State, which shall hereafter succeed to the powers, functions and duties of the Commissioner.

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

Compounded Amount means, with respect to a Capital Accumulator Bond, the amount defined in such Applicable Series Resolution.

Construction Contract means, with respect to an Applicable Series of Bonds, the Construction Contract, if any, between the Institution and the general contractor named therein with respect to the Project.

Construction Fund means each such fund authorized to be created pursuant to the Resolution and so designated and established by an Applicable Series Resolution.

Cost or Costs of Issuance means, with respect to an Applicable Series of Bonds, the items of expense incurred in connection with the preparation, authorization, sale and issuance of such Series of Bonds, and the preparation and execution of the Applicable Loan Agreement and the Applicable FHA Documents, 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 Applicable Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safe-keeping of such Bonds, premiums, fees and charges for insurance on such Bonds, costs and expenses of refunding Bonds or other bonds or notes of the Authority, fees and expenses related to the acquisition of an interest rate cap or other similar product to the extent approved by the Commissioner, and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

Cost or Costs of the Project means, with respect to an Applicable Project, costs and expenses or the refinancing or refunding of bonds of a public benefit corporation issued to pay all costs and expenses determined by the Authority to be necessary in connection therewith, including, but not limited to: (i) costs and expenses of the acquisition of the title to (including premiums and other charges in connection with obtaining title insurance) 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, renovation, repair and improvement of such Project; (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for; (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such Project; (v) costs and expenses required for the acquisition and installation of equipment or machinery; (vi) all other costs which the Institution shall be required to pay for the acquisition, relocation, demolition, construction, reconstruction, rehabilitation, renovation, repair, improvement and equipping of such Project; (vii) any sums required to reimburse the Institution or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with such Project (including interest on moneys borrowed from parties other than such Institution); (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement or equipping of such Project; (ix) the costs and expenses incurred in connection with the refinancing of any outstanding indebtedness constituting a lien on the Project, including the cost of acquiring, refinancing and/or accepting assignment of, an existing FHA Insured Note; and (x) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Resolution, to the Loan Agreement, the FHA Documents, or to the Servicing Agreement; provided that payment

of any such costs with moneys in the Mortgage Account or the Equity Account shall have been either endorsed for Mortgage Insurance or approved for release by FHA.

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

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

Credit Facility means an irrevocable letter of credit, surety bond, loan agreement, or other agreement, facility or insurance or guaranty arrangement pursuant to which the Authority is entitled to obtain money to pay the principal and Sinking Fund Installments of and interest on a Series of Bonds whether or not the Authority is in default under the Resolution, which is issued or provided by:

- (i) a bank, a trust company, a national banking association, an organization 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 or a saving and loan association;
- (ii) an insurance company or association chartered or organized under the laws of any state of the United States of America
- (iii) the Government National Mortgage Association or any successor thereto;
- (iv) the Federal National Mortgage Association or any successor thereto; or
- (v) any other federal agency or instrumentality approved by the Authority.

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

Debt Service Fund means each such fund authorized to be created pursuant to the Resolution and so designated and established by the Applicable Series Resolution.

Debt Service Reserve Fund means each such fund authorized to be created pursuant to the Resolution and so designated and established by the Applicable Series Resolution.

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

Defeasance Security means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, any of the following: (i) Government Obligation of the type described in clauses: (i), (ii), (iii) or (iv) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and (iii) an Exempt Obligation, provided such Exempt Obligation: (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in

such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof; (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above; (iii) as to which the principal of and interest on the 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 (i) above; and (iv) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; **provided, however,** that: (i) such term shall not include any interest in a unit investment trust or mutual fund; or (ii) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

Department of Health means the Department of Health of the State, or any officer, board, body, agency or instrumentality of the State, which shall hereafter succeed to the powers, functions and duties of the Department of Health.

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.

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

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

Exempt Obligation means: (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 in the second highest rating category for such obligation by each Rating Service; (ii) a certificate or other instrument which is rated in the second highest rating category by each Rating Service and which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations which is rated in the highest rating category by each Rating Service and whose objective is to maintain a constant share value of one dollar (\$1.00).

Extraordinary Mandatory Redemption means, with respect to an Applicable Series of Bonds, the mandatory redemption of Bonds of such Series undertaken in accordance with the Resolution from the proceeds of insurance or condemnation awards pursuant to the Resolution, upon payment of FHA mortgage insurance benefits pursuant to the Resolution, or as may otherwise be provided in the Applicable Bond Series Certificate.

Federal Agency Obligation means: means:

- (i) an obligation issued, or fully insured or guaranteed as to payment by any agency or instrumentality of the United States of America, 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 in the second highest rating category for such obligation by each Rating Service;

- (ii) a certificate or other instrument which is rated in the second highest rating category by each Rating Service and 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 obligations; and
- (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations which is rated in the highest rating category by each Rating Service and whose objective is to maintain a constant share value of one dollar (\$1.00).

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

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

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

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

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

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

Floor-Ceiling Agreement means, with respect to an Applicable Series of Bonds, a Floor-Ceiling Agreement, if any, executed by and among the Authority, the Applicable Trustee and a Qualified Financial Institution, which Agreement provides for: (i) the investment of amounts on deposit in investment securities of the nature permitted by the terms and conditions of the Resolution; and (ii) the protection of principal and/or yield, as applicable, with respect to the amounts invested pursuant to clause (i) above.

Government Obligation means:

- (i) a direct obligation of the United States of America;
- (ii) an obligation fully insured or guaranteed as to payment by the United States of America;
- (iii) an obligation to which the full faith and credit of the United States of America are pledged;
- (iv) a certificate or other instrument which is rated in the second highest rating category by each Rating Service and which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

- (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations which is rated in the highest rating category by each Rating Service and whose objective is to maintain a constant share value of one dollar (\$1.00).

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

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

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

Institution means the New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery, a New York not-for-profit corporation, for whose benefit the Authority shall have issued Bonds under the Resolution and with which the Authority shall have executed one or more Loan Agreements.

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

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

Investment Agreement means, with respect to an Applicable Series of Bonds, a repurchase agreement or other agreement for the investment of money with a Qualified Financial Institution.

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

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

Letter of Credit means, with respect to an Applicable Series of Bonds, an irrevocable letter of credit or, as appropriate, a confirmation or confirming letter of credit or surety bond, issued in favor of the Authority or the Applicable Trustee, as the case may be, in form and substance satisfactory to the Authority or the Applicable Trustee, as the case may be, which is issued by a Qualified Financial Institution, which Letter of Credit is accompanied by a legal opinion or opinions addressing the enforceability thereof.

Loan Agreement means, with respect to an Applicable Series of Bonds under the Resolution, the Loan Agreement or other agreement, by and between the Authority and the Institution in connection with the issuance of the Bonds, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement.

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

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

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

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

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

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

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

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

Net Condemnation Proceeds shall have the meaning as defined in the provisions of the Loan Agreement summarized in Appendix D under the caption "Application of Proceeds of Condemnation Compensation."

Net Insurance Proceeds shall have the meaning as defined in the provisions of the Loan Agreement summarized in Appendix D under the caption "Application of Proceeds of Hazard Insurance"

Non-Asset Bond Prepayment means the amount, if any, sufficient to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds, together with such other amounts as may be required pursuant to a

Cash Flow Statement, such that, after giving effect to such redemption, the Non-Asset Bond Ratio is the same, as nearly as practicable, as such Non-Asset Bond Ratio prior to such redemption; provided that to the extent that the Institution has paid an amount corresponding to the Non-Asset Bond Prepayment pursuant to the Note, then no further payment of such amount shall be required under this definition.

Non-Asset Bond Ratio means the ratio that the aggregate principal amount of Bonds Outstanding of an Applicable Series (minus the amount on deposit in the Reserve Account of the Debt Service Reserve Fund) bears to the outstanding principal amount of the Note or such other ratio as may be required pursuant to a Cash Flow Statement.

Non-Asset Bonds means an amount of Bonds of an Applicable Series equal to the difference between (x) the aggregate principal amount of Bonds Outstanding less the amount on deposit in the Applicable Reserve Account of the Applicable Debt Service Reserve Fund and (y) the outstanding principal amount of the Note.

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

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

Optional Redemption means, with respect to an Applicable Series of Bonds, redemption of Bonds at the option of the Authority as described in the Resolution and in the Applicable Series Resolution or Applicable Bond Series Certificate.

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 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 the Resolution.

Paying Agent means, with respect to an Applicable Series of Bonds, the Applicable Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the 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 Collateral means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to an Applicable Series of Bonds: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligation; (ii) Federal Agency Obligations described in clause (i) 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; or (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.

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 with an unsecured long-term rating of at least “A2” or “AA-” by each Rating Service and short-term rating of at least “P-1” or “A-1+” by each Rating Service;

- (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, at the time an investment therein is made or the same is deposited in any fund or account under the Resolution, rated by each Rating Service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral;
- (vi) Investment Agreements that are fully collateralized by Permitted Collateral (provided that, prior to entering into such Investment Agreement, the Applicable Trustee shall have received confirmation from each Rating Service of its then current rating on the Series 2009 Bonds); and
- (vii) to the extent any of the following constitute permitted investments under the “Investment Policy and Guidelines” of the Authority in effect at the time an investment is made:

commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) at the time an investment therein is made or the same is deposited in any fund or account under the Resolution, is rated in the highest short term rating category by each Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by each Rating Service no lower than in the second highest rating category;

an uncollateralized, unsecured certificate of deposit, time deposit or bankers’ acceptance that (A) has a maturity of not more than three hundred sixty-five (365) days and (B) is issued by or are of or with a bank the short term obligations of which are, at the time an investment in such certificate of deposit, time deposit or bankers’ acceptance is made or the same is deposited in any fund or account under the Resolution, rated at least at least “P-1” or “A-1+” by each Rating Service; and

shares or an interest in any other mutual fund, partnership or other fund whose objective is to maintain a constant share value of one dollar (\$1.00) and that, at the time an investment therein is made or the same is deposited in any fund or account under the Resolution, are rated in the highest rating category by each Rating Service.

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

Principal Amount means, with respect to an Applicable Series of Bonds, at any date of calculation, the Compounded Amount (as of such date unless otherwise stated in the Resolution) of a Capital Accumulator Bond or, when used in reference to any other Bond, the face amount of such Bond.

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

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

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

- (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by each 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 each 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 each 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 each 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 each 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 each 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 any other federal agency or instrumentality approved by the Authority and acceptable to the Rating Services; or
- (v) a corporation whose obligations, including any investments of any money held under the Resolution purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

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

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 first (1st) day (whether or not a Business Day) of the calendar month of an Interest Payment Date.

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

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 Bonds of any Applicable Series, the issuance of which is authorized pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

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

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

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

Resolution means the Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bond Resolution, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions of the Resolution.

Securities means, except as may be provided in the Applicable Series Resolution: (i) money; or (ii) Permitted Investments.

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

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

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and the Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, interest payment dates, Sinking Fund Installments or other provisions, which Bonds may be issued in one or more subseries.

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution, as such series resolution may be amended and supplemented pursuant to the Resolution.

Series 2009 Resolution means the Series Resolution adopted September 23, 2009 with respect to the Project, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

Series 2009 Bonds means the Bonds authorized by the Series 2009 Resolution.

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

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

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

Sinking Fund Redemption means, with respect to an Applicable Series of Bonds, an amount of Bonds of such Series subject to redemption pursuant to and to the extent of moneys available therefor on each Interest Payment Date under the Resolution (constituting amounts available in the Debt Service Account pursuant to the Resolution) at the principal amount thereof in accordance with the Resolution.

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

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

State means the State of New York.

Surety Bond means, with respect to an Applicable Series of Bonds, any surety bond or bonds, if any, issued by the Applicable Bond Insurer with respect to the potential difference between the FHA Mortgage Insurance Benefits and debt service requirements on the Applicable Series of Bonds. The definition of Surety Bond shall not include any surety bond or bonds contained within the definition of Letter of Credit that may be issued to satisfy all or any portion of the Collateral Account Requirement or Investment Income Account Requirement.

Supplemental Resolution means any 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 the Resolution.

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

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.

Threshold Amount shall have the meaning assigned to such term in the provisions of the Loan Agreement summarized in Appendix D under the caption "Application of Proceeds of Hazard Insurance."

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

Trustee's Annual Fee means, with respect to an Applicable Series of Bonds, the annual fee charged by the Applicable Trustee for performance of certain of its obligations under such Applicable Series Resolution covering the normal administration of the trust, including the maintenance of the Trustee's records and the duties and functions of the Trustee under the provisions of an Applicable Series Resolution; such fee shall be set forth in the Applicable Series Resolution or Applicable Bond Series Certificate.

Trust Revenues means all moneys, securities and instruments referred to in the Resolution as Trust Revenues.

FINANCIAL STATEMENTS

New York Society for the Relief of the Ruptured and
Crippled, Maintaining the Hospital for Special Surgery
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Financial Statements

Years Ended December 31, 2008 and 2007

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Report of Independent Auditors

The Board of Trustees
New York Society for the Relief of the
Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

We have audited the accompanying statements of financial position of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery (the "Hospital") as of December 31, 2008 and 2007, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery at December 31, 2008 and 2007, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Hospital adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2007 and 2008.

Ernst & Young LLP

April 1, 2009

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statements of Financial Position

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents <i>(Notes 6 and 16)</i>	\$ 26,271	\$ 11,426
Receivables:		
Patient care, less allowance for doubtful accounts (2008 – \$3,643; 2007 – \$3,329) <i>(Note 2)</i>	50,332	49,128
Other	10,659	11,210
Total receivables	60,991	60,338
Investments <i>(Notes 3 and 16)</i>	63,922	100,510
Inventories	3,369	2,994
Prepaid expenses and other current assets <i>(Note 9)</i>	3,450	3,321
Pledges receivable <i>(Note 1)</i>	8,591	8,713
Due from affiliates – net <i>(Notes 3 and 14)</i>	8,030	14,688
Total current assets	174,624	201,990
Other noncurrent assets	1,455	1,508
Due from affiliates – net <i>(Notes 3 and 14)</i>	11,013	13,509
Pledges receivable <i>(Note 1)</i>	23,369	27,850
Deferred financing costs, less accumulated amortization (2008 – \$4,257; 2007 – \$3,794)	5,740	6,203
Assets limited as to use <i>(Notes 3 and 16)</i>	32,891	26,153
Investment in Sutton House <i>(Note 4)</i>	820	820
Long-term investments <i>(Notes 3 and 16)</i>	61,614	49,912
Interest in The Hospital for Special Surgery Fund, Inc. <i>(Note 1)</i>	4,637	6,247
Property, plant and equipment – net <i>(Notes 5 and 6)</i>	286,510	287,958
Total assets	\$ 602,673	\$ 622,150

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 46,614	\$ 39,714
Accrued salaries and related liabilities	13,563	12,640
Current portion of long-term debt <i>(Notes 6 and 16)</i>	11,352	12,300
Due to third-party payors – net <i>(Note 2)</i>	2,076	1,860
Other current liabilities	8,060	7,549
Total current liabilities	81,665	74,063
Long-term debt <i>(Notes 6 and 16)</i>	183,241	185,545
Other noncurrent liabilities, including due to third-party payors – net <i>(Notes 2 and 9)</i>	68,373	22,326
Total liabilities	333,279	281,934
Commitments and contingencies <i>(Notes 2, 5, 6, 8, 12 and 15)</i>		
Net assets:		
Unrestricted	120,490	170,834
Temporarily restricted:		
Specific purpose	25,953	34,785
Plant replacement and expansion	36,787	37,521
Research	13,397	29,575
Total temporarily restricted	76,137	101,881
Permanently restricted <i>(Note 11)</i>	72,767	67,501
Total net assets	269,394	340,216
Total liabilities and net assets	\$ 602,673	\$ 622,150

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statements of Operations

	Year Ended December 31	
	2008	2007
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 425,906	\$ 367,210
Other operating revenue <i>(Note 7)</i>	41,976	56,001
Net assets released from restrictions for operations	19,245	17,838
Total operating revenue	487,127	441,049
Operating expenses		
Salaries and wages	195,928	177,278
Employee benefits	52,925	47,993
Supplies and other	184,619	159,061
Interest expense <i>(Note 6)</i>	8,376	9,034
Depreciation and amortization	30,400	28,750
Bad debt expense	3,178	2,422
Total operating expenses	475,426	424,538
Operating income before research operations and change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	11,701	16,511
Research operations:		
Operating expenses, including depreciation (2008 – \$2,610; 2007 – \$2,850)	31,677	31,702
Net assets released from restrictions for research operations	30,375	29,663
Net research operations	(1,302)	(2,039)
Change in unrestricted interest in The Hospital for Special Surgery Fund, Inc. <i>(Note 1)</i>	(1,610)	(1)
Operating income	8,789	14,471
Other changes in unrestricted net assets		
Net assets released from restrictions for capital expenditures	7,531	8,806
Change in net unrealized gains and losses on investments	(13,043)	(9,017)
Net assets reclassification <i>(Note 11)</i>	(10,572)	–
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods <i>(Note 9)</i>	(41,207)	–
Change in additional minimum pension liability and effect of change in accounting for defined benefit pension and other postretirement plan <i>(Note 9)</i>	(1,842)	(35,796)
Decrease in unrestricted net assets	\$ (50,344)	\$ (21,536)

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statement of Changes in Net Assets

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted			Total Temporarily Restricted	Permanently Restricted	Total
		Specific Purpose	Plant	Research			
<i>(In Thousands)</i>							
Net assets at December 31, 2007	\$ 170,834	\$ 34,785	\$ 37,521	\$ 29,575	\$ 101,881	\$ 67,501	\$ 340,216
Decrease in unrestricted net assets	(50,344)	—	—	—	—	—	(50,344)
Contributions, including research grants	—	17,339	6,021	25,665	49,025	5,266	54,291
Investment activity, including net investment income of \$3,083, net realized gain of \$425 and change in net unrealized gains and losses and equity in earnings of alternative investments of (\$31,698) (Note 13)	—	(8,986)	294	(19,498)	(28,190)	—	(28,190)
Net assets reclassification (Note 11)	—	2,204	—	8,368	10,572	—	10,572
Net assets released from restrictions for:							
Research operations	—	—	(400)	(29,975)	(30,375)	—	(30,375)
Capital expenditures	—	(144)	(6,649)	(738)	(7,531)	—	(7,531)
Operating expenses	—	(19,245)	—	—	(19,245)	—	(19,245)
Total net assets released from restrictions	—	(19,389)	(7,049)	(30,713)	(57,151)	—	(57,151)
Total change in net assets	(50,344)	(8,832)	(734)	(16,178)	(25,744)	5,266	(70,822)
Net assets at December 31, 2008 (Note 11)	\$ 120,490	\$ 25,953	\$ 36,787	\$ 13,397	\$ 76,137	\$ 72,767	\$ 269,394

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statement of Changes in Net Assets

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted			Total Temporarily Restricted	Permanently Restricted	Total
		Specific Purpose	Plant	Research			
	<i>(In Thousands)</i>						
Net assets at December 31, 2006	\$ 192,370	\$ 37,181	\$ 18,532	\$ 24,951	\$ 80,664	\$ 57,926	\$ 330,960
Decrease in unrestricted net assets	(21,536)	—	—	—	—	—	(21,536)
Contributions, including research grants	—	13,861	26,625	26,544	67,030	9,575	76,605
Investment activity, including net investment income of \$4,021, net realized loss of (\$215) and change in net unrealized gains and losses and equity in earnings of alternative investments of \$6,688 (Note 13)	—	2,264	616	7,614	10,494	—	10,494
Net assets released from restrictions for:							
Research operations	—	—	(400)	(29,263)	(29,663)	—	(29,663)
Capital expenditures	—	(683)	(7,852)	(271)	(8,806)	—	(8,806)
Operating expenses	—	(17,838)	—	—	(17,838)	—	(17,838)
Total net assets released from restrictions	—	(18,521)	(8,252)	(29,534)	(56,307)	—	(56,307)
Total change in net assets	(21,536)	(2,396)	18,989	4,624	21,217	9,575	9,256
Net assets at December 31, 2007 (Note 11)	\$ 170,834	\$ 34,785	\$ 37,521	\$ 29,575	\$ 101,881	\$ 67,501	\$ 340,216

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statements of Cash Flows

	Year Ended December 31	
	2008	2007
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ (70,822)	\$ 9,256
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	1,610	1
Depreciation and amortization	33,010	31,600
Change in additional minimum pension liability and effect of change in accounting for defined benefit pension and other postretirement plan	1,842	35,796
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods	41,207	–
Change in net unrealized gains and losses on investments and equity in earnings of alternative investments	44,741	2,329
Contributions to permanently restricted net assets	(5,266)	(9,575)
Contributions restricted to acquisition of plant assets – net	(6,021)	(26,625)
Employer contributions to pension plan	(9,600)	(7,250)
Changes in operating assets and liabilities:		
Receivables, net	(653)	(4,616)
Net due from affiliates	2,860	(1,259)
Pledges receivable	4,603	(17,283)
Accounts payable and accrued expenses and accrued salaries and related liabilities	7,823	(1,637)
Current amount due to third-party payors	216	(115)
Other noncurrent liabilities, including due to third-party payors	2,998	(1,431)
Other assets and liabilities, net	9,660	6,738
Net cash provided by operating activities	58,208	15,929
Cash flows from investing activities		
Additions to property, plant and equipment	(31,099)	(39,617)
Net increase in investments	(13,561)	(15,908)
Net (increase) decrease in assets limited as to use	(6,738)	5,879
Net cash used in investing activities	(51,398)	(49,646)
Cash flows from financing activities		
Principal payments on long-term debt	(12,375)	(11,957)
Proceeds from long-term borrowings	12,384	17,216
Net decrease in construction payable	(3,261)	(5,659)
Contributions restricted to acquisition of plant assets – net	6,021	26,625
Contributions to permanently restricted net assets	5,266	9,575
Net cash provided by financing activities	8,035	35,800
Net increase in cash and cash equivalents	14,845	2,083
Cash and cash equivalents at beginning of year	11,426	9,343
Cash and cash equivalents at end of year	\$ 26,271	\$ 11,426

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements

December 31, 2008

1. Organization and Significant Accounting Policies

Organization

The accompanying financial statements include the accounts of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery (the “Hospital”), but do not include the Hospital’s separately incorporated affiliates: HSS Properties Corporation (“Properties”), The Hospital for Special Surgery Fund, Inc. (“Fund”), HSS Horizons, Inc. (“Horizons”), HSS Ventures, Inc. and Medical Indemnity Assurance Company, Ltd. (“MIAC”).

In 1998, The Society of the New York Hospital and The Presbyterian Hospital in the City of New York (“Presbyterian”) merged to form the New York Presbyterian Hospital (“NYPH”). Subsequently, the Hospital, NYPH and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences of Cornell University (“Cornell”) agreed to restructure their relationship, prompted in large measure by regulatory and operational issues raised by the addition of Presbyterian, a hospital with an established orthopedics department. The restructuring resulted in a Corporate Relationship Agreement (the “Agreement”) that reaffirms and continues the Hospital’s medical and clinical affiliation with NYPH by permitting and requiring the Hospital to continue to function as the principal orthopedic and rheumatology facility for NYPH at its East 68-East 70 Street facility (East Campus).

Under the Agreement, the Hospital became a membership corporation, with the five Hospital members elected by an NYPH affiliate, subject to specific affiliation guidelines for each of the five member positions that require three of the Hospital members to come from the Hospital’s Board of Trustees (with one of the three to also serve on the Board of the NYPH affiliate). The members have the authority to elect the Hospital’s Board of Trustees, as nominated by the Governance Committee of the Hospital’s Board of Trustees or by a member. As a result of certain procedural elements of the Agreement, the Hospital has not had any significant changes in the nominating process for, or in the composition of, its Board of Trustees. The Agreement did not involve a merger of the institutions and the Hospital’s net assets remain under the Hospital’s control.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

As part of the restructuring, the Hospital executed an agreement with Cornell that established the orthopedics department at the Hospital as the Department of Orthopedics at Cornell. Additionally, the Hospital, NYPH and Cornell have developed a tri-partite agreement pertaining to the academic affiliation of the institutions, which maintains and enhances the historical clinical and academic relationship among the parties.

Cash and Cash Equivalents

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents. The Hospital invests in money market funds and maintains its cash deposits with certain financial institutions. Total deposits maintained at these institutions at times exceed the amount insured by Federal agencies and, therefore, bear a risk of loss. At December 31, 2008 and 2007, cash and cash equivalents includes approximately \$0.4 million of amounts held in escrow for various purposes.

Net Patient Service Revenue and Receivables for Patient Care

Net patient service revenue and patient accounts receivable from third-party programs for which the Hospital receives payment under various reimbursement formulae or negotiated rates are stated at the estimated net amounts realizable and receivable from such payors, which are generally less than the Hospital's established billing rates. See Note 2 for additional information relative to third-party payor programs.

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

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Performance Indicator

The statements of operations include operating income as the performance indicator. Excluded from the performance indicator are net assets released from restrictions for capital expenditures, change in net unrealized losses on investments, net assets reclassification, change in defined pension liability and other postretirement plan liability recognized in future periods and change in additional minimum pension liability and effect of change in accounting for defined benefit pension plan and other postretirement plan.

Uncompensated Care

As a matter of policy, the Hospital provides significant amounts of partially or totally uncompensated patient care. For accounting purposes, such uncompensated care is treated either as charity care under the Hospital's financial assistance policy or as bad debt expense. The Hospital's financial assistance policy ensures the provision of quality health care to the community served while carefully considering and taking into account the ability of the patient to pay. In order to make the Hospital services available to more patients in need, the Hospital increased its financial assistance program's eligibility threshold from 400% of the Federal Poverty Guidelines to 500% in 2008, which is in excess of the New York State minimum requirements of 300%. The Hospital has defined charity care for accounting and disclosure purposes as the difference between its customary charges and the discounted rates given to patients in need of financial assistance. As the collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. Patients who do not qualify for discounted fees are billed at the Hospital's established charges. Uncollected balances for these patients are categorized as bad debts. Total uncompensated care in 2008 and 2007 for all patient services aggregated approximately \$5.5 million and \$4.7 million, respectively.

In addition, the Hospital operates its clinics at a loss, to help meet the needs of low income and uninsured individuals, and also operates numerous outreach and education programs which benefit the communities it serves.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments and Investment Income

Fund maintains a pooled investment program for certain investments held by Fund and the Hospital. Investments consist of money market mutual funds, equity mutual/common trust funds, including exchange-traded funds, U.S. Government/Agency obligations, alternative investments and cash and cash equivalents. All investments are carried at fair value based on quoted market prices (except mutual/common trust funds and alternative investments). Mutual/common trust funds are carried at fair value based on the net asset value per share provided by the administrator of the applicable mutual fund.

Alternative investments (nontraditional, not readily marketable securities) consist of event-driven funds, multi-strategy hedge funds, emerging market debt funds, global hedge funds and private equity funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments for alternative investments aggregated approximately \$2.1 million at December 31, 2008 for the investment pool.

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

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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

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

Investment income, including realized and the net change in unrealized gains and losses (and equity in earnings of alternative investments), earned on permanently and temporarily restricted net assets upon which restrictions have been placed by donors, is added to temporarily restricted net assets or reduces unrestricted net assets in the event a donor restricted endowment fund falls below the level of the original principal donation and related accumulation of temporarily restricted net assets, if any, have been used. This accounting policy is not intended to create a liability of the unrestricted fund (see Note 11). All other investment income is reflected in the accompanying statements of operations. The net change in unrealized gains and losses is excluded from the performance indicator, unless deemed to be an other than temporary decline in fair value, in which case the amount is included within the performance indicator. See Note 3 for additional information relative to investments.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Pledges

Pledges (promises to give) are enforceable, but unsecured and derived from individuals, corporations and foundations. Allowances for uncollectible amounts are provided to reflect pledges at their estimated realizable value based on management's review of individual pledges and historical collection percentages. Outstanding pledges receivable, net of present value allowances (based on a range of risk free interest rates of 1.5% to 4.7%) of approximately \$5.0 million and \$6.2 million at December 31, 2008 and 2007, respectively, are due to be collected at December 31:

	2008	2007
	<i>(In Thousands)</i>	
Less than one year	\$ 11,346	\$ 11,281
Greater than one year	34,087	38,800
	45,433	50,081
Less allowance for uncollectible amounts	13,473	13,518
	31,960	36,563
Less current portion	8,591	8,713
	\$ 23,369	\$ 27,850

Assets Limited as to Use

Assets limited as to use represent assets whose use is restricted for specific purposes under terms of agreements. Such assets consist of money market mutual funds, U.S. Government/Agency obligations, and cash and cash equivalents.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain financing for construction and renovation projects at the Hospital. Amortization of these costs is provided using the effective interest method over the term of the related debt. Amortization expense was approximately \$463,000 and \$464,000 for the years ended December 31, 2008 and 2007, respectively. See Note 6 for additional information related to debt-related matters.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date of acquisition. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. See Note 5 for additional information relative to property, plant and equipment.

Depreciation and Amortization

Depreciation and amortization of all depreciable assets is computed using the straight-line method over the estimated useful life of the asset or the lesser of the estimated useful life of the asset or lease term.

Temporarily and Permanently Restricted Net Assets

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

Contributions

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

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Inventories of Supplies

Inventories, consisting mainly of supplies, are stated at the lower of average cost or market determined by the first-in, first-out method.

Assets Held by Related Organizations

Statement of Financial Accounting Standards (“SFAS”) No. 136 (“SFAS No. 136”), *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, established standards for transactions in which an entity – the donor – makes a contribution by transferring assets to a not-for-profit organization or charitable trust organization – the recipient – that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to another entity – the beneficiary – that is specified by the donor. In accordance with SFAS No. 136, the Hospital recognizes its accumulated interest in net assets of Fund as beneficial interest in net assets held by related organization in its statements of financial position and also recognizes the periodic change in such interest in its statements of operations.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients, and liabilities, such as estimated payables to third-party payors, and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The allowance for doubtful accounts and the estimated due to third-party payors, among other accounts, require significant use of estimates. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material impact on the Hospital’s financial position.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Tax Status

The Hospital is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code and is exempt from State and local income taxes.

Change in Accounting

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, “defined benefit plans”) to recognize the funded status of their defined benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2007, the Hospital adopted the recognition and disclosure provisions of SFAS No. 158. On December 31, 2008, the Hospital adopted the measurement date provisions of SFAS No. 158. The effects of adopting SFAS No. 158 on the Hospital’s statements of financial position at December 31, 2008 and 2007 have been included in the accompanying financial statements. See Note 9 for further discussion of the effects of adopting SFAS No. 158 on the Hospital’s financial statements.

Recent Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosure about fair value measurements. The Hospital’s adoption of SFAS No. 157 did not significantly affect its financial statements (see Note 16).

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under accounting principles generally accepted in the United States. SFAS No. 159 became effective for the Hospital on January 1, 2008. The Hospital chose not to elect the fair value option for its financial assets and liabilities. Consequently, the adoption of SFAS No. 159 did not have any effect on its financial statements.

Reclassifications

For purpose of comparison, certain reclassifications have been made to the accompanying 2007 financial statements to conform with 2008 presentation.

2. Net Patient Service Revenue and Receivables for Patient Care

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated future retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such adjustments are recorded in future periods as they become known or as years are no longer subject to audits, reviews and investigations. During 2008 and 2007, prior year settlements and adjustments were not significant.

Non-Medicare Payments

The New York Health Care Reform Act of 1996 (the “Act”), as periodically updated, governs non-Medicare payments to hospitals in New York State. The Act is subject to periodic renewal and currently is in effect through December 31, 2011. Under the Act, hospitals and all non-Medicare payors, except Medicaid, workers’ compensation and no-fault insurance programs negotiate hospitals’ payment rates. If negotiated rates are not established, payors are billed at the Hospital’s established charges. Medicaid, workers’ compensation and no-fault payors pay

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

2. Net Patient Service Revenue and Receivables for Patient Care (continued)

hospital rates promulgated by the New York State Department of Health on a prospective basis. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (“CMS”), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years’ payment rates will continue to be made in future years.

Medicare Payments

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

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years’ payment rates, based on industry-wide and Hospital-specific data. Medicare and Medicaid regulations require annual retroactive settlements for payments through cost reports filed by the Hospital. The estimated settlements recorded at December 31, 2008 and 2007 could differ from actual settlements based on the results of cost report audits. Medicare cost reports for all years through 2006 have been audited and settled as of December 31, 2008. Additionally, certain payors’ payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

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

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

2. Receivables for Patient Care and Net Patient Service Revenue (continued)

Additionally, noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes that it is in compliance with all applicable laws and regulations.

The Hospital grants credit without collateral to its patients, most of whom are insured under various third-party agreements. The significant concentrations of accounts receivable for services to patients include 13.7% from government-related programs at December 31, 2008 (12.2% from government-related programs at December 31, 2007).

In 2008, approximately 25.8% of the Hospital's net patient service revenue was derived from the Medicare program (approximately 25.6% in 2007).

3. Investments and Assets Limited as to Use

Fund maintains a pooled investment program for certain investments owned by the Hospital and Fund. The Hospital's pro rata share of the pooled investment program and its pro rata share of investment income, including realized and the net change in unrealized gains and losses (and equity in earnings of alternative investments), are reflected in the accompanying financial statements.

Investments, including the pooled investment program pertaining to the Hospital, were as follows at December 31:

	2008	2007
	<i>(In Thousands)</i>	
Money market mutual funds	\$ 38,943	\$ 44,167
Equity mutual/common trust funds	31,520	71,978
U.S. Government/Agency obligations	15,675	–
Alternative investments	28,222	33,918
Cash and cash equivalents	11,176	359
	125,536	150,422
Less current portion	63,922	100,510
	\$ 61,614	\$ 49,912

New York Society for the Relief of
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Notes to Financial Statements (continued)

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

Additionally, a portion of Fund's investment portfolio represents net assets received by Fund on behalf of the Hospital which are due to the Hospital. These investments and related investment income, including change in unrealized gains and losses (and equity in earnings of alternative investments), are reflected in the accompanying financial statements within the amounts due from affiliates (approximately \$14.4 million in 2008 and \$21.3 million in 2007).

The composition of assets limited as to use at December 31, at fair value, is as follows:

	2008	2007
	<i>(In Thousands)</i>	
Money market mutual funds	\$ 7,272	\$ 9,072
U.S. Government/Agency obligations	20,150	16,903
Cash and cash equivalents	5,469	178
	\$ 32,891	\$ 26,153

	2008	2007
	<i>(In Thousands)</i>	
Mortgage reserve fund	\$ 17,629	\$ 16,953
Equipment loans	2,457	121
Restricted assets – capital campaign (building)	12,805	9,079
	\$ 32,891	\$ 26,153

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

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

The following table summarizes gross unrealized losses on unrestricted investments, which consist of three equity mutual/common trust funds included in the total pooled investment program for the Hospital and Fund at December 31, 2008. The Hospital's pro rata share of the gross unrealized losses at December 31, 2008 is included in the accompanying financial statements (in thousands):

	Continuous Loss Position				Investments with Gross Unrealized Losses	
	Less than Twelve Months		Twelve Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity mutual/common trust funds	\$ 4,494	\$ (2,728)	\$ 12,342	\$ (15,003)	\$ 16,836	\$ (17,731)
Total	<u>\$ 4,494</u>	<u>\$ (2,728)</u>	<u>\$ 12,342</u>	<u>\$ (15,003)</u>	<u>\$ 16,836</u>	<u>\$ (17,731)</u>

At December 31, 2008, the unrealized losses included in the above table are not deemed to be other than temporary impairments based on the expectation of recovery in value and the Hospital's intent and ability to hold the related securities for a long term.

The following table summarizes gross unrealized losses on unrestricted investments, which consist of two equity mutual/common trust funds included in the total pooled investment fund for the Hospital and Fund at December 31, 2007. The Hospital's pro rata share of the gross unrealized losses at December 31, 2007 is included in the accompanying financial statements (in thousands):

	Continuous Loss Position				Investments with Gross Unrealized Losses	
	Less than Twelve Months		Twelve Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity mutual/common trust funds	\$ 40,194	\$ (4,018)	\$ -	\$ -	\$ 40,194	\$ (4,018)
Total	<u>\$ 40,194</u>	<u>\$ (4,018)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,194</u>	<u>\$ (4,018)</u>

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Notes to Financial Statements (continued)

4. Investment in Sutton House

The Hospital and five other institutions own, as tenants in common, the Sutton Terrace Apartments (“Sutton House”). The Hospital’s investment in Sutton House is carried at cost. The Hospital’s 10% pro rata share of the cost of this investment is \$800,000. The Hospital has also made net working capital contributions totaling \$20,000 since the date of acquisition.

5. Property, Plant and Equipment

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

	2008	2007
	<i>(In Thousands)</i>	
Land and land improvements	\$ 2,040	\$ 2,040
Buildings and improvements	348,955	344,819
Furniture and equipment	241,345	230,221
	592,340	577,080
Less accumulated depreciation and amortization	334,834	302,823
	257,506	274,257
Construction-in-progress	29,004	13,701
	\$ 286,510	\$ 287,958

The Hospital is currently undergoing a Construction and Renovation Project (the “Project”). The Project scope includes the addition of new space, as well as the renovation of existing space. The Project provides for additional inpatient beds, operating rooms, physician offices, magnetic resonance imaging units, and other expanded ancillary and support space. At December 31, 2008, the Hospital had capital commitments of approximately \$6.2 million related to the Project.

Rent expense, the majority of which is paid to Properties, was approximately \$16.9 million in 2008 and \$16.0 million in 2007.

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Notes to Financial Statements (continued)

6. Debt-related Matters

Long-term Debt

Long-term debt consisted of the following at December 31:

	2008	2007
	<i>(In Thousands)</i>	
Insured mortgage loan (1998) (a)	\$ 75,444	\$ 78,734
Insured mortgage loan (2005) (b)	55,133	56,405
Construction payable (c)	2,906	6,167
Commercial mortgage loan (d)	14,069	15,476
Tax-exempt loans (e)	18,310	18,924
Taxable loans (f)	-	790
Capital lease obligations (g)	-	20
Bridge loan (h)	28,731	21,329
	194,593	197,845
Less current portion of long-term debt	11,352	12,300
	\$ 183,241	\$ 185,545

- (a) In December 1994, the Hospital entered into a \$94.763 million mortgage loan agreement with the New York State Dormitory Authority (the "Dormitory Authority") to finance a portion of a major construction and modernization project. The mortgage loan is insured under the provisions of the Federal Housing Administration ("FHA") 242 Program. In September 1996, the Hospital obtained an additional mortgage loan with the Dormitory Authority, which is also insured under the provisions of the FHA 242 Program, of \$7.6 million to finance the construction of four additional operating suites.

During 1998, the outstanding mortgage loans were refinanced, resulting in a consolidated mortgage loan with an interest rate of 6.08%, reduced from 7.15% (the original mortgage) and 6.68% (the additional mortgage). Monthly principal and interest payments of approximately \$666,000 are due during each of the ensuing 14 years, with final payment due no later than January 1, 2023. The mortgage loan may be prepaid. The mortgage loan is collateralized by certain of the Hospital's property and equipment. The provisions of the

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Notes to Financial Statements (continued)

6. Debt-related Matters (continued)

loan and related agreements require the Hospital to establish and maintain a mortgage reserve fund and to maintain specified current debt service coverage and other financial ratios. The mortgage reserve fund approximated \$16.1 million and \$16.2 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the Hospital met the various financial ratio and funding requirements.

- (b) In October 2005, the Hospital entered into a \$57.605 million mortgage loan agreement with the Dormitory Authority to finance a portion of the first phase of a major construction and modernization project. The mortgage loan is insured under the provisions of the FHA 241 program. The Hospital has fully drawn down on the mortgage loan.

The mortgage loan bore interest at 6.50% from December 1, 2006 through February 28, 2007 and 5.55% from March 1, 2007 to June 1, 2008. Following the final endorsement of the mortgage loan on June 5, 2008, the permanent interest rate was set at 4.80% effective June 1, 2008. In 2008 and 2007, the Dormitory Authority granted the Hospital mortgage interest credits of \$240,000 and \$340,000, respectively, by reason of accumulated earnings surpluses on deposits in the debt service fund held by the bond trustee for the Dormitory Authority tax-exempt bonds which funded the FHA mortgage loan. After taking into account these credits, the effective rates for 2008 and 2007 were 4.87% and 5.18%, respectively. Monthly principal payments commenced on January 1, 2007 and, through May 31, 2008, were calculated based on the full mortgage loan amortized over 25 years at a 4.93% interest rate. Following the final endorsement of the mortgage loan, monthly principal and interest payments of approximately \$330,000 are due during each of the ensuing 23 years, with final payment due no later than December 1, 2031. The mortgage loan may be prepaid after February 15, 2015. The mortgage loan is collateralized by certain of the Hospital's property and equipment.

The provisions of the loan and related agreements required the Hospital to fund quarterly a mortgage reserve fund. The mortgage reserve fund approximated \$1.5 million and \$0.8 million at December 31, 2008 and 2007, respectively (see mortgage reserve funding requirements below). The Hospital is also required to maintain specified current debt service coverage and other financial ratios. At December 31, 2008 and 2007, the Hospital met the various financial ratio and funding requirements.

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Notes to Financial Statements (continued)

6. Debt-related Matters (continued)

As required by the terms of the mortgage loan and related agreements, the Hospital had obtained from a commercial bank irrevocable letters of credit for various purposes, aggregating approximately \$3.9 million at December 31, 2007. The letters of credit were cancelled by the Hospital during 2008 upon final endorsement of the mortgage loan.

- (c) The construction payable represents liabilities related to the Project that, at December 31, 2008, the Hospital intends to finance either through its bridge loan or capital fundraising proceeds.
- (d) In November 2000, the Hospital entered into a mortgage construction loan agreement with a commercial bank to finance a portion of the renovation of its research facilities. During 2004, the loan converted to a permanent loan amortized over 15 years. The mortgage loan is collateralized by a first mortgage lien on the Caspary Research Building and is also collateralized by marketable securities held by the Hospital and Fund (having a total fair value of approximately \$16.1 million at December 31, 2008) which have been pledged to reduce the interest rate. The variable interest rate is reduced to the extent that there is additional investment collateral pledged to the bank. The variable interest is calculated based on the bank's quarterly money market rates (3.73% at December 31, 2008). The provisions of the mortgage loan require that the Hospital maintain specified current, debt service coverage, and other financial ratios. As of December 31, 2008 and 2007, the Hospital had met the various financial ratio requirements.
- (e) The Hospital has balances outstanding under tax-exempt financing agreements under the Dormitory Authority Tax-Exempt Leasing Program relating primarily to equipment purchases with some associated construction and soft costs. The following is a summary of the outstanding loans:

Origination Year	Original Loan Amount	Monthly Principal and Interest Payments	Fixed Interest Rates	Final Payment
2005	\$ 19.4 million	\$ 390,100	3.11%	December 2011
2008	5.0 million	74,997	2.68	November 2014

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Notes to Financial Statements (continued)

6. Debt-related Matters (continued)

- (f) In 2002, the Hospital entered into an \$8.0 million financing agreement with a commercial bank to finance certain equipment and related construction and soft costs. The loan provided for monthly principal and interest payments of approximately \$161,000. The loan was fully repaid in 2008.
- (g) The Hospital leased certain equipment under capital lease agreements that expired in 2008.
- (h) In November 2004, the Hospital entered into a \$30.0 million bridge financing agreement with a commercial bank to provide interim financing for the Hospital's Project. At December 31, 2008, approximately \$28.7 million had been drawn against the loan. The loan is unsecured and bears interest at a variable rate, based on a discount from the bank's prime rate, which was 1.25% at December 31, 2008. Interest-only payments are made on the outstanding loan balance and the loan matures and becomes fully payable at the earlier of November 2009 or the date of initial endorsement of an anticipated mortgage loan that will finance a portion of the second phase of the Project. If the initial endorsement of the anticipated mortgage loan does not occur by the November 2009 date, the Hospital has the option to convert the loan to a term loan, amortized over either a five-year or ten-year term, at the Hospital's election. The term loan must be 50% collateralized by marketable securities, and will have a variable interest rate based on the bank's quarterly money market rate.

Interest paid on all debt was approximately \$9.2 million and \$10.5 million in 2008 and 2007, respectively, which includes capitalized interest of approximately \$0.4 million and \$0.7 million in 2008 and 2007, respectively.

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Notes to Financial Statements (continued)

6. Debt-related Matters (continued)

Annual principal payments on all debt and required mortgage reserve funding requirements for each of the next five years and thereafter are as follows:

	Principal Payments	Mortgage Reserve Funding Requirements
	<i>(In Thousands)</i>	
2009	\$ 11,352	\$ 726
2010	11,795	726
2011	12,259	726
2012	7,997	588
2013	8,359	588
Thereafter	142,831	1,751
Total obligations	\$ 194,593	\$ 5,105

7. Other Operating Revenue

A summary of the components of other operating revenue is as follows for the years ended December 31:

	2008	2007
	<i>(In Thousands)</i>	
Physician practice revenue and overhead recovery	\$ 42,937	\$ 38,994
Investment income	1,757	3,107
Realized (losses) gains on investments	(8,989)	7,233
Royalty income	1,320	1,206
Product development contracts	647	709
Dietary income	941	902
Other	3,363	3,850
	\$ 41,976	\$ 56,001

New York Society for the Relief of
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Notes to Financial Statements (continued)

8. Insurance Coverage

The Hospital maintained commercial insurance for professional and general liabilities prior to March 1976 and for workers' compensation coverage prior to March 1980. Subsequent to those dates, those coverages have been purchased by the Hospital from commercial carriers that reinsure the majority of the primary portions of such coverages with MIAC, a Cayman Islands corporation organized by the Hospital in 1981 and licensed under Cayman Islands law to conduct an insurance business. Effective June 15, 2003, MIAC commenced to directly insure a buffer layer between the primary and excess positions of certain of such coverages. MIAC also reinsures the primary professional liability coverage of the majority of Hospital physicians and directly insures a buffer layer above the primary portion of such coverage. The Hospital, which in March 1981 had purchased for \$10,000 all of the outstanding stock of MIAC, transferred its interest in MIAC to the Hospital's affiliate, Fund, as of January 1, 1985.

The Hospital has guaranteed payment of certain of MIAC's obligations incident to MIAC's existing professional, general liability and workers' compensation reinsurance commitments to the extent that MIAC's reserves might require such support. At December 31, 2008 and 2007, MIAC's reserves, which have been evaluated by an independent actuarial firm, approximated \$48.2 million and \$50.5 million, respectively. At December 31, 2008 and 2007, total assets approximated \$56.3 million and \$57.0 million, respectively. Underwriting income approximated \$19.4 million and \$17.3 million for 2008 and 2007, respectively. MIAC's net operating results for the years ended December 31, 2008 and 2007 were not significant.

9. Benefit Plans

The Hospital maintains a noncontributory cash balance defined benefit pension plan (the "Plan") that covers substantially all employees of the Hospital and its affiliates. The Hospital's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements pursuant to the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Hospital may deem appropriate from time to time.

Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The assets of the Plan consist primarily of money market mutual funds, equity mutual/common trust funds, U.S. Government/Agency obligations, alternative investments and cash and cash equivalents.

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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

In addition to providing pension benefits, the Hospital provides certain health care and life insurance benefits for certain retired employees through a defined benefit postretirement plan. The Hospital accrues the obligation to provide postretirement health care and other welfare benefits during the years in which employees provide service.

On December 31, 2007, the Hospital adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the Hospital to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in the December 31, 2007 statement of financial position, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represented the net unrecognized actuarial losses and the net unrecognized prior service costs, which were previously netted against the Hospital's funded status in the statements of financial position pursuant to the provisions of SFAS No. 87, *Employers' Accounting for Pensions*. These amounts will be subsequently recognized as net periodic benefit cost pursuant to the Hospital's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in unrestricted net assets at adoption of SFAS No. 158.

The incremental effects of adopting the provisions of SFAS No. 158 on the Hospital's statement of financial position at December 31, 2007 are presented in the table below. The adoption of SFAS No. 158 had no effect on the Hospital operating income for the year ended December 31, 2007, and it will not affect the Hospital's operating results in future periods.

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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

At December 31, 2007, prior to the adoption of SFAS No. 158, the accumulated shortfall between the fair value of plan assets and accumulated benefit obligation resulted in a decrease to unrestricted net assets for an additional minimum pension liability of approximately \$32 million for the year ended December 31, 2007.

	Prior to Adopting SFAS No. 158 (SFAS No. 87/106)	Effect of Adopting SFAS No. 158	As Reported
	<i>(In Thousands)</i>		
Other noncurrent assets	\$ 2,080	\$ (572)	\$ 1,508
Other current liabilities	7,188	361	7,549
Other noncurrent liabilities, including due to third party payors – net	19,399	2,927	22,326
Decrease in unrestricted net assets	(17,676)	(3,860)	(21,536)

On December 31, 2008, the Hospital adopted the measurement date provision of SFAS No. 158. SFAS No. 158 required the Hospital to measure plan assets and benefit obligations at a date consistent with its fiscal year-end statement of financial position. The amount recorded as a result of this change approximates \$1.8 million and is included in the accompanying 2008 statement of operations.

Included in other changes in unrestricted net assets at December 31, 2008 and 2007 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2008	2007
	<i>(In Thousands)</i>	
Unrecognized actuarial loss	\$ (76,633)	\$ (35,368)
Unrecognized prior service cost	(449)	(507)
	\$ (77,082)	\$ (35,875)

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

The actuarial loss and prior service cost included in other changes in unrestricted net assets at December 31, 2008 and expected to be recognized in net periodic benefit cost during the year ending December 31, 2009 are as follows (in thousands):

Unrecognized actuarial loss	\$ 3,890
Unrecognized prior service cost	49
	\$ 3,939

The following tables provide a reconciliation of the changes in each of the plans' projected benefit obligation and fair value of plan assets and a statement of the funded status of the plans:

	Pension Plan		Postretirement Plan	
	December 31, 2008	September 30, 2007	December 31, 2008	September 30, 2007
	<i>(In Thousands)</i>			
Reconciliation of the projected benefit obligation				
Obligation at beginning of year	\$ 88,646	\$ 80,962	\$ 3,693	\$ 2,707
Service cost	7,370	5,501	45	28
Interest cost	6,684	4,867	272	156
Actuarial loss	11,157	2,787	217	1,274
Benefit payments, net	(7,572)	(5,471)	(359)	(472)
Obligation at end of year	\$ 106,285	\$ 88,646	\$ 3,868	\$ 3,693
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	\$ 77,331	\$ 69,197	\$ -	\$ -
Actual (loss) gain on plan assets	(25,125)	9,105	-	-
Employer contributions	12,350	4,500	359	472
Plan participants' contributions	-	-	348	227
Benefit payments	(7,572)	(5,471)	(707)	(699)
Fair value of plan assets at end of year	\$ 56,984	\$ 77,331	\$ -	\$ -

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

The following table provides the amounts recognized as liabilities in the statements of financial position at December 31:

	Pension Plan		Postretirement Plan	
	2008	2007	2008	2007
	<i>(In Thousands)</i>			
Funded status				
Unfunded status at end of year	\$ (49,301)	\$ (11,315)	\$ (3,868)	\$ (3,693)
Contributions made after measurement date	–	2,750	–	129
Net amount recognized	<u>\$ (49,301)</u>	<u>\$ (8,565)</u>	<u>\$ (3,868)</u>	<u>\$ (3,564)</u>

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

	Pension Plan		Postretirement Plan	
	2008	2007	2008	2007
	<i>(In Thousands)</i>			
Service cost – benefits earned during the year	\$ 5,896	\$ 5,501	\$ 36	\$ 28
Interest cost on projected benefit obligations	5,347	4,867	218	156
Expected return on plan assets	(6,481)	(5,230)	–	–
Accretion (amortization) of prior service cost	58	57	(11)	(11)
Recognized actuarial loss	2,664	2,031	94	–
Net periodic benefit cost	<u>\$ 7,484</u>	<u>\$ 7,226</u>	<u>\$ 337</u>	<u>\$ 173</u>

The accumulated benefit obligation for the plans as of December 31, 2008 and September 30, 2007 was approximately \$104.7 million and \$86.7 million, respectively.

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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants. The weighted-average assumptions used in the measurement of the Hospital's benefit obligations were:

	Pension Plan		Postretirement Plan	
	December 31, 2008	September 30, 2007	December 31, 2008	September 30, 2007
Discount rate	5.75%	6.25%	6.00%	6.25%
Rate of increase in compensation levels	4.00	4.00	–	–

The weighted-average assumptions used in the measurement of the Hospital's net periodic benefit cost for the years ended were:

	Pension Plan		Postretirement Plan	
	December 31, 2008	September 30, 2007	December 31, 2008	September 30, 2007
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected long-term rate of return on plan assets	8.50	8.00	–	–
Rate of increase in compensation levels	4.00	4.00	–	–

The Plan's weighted-average asset allocations at December 31, 2008 and 2007, by asset category, are as follows:

	2008	2007
Asset category:		
Money market mutual funds	23%	20%
Equity mutual/common trust funds	23	42
U.S. Government/agency obligations	8	–
Alternative investments	35	37
Cash and cash equivalents	11	1
Total	100%	100%

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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

To develop the expected long-term rate of return on plan assets assumption, the Hospital considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The defined benefit pension plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on Plan assets over a long-term time horizon. In order to minimize the risk, the Plan aims to minimize the variability in yearly returns. The Plan also aims to diversify its holding among sectors, industries, and companies.

The assets of the Plan are managed in accordance with the Employee Retirement Income Security Act of 1974. The assets of the Plan are measured at fair value in accordance with the policies discussed in Note 1.

The Hospital expects to make contributions of approximately \$19.8 million to the plans during 2009.

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Notes to Financial Statements (continued)

9. Benefit Plans (continued)

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension Plan	Postretirement Plan
	<i>(In Thousands)</i>	
2009	\$ 6,471	\$ 398
2010	6,344	430
2011	6,529	462
2012	6,606	505
2013	6,563	512
2014 to 2017	37,275	1,821

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the defined benefit postretirement plans. A 1% change in assumed health care cost trend rates would have the following effects relating to the postretirement plans:

	2008		2007	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement benefit cost	\$ 3	\$ (5)	\$ 1	\$ (2)
Effect on the health care component of the accumulated postretirement benefit obligation	48	(60)	45	(60)

The Hospital also provides pension benefits to certain employees through a defined contribution plan. Pension expense related to this plan was approximately \$3.8 million and \$3.2 million for the years ended December 31, 2008 and 2007, respectively.

New York Society for the Relief of
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Notes to Financial Statements (continued)

10. Functional Expenses

The Hospital provides musculoskeletal health care and related services, including research and graduate medical education. It is not practicable to separately identify the expenses relating to each of the Hospital's programs. Expenses related to primary services were as follows:

	Year Ended December 31	
	2008	2007
	<i>(In Thousands)</i>	
Health care and related services	\$ 413,500	\$ 366,810
Research operations	31,677	31,702
General and administrative	61,926	57,728
	\$ 507,103	\$ 456,240

11. Permanently Restricted Net Assets

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

	2008	2007
	<i>(In Thousands)</i>	
Investments to be held in perpetuity, the income from which is restricted for research	\$ 56,785	\$ 52,620
Investments to be held in perpetuity, the income from which is restricted for other specific purposes	15,572	14,471
Investments to be held in perpetuity, the income from which is unrestricted as to use	410	410
	\$ 72,767	\$ 67,501

The Hospital follows the requirements of the Uniform Management of Institutional Funds Act ("UMIFA") as they relate to its permanently restricted contributions. The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity.

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Notes to Financial Statements (continued)

11. Permanently Restricted Net Assets (continued)

Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner and adhere to the established guidelines.

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

The Hospital's permanently restricted endowment funds are managed according to endowment and similar fund policies that guide investment of donations, spending and distribution of total return investment income. The policies also provide the guidelines for setting the annual endowment spend rate (5% for 2008 or income if the fair value is below the original endowment donation) and the treatment of any investment returns in excess of the annual spending rate. The 5% endowment spend rate is calculated on the year-end average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to temporarily restricted funds and classified appropriately.

The Hospital distributes the investment income earned on the endowment funds as required for the donor-restricted purpose of the endowment assets held in perpetuity.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of the original principal donation. Deficiencies of this nature that are reported in unrestricted net assets were \$10.6 million as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies as of December 31, 2007. The Hospital is not required to restore such deficiencies but will, as required, make prudent decisions on use of the income of such funds. Such income, if not used currently, will be added to the principal of the funds in the future.

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Notes to Financial Statements (continued)

12. United States Public Health Service Research Grants

Expenditures and overhead allocations charged to United States Public Health Service research grants are subject to audit by the funding agencies. It is management's opinion that adjustments, if any, will not be materially different from recorded amounts. The revenue from these grants is included in net assets released from restrictions for research operations.

13. Bicknell Trust

The Hospital's institutional research funds are the beneficiary of income from the Bicknell Trust. The fair value of investments in the trust was approximately \$26.7 million and \$41.3 million at December 31, 2008 and 2007, respectively. Income received from this trust was approximately \$2.1 million and \$1.9 million in 2008 and 2007, respectively, and is recorded directly in the research funds (temporarily restricted net assets).

14. Transactions with Affiliates

Fund is a not-for-profit corporation organized under the Not-for-Profit Corporation Law of the State of New York for the purpose of supporting the charitable, educational, and scientific purposes of the Hospital and other related health care organizations.

Fund purchases certain administrative, general and plant services from the Hospital. Amounts charged for these services (approximately \$3.4 million and \$3.2 million in 2008 and 2007, respectively) are determined principally on the basis of allocated costs (fair value). Amounts due to the Hospital for these services are reimbursed in the normal course of business. Additionally, Properties leases various facilities to the Hospital. Rental expense under these arrangements amounted to approximately \$16.1 million and \$15.3 million for the years ended December 31, 2008 and 2007, respectively. Amounts due to the Hospital for services provided to Fund (approximately \$1.6 million and \$1.4 million at December 31, 2008 and 2007, respectively) and Properties (approximately \$3.0 million at December 31, 2008 and 2007) are included within due from affiliates.

Also included are amounts due to the Hospital from Horizons of approximately \$2.5 million at December 31, 2008 and 2007. Amounts due from affiliates generally are not interest-bearing, except for the amount due from Horizons, for which interest is charged at the prime rate.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

14. Transactions with Affiliates (continued)

Following is a summary of consolidated financial information for Fund as of December 31, 2008 and 2007 and for the years then ended:

	2008	2007
	<i>(In Thousands)</i>	
Total assets	\$ 107,931	\$ 119,058
Total liabilities	\$ 85,707	\$ 94,039
Total net assets (unrestricted)	\$ 22,224	\$ 25,019
Operating revenue	\$ 46,349	\$ 48,257
Operating expenses	\$ 44,933	\$ 46,869

The Hospital is not responsible for the debts or obligations of its affiliates, nor are such affiliates responsible for the debts or obligations of the Hospital other than as disclosed in Notes 6 and 8.

15. Contingencies

The Hospital is a defendant in certain legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material effect on the Hospital's financial position.

16. Fair Value Measurements

As described in Note 1, on January 1, 2008, the Hospital adopted the methods of calculating fair value defined in SFAS No. 157 to value its financial assets and liabilities, when applicable. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

16. Fair Value Measurements (continued)

SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial assets carried at fair value as of December 31, 2008 are classified in the table below in one of the three categories described above (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 42,916	\$ –	\$ –	\$ 42,916
Money market mutual funds	46,215	–	–	46,215
Equity mutual/common trust funds	13,074	18,446	–	31,520
U.S. Government/Agency obligations	35,825	–	–	35,825
	<u>\$ 138,030</u>	<u>\$ 18,446</u>	<u>\$ –</u>	<u>\$ 156,476</u>

The Hospital's alternative investments are reported using the equity method of accounting and, therefore, are not included in the table above (see Note 1).

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

16. Fair Value Measurements (continued)

The following is a description of the Hospital valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The carrying values and fair values of the Hospital's financial instruments that are not required to be carried at fair value at December 31, 2008 are as follows (in thousands):

	Fair Value	Carrying Value
Long-term debt	\$ 177,944	\$ 194,593

The fair value of the Hospital's long-term debt is based on discounted cash flow analyses, using current borrowing rates for similar types of debt.

The following methods and assumptions were used by the Hospital in estimating its fair value disclosures for financial instruments at December 31, 2007:

Cash and Cash Equivalents: The carrying amounts reported in the statements of financial position for cash and cash equivalents approximate fair values.

Investments: These assets consist of money market mutual funds, equity mutual/common trust funds, U.S. Government/Agency obligations, alternative investments and cash and cash equivalents. Fair values are based on quoted market prices (except mutual/common funds and alternative investments).

Assets Limited as to Use: These assets consist of money market mutual funds, U.S. Government/Agency obligations, and cash and cash equivalents. Fair values are based on quoted market prices (except mutual funds).

Long-term Debt: The fair value of the Hospital's long-term approximates its carrying value.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Financial Statements (continued)

16. Fair Value Measurements (continued)

The fair values and carrying values of the Hospital's financial instruments are as follows at December 31, 2007:

	Fair Values	Carrying Values
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 11,426	\$ 11,426
Assets limited as to use	26,153	26,153
Investments	150,422	150,422
Long-term debt, excluding capital leases	197,845	197,845

**New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery**

**FINANCIAL STATEMENTS
(unaudited)
August 2009**

HOSPITAL
FOR
**SPECIAL
SURGERY**



535 East 70th Street
New York, NY 10021
tel 212.606.1000

**New York Society For the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery**

**Financial Statements
(unaudited)**

For the period ended August 31, 2009

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New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statements of Financial Position

	(Unaudited)		(Audited)		(Unaudited)		(Audited)		
	August 31		December 31		August 31		December 31		
	2009		2008		2009		2008		
	<i>(In Thousands)</i>				<i>(In Thousands)</i>				
Assets				Liabilities and net assets					
Current assets:				Current liabilities:					
Cash and cash equivalents	\$	29,195	\$	26,271	Accounts payable and accrued expenses	\$	52,044	\$	46,614
Receivables:					Accrued salaries and related liabilities		14,579		13,563
Patient care, less allowance for doubtful accounts					Current portion of long-term debt		12,212		11,352
(2009 – \$4,149; 2008 – \$3,643)		51,113		50,332	Due to third-party payors – net		2,076		2,076
Other		11,078		10,659	Other current liabilities		7,859		8,060
Total receivables		<u>62,191</u>		<u>60,991</u>	Total current liabilities		<u>88,770</u>		<u>81,665</u>
Investments		95,532		63,922	Long-term debt		183,852		183,241
Inventories		2,785		3,369	Other noncurrent liabilities, including due to				
Prepaid expenses and other current assets		1,341		3,450	third-party payors – net		64,990		68,373
Pledges receivable		7,487		8,591	Total liabilities		<u>337,612</u>		<u>333,279</u>
Due from affiliates – net		4,387		8,030	Commitments and contingencies				
Total current assets		<u>202,918</u>		<u>174,624</u>	Net assets:				
Other noncurrent assets		1,982		1,455	Unrestricted		153,515		120,490
Due from affiliates – net		11,013		11,013	Temporarily restricted:				
Pledges receivable		24,114		23,369	Specific purpose		28,807		25,953
Deferred financing costs, less accumulated amortization					Plant replacement and expansion		36,985		36,787
(2009 – \$4,563; 2008 – \$4,257)		5,434		5,740	Research		15,372		13,397
Assets limited as to use		35,077		32,891	Total temporarily restricted		<u>81,164</u>		<u>76,137</u>
Investment in Sutton House		820		820	Permanently restricted		74,255		72,767
Long-term investments		73,865		61,614	Total net assets		<u>308,934</u>		<u>269,394</u>
Interest in The Hospital for Special Surgery Fund, Inc.		5,568		4,637	Total liabilities and net assets	\$	<u>646,546</u>	\$	<u>602,673</u>
Property, plant and equipment – net		285,755		286,510					
Total assets	\$	<u>646,546</u>	\$	<u>602,673</u>					

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statements of Operations

	(Unaudited)	
	Eight Months Ended August 31	
	2009	2008
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 319,404	\$ 274,636
Other operating revenue	34,348	33,824
Net assets released from restrictions for operations	13,324	13,218
Total operating revenue	<u>367,076</u>	<u>321,678</u>
Operating expenses		
Salaries and wages	138,169	129,264
Employee benefits	43,027	34,828
Supplies and other	135,040	118,554
Interest expense	5,242	5,683
Depreciation and amortization	20,666	20,039
Bad debt expense	2,473	2,074
Total operating expenses	<u>344,617</u>	<u>310,442</u>
Operating income before research operations and change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	22,459	11,236
Research operations:		
Operating expenses, including depreciation (2009 – \$1,646; 2008 – \$1,739)	19,989	20,914
Net assets released from restrictions for research operations	18,105	20,403
Net research operations	<u>(1,884)</u>	<u>(511)</u>
Change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	931	(411)
Operating income	<u>21,506</u>	<u>10,314</u>
Other changes in unrestricted net assets		
Net assets released from restrictions for capital expenditures	973	6,018
Change in net unrealized gains and losses on investments	4,788	(5,669)
Net assets reclassification	5,758	-
Increase in unrestricted net assets	<u>\$ 33,025</u>	<u>\$ 10,663</u>

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statement of Changes in Net Assets

Eight Months Ended August 31, 2009

(Unaudited)

	Unrestricted	Temporarily Restricted			Total Temporarily Restricted	Permanently Restricted	Total
		Specific Purpose	Plant	Research			
	<i>(In Thousands)</i>						
Net assets at December 31, 2008	\$ 120,490	\$ 25,953	\$ 36,787	\$ 13,397	\$ 76,137	\$ 72,767	\$ 269,394
Increase in unrestricted net assets	33,025	-	-	-	-	-	33,025
Contributions, including research grants	-	14,321	1,153	15,512	30,986	1,488	32,474
Investment activity, including net investment income of \$1,505, net realized loss of (\$1,490) and change in net unrealized gains and losses and equity in earnings of alternative investments of \$12,186	-	3,037	50	9,114	12,201	-	12,201
Net assets reclassification of investment activity	-	(1,145)	-	(4,613)	(5,758)	-	(5,758)
Net assets released from restrictions for:							
Research operations	-	-	(267)	(17,838)	(18,105)	-	(18,105)
Capital expenditures	-	(35)	(738)	(200)	(973)	-	(973)
Operating expenses	-	(13,324)	-	-	(13,324)	-	(13,324)
Total net assets released from restrictions	-	(13,359)	(1,005)	(18,038)	(32,402)	-	(32,402)
Total change in net assets	33,025	2,854	198	1,975	5,027	1,488	39,540
Net assets at August 31, 2009	\$ 153,515	\$ 28,807	\$ 36,985	\$ 15,372	\$ 81,164	\$ 74,255	\$ 308,934

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statement of Changes in Net Assets

Eight Months Ended August 31, 2008

	(Unaudited)						
	Unrestricted	Temporarily Restricted			Total Temporarily Restricted	Permanently Restricted	Total
		Specific Purpose	Plant	Research			
	<i>(In Thousands)</i>						
Net assets at December 31, 2007	\$ 170,834	\$ 34,785	\$ 37,521	\$ 29,575	\$ 101,881	\$ 67,501	\$ 340,216
Increase in unrestricted net assets	10,663	-	-	-	-	-	10,663
Contributions, including research grants	-	10,499	3,458	15,226	29,183	3,664	32,847
Investment activity, including net investment income of \$1,945, net realized loss of (\$1) and change in net unrealized gains and losses and equity in earnings of alternative investments of (\$8,427)	-	(2,515)	213	(4,181)	(6,483)	-	(6,483)
Net assets released from restrictions for:							
Research operations	-	-	(267)	(20,136)	(20,403)	-	(20,403)
Capital expenditures	-	(48)	(5,617)	(353)	(6,018)	-	(6,018)
Operating expenses	-	(13,218)	-	-	(13,218)	-	(13,218)
Total net assets released from restrictions	-	(13,266)	(5,884)	(20,489)	(39,639)	-	(39,639)
Total change in net assets	10,663	(5,282)	(2,213)	(9,444)	(16,939)	3,664	(2,612)
Net assets at August 31, 2008	<u>\$ 181,497</u>	<u>\$ 29,503</u>	<u>\$ 35,308</u>	<u>\$ 20,131</u>	<u>\$ 84,942</u>	<u>\$ 71,165</u>	<u>\$ 337,604</u>

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Statements of Cash Flows

	(Unaudited)	
	Eight Months Ended August 31	
	2009	2008
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ 39,540	\$ (2,612)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	(931)	411
Depreciation and amortization	22,312	21,778
Change in net unrealized gains and losses on investments and equity in earnings of alternative investments	(16,974)	14,096
Contributions to permanently restricted net assets	(1,488)	(3,664)
Contributions restricted to acquisition of plant assets – net	(1,153)	(3,458)
Employer contributions to pension plan	(15,500)	(6,400)
Changes in operating assets and liabilities:		
Receivables, net	(1,200)	(3,171)
Net due from affiliates	5,983	(608)
Pledges receivable	359	2,748
Accounts payable and accrued expenses and accrued salaries and related liabilities	6,446	(1,347)
Other noncurrent liabilities, including due to third-party payors	(3,383)	2,358
Other assets and liabilities, net	17,465	6,733
Net cash provided by operating activities	<u>51,476</u>	<u>26,864</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(21,251)	(15,209)
Net increase in investments	(29,227)	(8,706)
Net increase in assets limited as to use	(2,186)	(1,753)
Net cash used in investing activities	<u>(52,664)</u>	<u>(25,668)</u>
Cash flows from financing activities		
Principal payments on long-term debt	(7,285)	(8,641)
Proceeds from long-term borrowings	8,339	2,817
Net increase (decrease) in construction payable	417	(1,385)
Contributions restricted to acquisition of plant assets – net	1,153	3,458
Contributions to permanently restricted net assets	1,488	3,664
Net cash provided by (used in) financing activities	<u>4,112</u>	<u>(87)</u>
Net increase in cash and cash equivalents	2,924	1,109
Cash and cash equivalents at beginning of period	26,271	11,426
Cash and cash equivalents at end of period	<u>\$ 29,195</u>	<u>\$ 12,535</u>

See accompanying notes.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Interim Financial Statements
(unaudited)
August 31, 2009

1. Organization and Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

The accompanying financial statements include the accounts of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery (the "Hospital"), but do not include the Hospital's separately incorporated affiliates: HSS Properties Corporation ("Properties"), The Hospital for Special Surgery Fund, Inc. ("Fund"), HSS Horizons, Inc. ("Horizons"), HSS Ventures, Inc. and Medical Indemnity Assurance Company, Ltd. ("MIAC").

The Hospital presumes that users of this interim financial information have read or have access to the Hospital's audited financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. The audited financial statements of the Hospital for the years ended December 31, 2008 and 2007 are on file, pursuant to the Hospital's Continuing Disclosure Agreement, with the Nationally Recognized Municipal Securities Information Repositories, and the information contained therein is incorporated herein. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Hospital's most recent audited financial statements have been omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the results for the interim periods have been included in the accompanying interim financial statements. All such adjustments are considered by management to be of a normal, recurring nature.

Patient volumes and net operating revenues are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, climate and weather conditions, vacation patterns of hospital patients and admitting physicians and other factors relating to the timing of elective hospital procedures. Monthly operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or non-recurring items and other seasonal fluctuations. These same considerations apply to all year-to-year comparisons

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Interim Financial Statements (continued)
(unaudited)
August 31, 2009

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated payables to third-party payors, and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The allowance for doubtful accounts and the estimated amounts due to third-party payors, among other accounts, require significant use of estimates. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material impact on the Hospital's financial position.

Tax Status

The Hospital is a Section 501(c)(3) organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code and is exempt from State and local income taxes.

Recently Adopted Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting and disclosure requirements for subsequent events; events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of SFAS 165. The Hospital adopted the provisions of SFAS 165 as of August 31, 2009, and evaluated the impact of subsequent events through October 21, 2009, representing the date at which the August 31, 2009 financial statements were issued. There were no subsequent events or transactions which either resulted in recognition in the accompanying financial statements or required further disclosure.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Interim Financial Statements (continued)
(unaudited)
August 31, 2009

2. Contingencies

The Hospital is a defendant in certain legal actions arising out of the normal course of its operations. While Hospital management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material effect on the Hospital's financial position, the final outcome cannot presently be determined.

3. Benefit Plans

The Hospital contributed \$15.5 million and \$6.4 million, to its defined benefit pension plan during the eight month periods ended August 31, 2009 and 2008, respectively. Pension expense pertaining to the defined benefit pension plan was approximately \$8.1 million and \$5.0 million, respectively, for the same periods.

The following table provides the components of the net periodic benefit cost for the defined benefit pension plan for the eight month periods ended August 31 (in thousands):

	<u>2009</u>	<u>2008</u>
Service cost – benefits earned during the year	\$ 4,887	\$ 3,931
Interest cost on projected benefit obligations	3,903	3,565
Expected return on plan assets	(3,958)	(4,321)
Accretion of prior service cost	40	38
Recognized actuarial loss	3,243	1,776
Net periodic benefit cost	<u>\$ 8,115</u>	<u>\$ 4,989</u>

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Interim Financial Statements (continued)
(unaudited)
August 31, 2009

4. Fair Value Measurements

On January 1, 2008, the Hospital adopted the methods of calculating fair value defined in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”) to value its financial assets and liabilities, when applicable. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity’s perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Interim Financial Statements (continued)
(unaudited)
August 31, 2009

4. Fair Value Measurements (continued)

Financial assets carried at fair value as of August 31, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 35,984	\$ —	\$ —	\$ 35,984
Money market mutual funds	48,072	—	—	48,072
Equity mutual/common trust funds	15,018	26,029	—	41,047
U.S. Government/Agency obligations	78,328	—	—	78,328
	\$ 177,402	\$ 26,029	\$ —	\$ 203,431

The Hospital's alternative investments are reported using the equity method of accounting and, therefore, are not included in the table above.

The following is a description of the Hospital's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

New York Society for the Relief of
the Ruptured and Crippled, Maintaining
the Hospital for Special Surgery

Notes to Interim Financial Statements (continued)
(unaudited)
August 31, 2009

4. Fair Value Measurements (continued)

The fair values and carrying values of the Hospital's financial instruments are as follows at August 31, 2009 (in thousands):

	<u>August 31, 2009</u>	
	<u>Fair</u>	<u>Carrying</u>
	<u>Values</u>	<u>Values</u>
Cash and cash equivalents	\$ 29,195	\$ 29,195
Assets limited as to use	35,077	35,077
Investments	169,397	169,397
Long-term debt, excluding capital leases	174,443	196,064

The fair value of the Hospital's long-term debt is based on current trading prices.

5. Net Assets Reclassification

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of the original principal donation and amounts are required to be recorded as a charge to unrestricted net assets. The Hospital is not required to restore such deficiencies but will, as required, make prudent decisions on use of the income of such funds. Deficiencies of this nature that are reported in unrestricted net assets were \$10.6 million as of December 31, 2008. As of August 31, 2009, the Hospital recorded an increase to unrestricted net assets of approximately \$5.8 million, reflected in the statement of operations as a reclassification of net assets, as a result of the recovery in fair value of certain assets associated with individual donor restricted endowment funds.

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**SUMMARY OF CERTAIN PROVISIONS OF
THE RESOLUTION**

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Set forth below are summaries of certain sections of the Resolution. These summaries do not purport to be complete and reference should be made to the Resolution, copies of which are on file with the Authority and the Trustee, for a complete statement of the rights, duties and obligations of the Authority, the Trustee and Bondholders under the Resolution. The headings below are not part of the Resolution but have been added for ease of reference only.

Additional Obligations

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

(Section 2.05)

Pledge of Trust Revenues

In order to secure each Series of Bonds issued and Outstanding under the Resolution, the payment of the principal or Redemption Price thereof and the interest thereon, and the performance and observance of the agreements made in the Resolution, in the Applicable Series Resolution and in the Bonds, the Authority, subject to the adoption of an Applicable Series Resolution, (i) pledges and assigns to the Applicable Trustee, in trust upon the terms of the Resolution for the equal and ratable benefit and security of the Holders of the Bonds of an Applicable Series, all of the Authority's right, title and interest in and to the following Applicable Trust Revenues relating to such Series of Bonds (which the Authority authorizes the Applicable Trustee to receive and hold as security for such Applicable Series of Bonds and no other Series of Bonds); (ii) pledges and grants to the Applicable Trustee, in connection with each Applicable Series of Bonds, a security interest in the Applicable FHA Documents except for the Regulatory Agreement (provided that for so long as certain Events of Default have not occurred, the Authority retains all rights as mortgagee under the FHA Documents and may give any consents or approvals permitted or required to be given by, and exercise all rights granted, to the mortgagee under the Applicable FHA Documents, subject in all respects to the provisions of the Resolution); (iii) pledged and assigned to the Applicable 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: (a) the proceeds from the sale of an Applicable Series of Bonds; (b) the Applicable Trust Revenues; (c) the rights of the Authority to receive all payments to be made under the Applicable Loan Agreement and the Applicable Note that are to be deposited with the Applicable Trustee; (d) the security interest in the Applicable FHA Documents granted by the Authority to the Applicable Trustee; and (e) all funds and accounts authorized pursuant to the Resolution and established pursuant to an Applicable Series Resolution (except for the Insurance and Condemnation Account and the Equity Account of the Construction Fund and the Arbitrage Rebate Fund).

The pledge made under the Resolution shall be valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Applicable Trust Revenues, and all funds and accounts authorized pursuant to the Resolution and established pursuant to the Applicable Series Resolution which are pledged pursuant to 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 Applicable Trust Revenues, and the funds and accounts authorized pursuant to the Resolution and established pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Authorization for Establishment of Funds and Accounts

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

Construction Fund:

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

Debt Service Fund:

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

Debt Service Reserve Fund:

- Reserve Account;
- Collateral Account; and
- Arbitrage Rebate Fund.

(Section 5.02)

Payments from Construction Fund

The following provisions shall apply to each Applicable Project, the Applicable FHA Documents, and each Applicable Construction Fund, Mortgage Account, Equity Account, Insurance and Condemnation Account, Investment Income Account and Costs of Issuance Account, authorized under the Resolution and established under and pursuant to an Applicable Series Resolution. Each Construction Fund and accounts and subaccounts thereunder, established for an Applicable Series of Bonds, shall be held by the Applicable Trustee separate and apart from each other Construction Fund and related accounts and subaccounts. All provisions of this heading and all terms utilized in the Resolution apply to the payments from the Construction Fund established for an Applicable Series of Bonds.

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

(b) With respect to any Applicable Series of Bonds, upon the submission of a written request to the Authority (a copy of which will be submitted to the Applicable Bond Insurer) and upon approval by FHA of each Requisition and upon compliance with the applicable provisions of the Note, the Mortgage, the Building Loan Agreement, the Loan Agreement and the Servicing Agreement, the Applicable Trustee will make disbursements from the Mortgage Account and the Equity Account to or upon the order of the Institution for payment or reimbursement of Costs of the Project. The Applicable Trustee will notify the Authority, the Applicable Bond Insurer and the Mortgage Servicer of all disbursements made from such

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

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

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

Certificate, and; provided further, however, that no such transfer will be made if the Institution is in default under the FHA Documents. Notwithstanding the foregoing the Applicable Trustee will draw upon the Letter of Credit held in the Investment Income Account when instructed to do so by the Authority.

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

(f) If insurance or condemnation proceeds are received with respect to the Project and are deposited in the Construction Fund, such proceeds will be disbursed in the manner set out in the provisions of the Loan Agreement summarized in Appendix D under the headings "Applications of Proceeds of Hazard Insurance" and "Application of Proceeds of Condemnation Compensation."

(g) In the event Net Insurance Proceeds or Net Condemnation Proceeds are required to be applied to prepayment or reduction of the Note in accordance with the provisions of the Loan Agreement summarized in Appendix D under the headings "Applications of Proceeds of Hazard Insurance" and "Application of Proceeds of Condemnation Compensation," such amounts will be transferred to the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds pursuant to the Resolution.

(h) In the event that any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair, reconstruction or replacement of the Mortgaged Property, in accordance with applicable FHA Documents and pursuant to the provisions of the Loan Agreement summarized in Appendix D under the headings "Applications of Proceeds of Hazard Insurance" and "Application of Proceeds of Condemnation Compensation," and such amounts are greater than the Threshold Amount, such amounts will be disbursed by the Applicable Trustee, upon receipt of the approval of FHA, if required, and the following shall apply:

(1) a request signed by an Authorized Officer of the Institution and approved in writing by the Authority stating: (i) the name and address of the person to whom the payment is to be made (which may be the Institution if it is to be reimbursed for advances made by it which are properly chargeable against the Construction Fund); (ii) the amount to be paid; (iii) that the payment constitutes a proper charge against the Construction Fund and the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance; (iv) that the obligation was properly incurred and is for costs of repair, replacement or reconstruction of the Mortgaged Property; (v) that the amount requested is due and unpaid (to the extent it is not a reimbursement); (vi) that there is no event of default then existing under the Applicable FHA Documents or the Applicable Loan Agreement; (vii) that the amount requested has not been the subject of any previously paid request; and (viii) that, with respect to items covered in the request, the signer has no knowledge of any vendors', mechanics', or other liens, conditional liens, conditional sales contracts, chattel mortgages, leases of personalty, title retention agreements or security interests which should be satisfied or discharged before the payments as requested therein are made or which will not be discharged by such payment;

(2) in the case of payments under the Construction Contract, in addition to the request referred to in clause (1) above, a certificate of the Architect certifying: (i) his approval of the request; (ii) that the obligation was properly incurred; (iii) that the amount requested is due and unpaid to the contractors; (iv) that, insofar as the payment is to be made for work, materials, supplies or equipment, the work has been performed and the materials, supplies or equipment have been installed in the Mortgaged Property or have been delivered either at the Mortgaged Property

or at a proper place for fabrication and covered by adequate insurance; and (v) that all work, materials, supplies and equipment for which payment is to be made are, in the signer's opinion, in accordance with any applicable plans and specifications; and

(3) if following completion of the repair, replacement, rebuilding, restoration or rearrangement, any Net Insurance Proceeds or Net Condemnation Proceeds remain on deposit in the Insurance and Condemnation Account, such Net Insurance Proceeds or Net Condemnation Proceeds will, subject to any applicable FHA requirements and full payment of any current Authority or Applicable Trustee fees or expenses with respect to such Applicable Series of Bonds, be paid to the Institution.

(i) In the event: (i) any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair, reconstruction or replacement of the Mortgaged Property, and such amounts are equal to or less than the Threshold Amount; or (ii) such amounts constitute Net Condemnation Proceeds and the requirements of the Loan Agreement summarized in Appendix D under subsection (d)(i) of the heading entitled "Application of Proceeds of Condemnation Compensation" are complied with, notwithstanding the provisions of paragraph (h) above, such amounts shall be disbursed by the Applicable Trustee at the written direction of the Authority and with the approval of FHA, if required, the Authority or the Applicable Trustee to the extent of any unpaid fees and expenses, with any balance thereafter applied to or upon the order of the Institution.

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

(k) The Applicable Trustee shall draw the full amount of any Letter of Credit deposited to the credit of the Investment Income Account of the Construction Fund (i) immediately upon receipt of notice from the applicable Qualified Financial Institution following an event of default under the reimbursement agreement; (ii) within sixty (60) days of a downgrade of the Qualified Financial Institution providing such Letter of Credit to a rating less than "A2" or "A" by each Rating Service, or (iii) at least fifteen (15) days or such lesser number of days as shall be acceptable to the Applicable Trustee, prior to its expiration date, unless, in the case of (i), such Letter of Credit has been renewed or the Investment Income Account Requirement on such expiration date would be zero, or (ii) the Institution has deposited Available Moneys or a substitute Letter of Credit in the Investment Income Account in an amount equal to the Investment Income Account Requirement.

(Section 5.04)

Procedure upon Completion of Project

The following provisions shall apply to each Applicable Project, the Institution, the Applicable FHA Documents, and each fund and account established pursuant to the Applicable Series Resolution. All provisions of this heading and all terms utilized in the Resolution apply to the completion of an Applicable Project financed in connection with an Applicable Series of Bonds.

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

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

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

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

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

FIFTH: any cash balance (but not the Letter of Credit) remaining in the Collateral Account in excess of the Collateral Account Requirement will be transferred to the Redemption Account and applied to the Special Mandatory Redemption of Bonds;

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

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

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

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

(Section 5.05)

Arbitrage Rebate Fund

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

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

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

(Section 5.06)

Collection of Trust Revenues

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

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

(b) All payments on the Note (less any Servicing Fee payable thereunder, if any, or Mortgagee Advances), shall be paid to the Applicable Trustee and, together with all other Trust Revenues received by the Applicable Trustee (including any amounts paid by the Institution pursuant to the Loan Agreement summarized in Appendix D under the heading "Payments by the Institution" or under the heading "Funding of the Equity Account, the Collateral Account and the Investment Income Account"), will be applied as follows for the periods indicated:

(1) During the period commencing with the date of delivery of the Applicable Series of Bonds and ending on the last day preceding Final Endorsement of the Note (except as provided in paragraphs (3) and (4) below):

(A) Income received on the investment of moneys in: (i) any account of the Construction Fund (except the Equity Account) or Debt Service Reserve Fund (except the portion, if any, of the Collateral Account representing the Institution's contribution to such account) will upon receipt be deposited in the Investment Income Account; and (ii) any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to the provisions of the Resolution summarized under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below) will upon receipt be retained therein;

(B) Income received on the investment of moneys in the Equity Account of the Construction Fund and on the portion, if any, of the Collateral Account representing the Institution's contribution to such account will, after payment of all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, be retained in the Equity Account and Collateral Account, respectively;

(C) Disbursements from the Mortgage Account of the Construction Fund for payment of interest on the Note, as reflected on each Requisition (after deducting and paying any applicable Servicing Fee) pursuant to the Resolution, will be credited or deposited in the Investment Income Account;

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

(E) Payments received from the Institution under paragraph (g) of the provisions of the Loan Agreement summarized in Appendix D under the heading "Payments by the Institution" will be deposited in the Debt Service Account; and

(F) Payments received from the Institution under the provisions of the Loan Agreement summarized in Appendix D under the heading "Funding of the Equity Account, the Collateral Account and the Investment Income Account" will be applied first to the Collateral Account to the extent necessary to cause the balance therein to equal the Collateral Account Requirement, and then to the Reserve Account.

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

(A) Payments on the Note (after deducting and paying any applicable Servicing Fee incorporated therein), income received on the investment of moneys in the Debt Service Reserve Fund (except the portion, if any, of the Collateral Account representing the Institution's contribution to such account) and payments received from the Institution pursuant paragraph (a) of the provisions of the Loan Agreement summarized in Appendix D under the heading "Payments by the Institution" will be deposited in the Debt Service Account;

(B) Income received on the investment of moneys in the portion, if any, of the Collateral Account representing the Institution's contribution to such account will after payment of all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer be remitted to the Authority at least semi-annually upon the written direction of the Authority and applied pursuant to the Loan Agreement;

(C) Income received on the investment of moneys in any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to the Resolution) will upon receipt be deposited in the Surplus Account; and

(D) Payments received from the Institution under of the provisions of the Loan Agreement summarized in Appendix D under the heading "Funding of the Equity Account, the Collateral Account and the Investment Income Account" will be applied first to the Collateral Account to the extent necessary to cause the balance therein to equal the Collateral Account Requirement, and then to the Reserve Account.

(3) Trust Revenues attributable to hazard insurance or condemnation proceeds which are to be applied to reduction of the outstanding principal balance of the Note in accordance with applicable FHA Documents and pursuant to the provisions of the Loan Agreement summarized in Appendix D under the headings "Applications of Proceeds of Hazard Insurance" and "Application of Proceeds of Condemnation Compensation," will be deposited in the

Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds as provided in the Loan Agreement and in the Resolution;

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

(5) FHA Mortgage Insurance Benefits will be applied pursuant to the provisions of the Resolution summarized under the heading “Application of FHA Mortgage Insurance Benefits” below.

(6) To the extent income received from the investment of moneys in the Debt Service Reserve Fund is deposited in the Debt Service Account, the Institution shall receive a credit against payments of interest on the Note

(Section 6.01)

Debt Service Fund

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

(a) Subject to the provisions of the Resolution summarized under the headings “Remedies under Mortgage and FHA Mortgage Insurance” and “Application of FHA Mortgage Insurance Benefits” below, with respect to the application of FHA mortgage insurance benefits, on the last Business Day preceding an Interest Payment Date for Outstanding Bonds, the Applicable Trustee will apply the moneys then on deposit, subject to paragraph (d) under this heading, in the Debt Service Account as follows:

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

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

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

FOURTH: unless otherwise provided in the Applicable Series Resolution or Applicable Bond Series Certificate, to the extent of any remaining moneys, for transfer to the Redemption Account to be applied to the Sinking Fund Redemption of Bonds as provided in paragraph (2) under the heading “Redemption Account” below;

FIFTH: to the extent such amounts have not been paid from the Surplus Account, to the payment of the semiannual fees of the Trustee and the Authority;

SIXTH: to the extent that FHA debentures deposited in the Debt Service Account pursuant to paragraph (3) under the heading “Application of FHA Mortgage Insurance Benefits” below provide, upon payment at maturity of such FHA debentures, an amount sufficient, together with all other available amounts, to pay the Principal Amount of and accrued interest on all Bonds Outstanding for transfer to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Bond as provided in paragraph (4) under the heading “Redemption Account” below; and

SEVENTH: to the extent that the Authority receives cash in lieu of FHA debentures or the proceeds of a redemption of FHA debentures pursuant to paragraph (3) under the heading “Application of FHA Mortgage Insurance Benefits” below in an amount sufficient, together with all other available funds,

to pay the Principal Amount of and accrued interest on all of the Bonds Outstanding, for transfer to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Bonds as provided in paragraph (4) under the heading "Redemption Account" below.

Any balance remaining in the Debt Service Account will be retained therein for application as aforesaid on the last Business Day preceding the next succeeding Interest Payment Date.

(b) Unless the Note and Mortgage have been assigned to FHA pursuant to the provisions of the Resolution summarized under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below, all income from the investment of moneys in any account of the Debt Service Fund shall: (i) upon receipt be deposited into the Surplus Account; or (ii) upon the written direction of the Authority applied as a credit against subsequent payments due on the Applicable Note, provided that in the case of (ii) above, all fees and expenses of the Trustee and the Authority shall have been provided for and all amounts payable under clauses FIRST, SECOND, THIRD and FOURTH above shall have been made. On the last Business Day preceding each Interest Payment Date for an Applicable Series of Bonds, to the extent moneys are not available from other sources, any moneys on deposit in the Surplus Account shall be applied first to the payment (in semiannual installments) of the Applicable Trustee's Annual Fee and then, to the extent of money available, to all fees and expenses of the Authority as provided in the Loan Agreement. Unless the Note and Mortgage have been assigned to FHA pursuant to the provisions of the Resolution summarized under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below in which event the provisions of the last sentence of this subsection will apply, the foregoing fees and expenses of the Authority shall not be paid from any other fund or account held pursuant to the Resolution, other than the Surplus Account. If on the last Business Day preceding any such Interest Payment Date the amount in the Surplus Account remaining after the payments described in the preceding sentence exceeds the sum set forth in the Applicable Series Resolution or Bond Series Certificate or as the Authority shall specify (but in no event less than the Authority's estimated fees and expenses for the forthcoming six (6) months and one-half (1/2) of the Applicable Trustee's Annual Fee (together with any amounts theretofore unpaid from any previous period), such excess shall be transferred to the Debt Service Account for application in accordance with paragraph (a) under this heading. Notwithstanding the foregoing, in the event the Note and Mortgage are assigned to FHA, any amount in the Surplus Account shall be used: first, to pay hazard insurance premiums, mortgage insurance premiums or other FHA charges, which amounts may become due prior to the date of such assignment, unless payment of such amounts is waived by FHA; second, to reimburse any Mortgagee Advances; third, to pay the Applicable Trustee's Annual Fee; fourth, to pay the Authority's Annual Administrative Fee; and fifth, to pay any fees and expenses, including legal fees, incurred by the Authority, the Applicable Trustee, the Mortgage Servicer or the Financial Consultant in connection with the assignment of the Note and Mortgage and the claim for FHA mortgage insurance benefits.

(c) In lieu of redeeming Bonds through Sinking Fund Installments as described in paragraph (2) under the heading "Redemption Account" below, at the direction of the Authority, the Applicable Trustee will apply moneys from time to time on deposit in the Debt Service Account or the Redemption Account to the purchase of an equal principal amount of the Applicable Series of Bonds (of the maturity and in amounts then expected to be subject to Sinking Fund Installments) at prices not higher than the principal amount to be redeemed plus accrued interest, provided that firm commitments to sell Bonds are received at least five (5) days before the notice of redemption would otherwise be required to be given. In the event of purchases at purchase prices less than the principal amount to be redeemed plus accrued interest, the difference between the amount in the Debt Service Account representing the principal amount of the Bonds purchased and the purchase price (exclusive of accrued interest) will be retained in the Debt Service Account for application pursuant to subdivision (a) under this heading. Prior to any such purchase, the Applicable Trustee will give notice to the Authority of the terms of the proposed purchase, and the Authority will give written directions to the Applicable Trustee to purchase such Bonds for such terms. All Bonds so purchased will be immediately cancelled.

(d) Notwithstanding anything contained in the Resolution to the contrary, the Applicable Trustee will at the direction of the Authority pursuant to the Resolution, deposit funds received for the purchase in lieu of redemption of Bonds of an Applicable Series in the Applicable Purchase Account for

the purchase of Bonds of such Applicable Series in whole or in part pursuant to the terms and conditions of the Applicable Series Resolution or Applicable Bond Series Certificate.

(e) For purposes of provisions described under this heading, any payment of principal and interest on the Note due the first day of February or August will be treated as received after the 15th of such February or August and will be applied as provided in subdivision (a) under this heading to the next Interest Payment Date.

(Section 6.02)

Debt Service Reserve Fund

The following provisions will apply to each Applicable Debt Service Reserve Fund and accounts thereunder:

(1) If a payment default occurs under the Note or the Mortgage, on each succeeding Interest Payment Date, unless and until such default is waived pursuant to the provisions described in the second paragraph of subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below, the Applicable Trustee will draw upon any Letter of Credit held for the account of the Collateral Account and make transfers from the Debt Service Reserve Fund (first from the Collateral Account and second from the Reserve Account) to the Debt Service Account on the second Business Day preceding each Interest Payment Date in an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest on the Bonds Outstanding and the Principal Amount of Bonds maturing (if any).

(2) If the Institution fails to make all payments which become due under the Note or Mortgage (except for those payments to be applied in accordance with Section 6.02(e) hereof without regard to any grace period relating thereto) by each date fifteen (15) days in advance of an Interest Payment Date: (i) the Applicable Trustee will immediately give notice to the issuer of the Investment Agreement that the Applicable Trustee intends to withdraw funds under such Investment Agreement and, if the Floor Ceiling Agreement is then the Investment Agreement in place, the Applicable Trustee will immediately give notice to the bank thereunder of the sale of securities in an amount sufficient, together with moneys then on deposit in the Debt Service Account (including amounts transferred from the Collateral Account pursuant to subparagraph (1) under this heading and the Investment Income Account pursuant to the Resolution), to pay the interest becoming due on the Bonds on the next succeeding Interest Payment Date and the Principal Amount of Bonds maturing, if any, on such date; and (ii) unless the Institution makes such payment under the Note or Mortgage by the last Business Day preceding the next Interest Payment Date and cures, in accordance with the second paragraph of subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below, any other defaults under the FHA Documents (in which event the Applicable Trustee will immediately cancel the withdrawal of funds under such Investment Agreement), then the Applicable Trustee will immediately withdraw funds from the Reserve Account in such amount and deposit the same in the Debt Service Account.

(3) In accordance with the provisions described under the heading “Application of FHA Mortgage Insurance” below, to the extent such provisions direct that amounts on deposit in the Debt Service Reserve Fund be applied to the Extraordinary Mandatory Redemption of Bonds, any investments deposited to the credit of the Reserve Account and the Collateral Account of the Debt Service Reserve Fund will be liquidated and the amounts thus obtained will be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds, pursuant to paragraph (4) under the heading “Redemption Account” below.

(4) The Applicable Trustee shall draw the full amount of any Letter of Credit deposited to the credit of the Collateral Account: (i) immediately upon receipt of notice from the applicable Qualified Financial Institution following an event of default under the reimbursement agreement; (ii) within sixty (60) days of a downgrade of the Qualified Financial Institution providing such Letter of Credit to a rating less than “A2” or “A” by each Rating Service and; or (iii) at least fifteen (15) days or such lesser number of days as shall be acceptable to the Applicable Trustee, prior to its expiration date, unless in the case of

(iii) such Letter of Credit has been renewed or the Collateral Account Requirement on such expiration date would be zero, or the Institution has deposited Available Moneys or a substitute Letter of Credit in the Collateral Account in an amount equal to the Collateral Account Requirement.

(5) Except as provided in paragraph (4) above, the Applicable Trustee will not draw on any Letter of Credit in the Debt Service Reserve Fund and will not transfer any such moneys to any other fund under the Resolution until the Authority will have given, or caused there to be given, notice to FHA of a default under the Note and Mortgage pursuant to the description under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below.

(Section 6.03)

Redemption Account

The following provisions will apply to each Applicable Redemption Account:

(1) The Applicable Trustee will cause any optional prepayments and premium payments on the Note and Mortgage made from any source (other than prepayments described in subsection (3) below), together with any Non-Asset Bond Prepayment made in connection with an Optional Redemption of Bonds, deposited in the Redemption Account pursuant to paragraph (b)(4) under the heading “Collection of Trust Revenues” above to be applied to the optional redemption of Bonds at the times and Redemption Prices set forth in the Bond Series Certificate relating to the Bonds to be redeemed and otherwise in accordance with the Resolution, or to the purchase of Bonds for immediate cancellation thereof (except as otherwise provided in the Resolution) by the Applicable Trustee at prices not in excess of the optional redemption price applicable on the next succeeding optional redemption date plus accrued interest; provided that firm commitments to sell Bonds are received at least five (5) days before the notice of redemption would otherwise be required to be given.

(2) The Applicable Trustee will cause any moneys transferred to the Redemption Account from the Debt Service Fund pursuant to the FOURTH clause of paragraph (a) under the heading “Debt Service Fund” above to be applied to the Sinking Fund Redemption of Bonds, on the next succeeding Interest Payment Date at a Redemption Price equal to the principal amount of the Bonds to be redeemed, in accordance with the Resolution and the Applicable Series Resolution.

(3) The Applicable Trustee will also transfer from the Insurance and Condemnation Account of the Construction Fund to the credit of the Redemption Account amounts derived from Net Insurance Proceeds and Net Condemnation Proceeds which are applied to the prepayment of the Note and Mortgage as provided in the provisions of the Loan Agreement summarized in Appendix D under the headings “Applications of Proceeds of Hazard Insurance” and “Application of Proceeds of Condemnation Compensation,” together with any Non-Asset Bond Prepayment made in connection with such prepayment. The Applicable Trustee will cause all such amounts to be applied to the Extraordinary Mandatory Redemption of Bonds, at the earliest practicable redemption date, in accordance with Article IV of the Resolution and the Applicable Series Resolution.

(4) The Applicable Trustee will cause amounts deposited in the Redemption Account derived from: (i) the Debt Service Reserve Fund pursuant to the description under paragraph (3) under the heading “Debt Service Reserve Fund” above; (ii) the Investment Income Account pursuant to the description under paragraph (c) under the heading “Payments from Construction Fund” above; (iii) the Construction Fund pursuant to the descriptions under the heading “Procedure upon Completion of Project” above and paragraph (7) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below; (iv) the funds available for Extraordinary Mandatory Redemption pursuant to the description under paragraph (1) under the heading “Application of FHA Mortgage Insurance” below; and (v) amounts received upon payment of FHA mortgage insurance benefits as provided under the description under paragraphs (1), (2), (3), (5) under the heading “Application of FHA Mortgage Insurance” and under the heading “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note” below, to be applied to the Special Mandatory Redemption or Extraordinary Mandatory Redemption of Bonds, as applicable, at the earliest practicable redemption date, in accordance with the Resolution, except

as provided in subsection (4) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below with respect to a ratable redemption of the Bonds.

(Section 6.04)

Procedure When Funds Are Sufficient To Pay All Bonds

The following procedures shall apply with regard to each Applicable Series of Bonds: If at any time following the date of Final Endorsement the amounts held by the Applicable Trustee in the funds established pursuant to the Resolution (except for the Equity Account, the Collateral Account, the Insurance and Condemnation Account and the Arbitrage Rebate Fund) are sufficient to pay the principal or Redemption Price of, and interest on all Bonds Outstanding on the next succeeding Interest Payment Date therefor, together with any amounts due the Authority and the Applicable Trustee, the Applicable Trustee will notify the Authority, the Mortgage Servicer and the Institution to that effect and thereafter the Applicable Trustee will apply, subject to any applicable FHA requirements, the amounts in such funds first to the payment of such principal or Redemption Price and interest, and second, to the payment of any amounts due to itself and the Authority, and, unless the Note and Mortgage have been assigned to FHA, the Authority will credit such payments to prepayment of the Note and the Mortgage, in accordance with the prepayment provisions of the Note and Mortgage, and the redemption provisions of the Bonds.

(Section 6.05)

Deposit and Investment of Funds

The following provisions shall apply to the deposits and investment of funds held in connection with each Applicable Series of Bonds:

(1) All moneys received by the Applicable Trustee for deposit in any fund or account established under the Resolution will, except as hereinafter provided, be deposited with the Applicable Trustee until expended or invested as provided under this heading.

(2) Any moneys received by the Applicable Trustee on behalf of the Authority as mortgagee under the Mortgage which are required to be deposited in escrow accounts or other accounts under the Mortgage will be invested subject to applicable FHA regulations.

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

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

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

(6) Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided under this heading. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable (but in no event, at price less than the par value of such investments), or present for redemption or exchange, any investment held by it pursuant hereto whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority, the Institution on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of paragraphs (1) and (2) under this heading. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

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

(8) Income received upon any deposit or investment under the Resolution and any profit or loss resulting from the sale of any investment in any fund or account will upon receipt be deposited and credited, or charged, to the fund or account in question, except as otherwise provided in subsection (b) described under the heading "Collection of Trust Revenues" above. In the event the moneys are invested pursuant to an Investment Agreement (after the Applicable Trustee shall have received confirmation from each Rating Service of its then current rating on the Series 2009 Bonds), the Authority may provide that any fees payable pursuant to the terms of the Investment Agreement may be deducted from the amount of investment income payable to the Authority or the Applicable Trustee.

(9) Neither the Authority nor the Applicable Trustee will have any liability arising out of or in connection with the making of any investment authorized by the provisions of the Resolution, in the manner provided in therein, for any depreciation in value of any investment or for any loss, direct or indirect, resulting from any such investment.

(10) Moneys held in any fund or account with respect to an Applicable Series of Bonds authorized under the Resolution may be pooled for purposes of investment only, and such moneys may be invested as one account; provided that the Applicable Trustee will keep records of the amount of principal and accrued investment income (on a pro rata basis) of each fund or account which is pooled for investment purposes pursuant to this paragraph. Moneys in the Mortgage Account in the Construction Fund to be transferred to the Investment Income Account to pay interest on the Note (less the Servicing Fee) pursuant to the Resolution will remain invested under the Investment Agreement referred to in the Resolution unless such moneys are required to be used to pay interest on the Bonds as provided in the Resolution below in this subsection. Transfers from the Investment Income Account to the Debt Service Account to pay interest on the Bonds pursuant to the Resolution, will be made semi-annually 30 days in advance of each Interest Payment Date. Accrued interest, if any, payable on the initial investment of the Reserve Account may be paid from the Debt Service Account or the Mortgage Account provided the amount so paid is redeposited in the appropriate account upon receipt of the first income on such investments. The Applicable Trustee may use any method which it determines to be reasonable to compute the investment income on the transferred amount from the date of the deemed transfer to the date of actual transfer.

(Section 6.06)

Valuation of Funds

The Applicable Trustee, as promptly as practicable: (i) after the end of each calendar month; (ii) upon the request of the Authority; and (iii) upon the request of the Institution, but not more frequently than once a calendar month, shall compute the value of the assets of each fund and account authorized to be established under the Resolution and established by each Applicable Series Resolution. The assets shall be valued at par or the market value thereof, plus accrued interest, whichever is lower. Additionally, the Applicable Trustee shall: (i) calculate the Debt Service Reserve Fund Requirement and the Collateral Account Requirement at the end of each calendar month; and (ii) at Final Endorsement compute the value of the assets of the Debt Service Reserve Fund, after taking into account any deposits to, and payments and transfers from, any fund or account to be made under the Resolution or pursuant to the Applicable Series Resolution. The Applicable Trustee shall provide a written computation to the Authority and the Institution of the amount of the Debt Service Reserve Fund Requirement and the Collateral Account Requirement (after giving effect to any redemption pursuant to the Resolution). The Applicable Trustee shall, to the extent of any decrease in the Collateral Account Requirement: (i) with the consent of the Authority reduce any Letter of Credit deposited to the credit of the Collateral Account by the amount of the decrease in the Collateral Account Requirement; and (ii) to the extent any such decrease causes the balance on deposit to exceed the Collateral Account Requirement, remit to the Institution (provided, there is no default under the Applicable Mortgage or Note, and there is no deficiency in the Debt Service Reserve Fund, and in the event of a deficiency, transfer such excess to the Debt Service Reserve Fund) any moneys originally deposited by the Institution in the Collateral Account, to the extent available. In addition, in the case of a deficiency in the Collateral Account Requirement or the Debt Service Reserve Fund Requirement, the Applicable Trustee shall promptly notify the Institution of the amount of such deficiency. In computing the assets of any fund, and except as provided for in the Resolution, accrued interest on the investments in any account shall be deemed to be an asset of the account, if any, to which such interest would be payable under the circumstances then prevailing as provided in the Resolution provided accrued interest on an Investment Agreement is not deemed to be surplus available for transfer to any other fund or account. Such investments shall be valued at the least of (a) the current market value thereof, (b) the par value thereof or (c) at the redemption price thereof, if then redeemable at the option of the holder, except for any amounts invested pursuant to an Investment Agreement, which shall be valued at cost. Promptly after each such computation, the Applicable Trustee shall give notice thereof to the Institution and the Authority.

The Authority, in its discretion, may direct the Applicable Trustee to, and the Applicable Trustee shall, sell, present for redemption or exchange any Securities held under the Resolution by the Applicable Trustee and the proceeds thereof may be reinvested as provided in this heading. Except as otherwise provided under the Resolution, the Applicable Trustee shall sell at the best price obtainable (but in no event at a price less than the par value of such Securities), or present for redemption or exchange, any Securities held by it under the Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account for which such Securities are held. The Applicable Trustee shall advise the Authority and the Institution in writing, on or before the fifteenth 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 Securities held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such Securities comply with the provisions of the Resolution. The details of such Securities shall include the par value, if any, the cost and the current market value of such Securities as of the end of the preceding month. The Applicable Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(Section 6.07)

Payment of Principal and Interest

The Authority will pay or cause to be paid from the Applicable Trust Revenues, to the extent provided in the Resolution and in the Applicable Series Resolution, the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on every Bond of each Applicable Series on the date and at the places and in the manner provided in such Bonds according to the true intent and meaning thereof.

(Section 7.01)

Extension of Payment of Bonds

The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds of an Applicable Series or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and, in case the maturity of any of such Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit thereof or of any Applicable Series Resolution or to any payment out of any assets of the Authority or the funds (except funds held in trust for the payment of particular Bonds of an Applicable Series or claims for interest pursuant to the Resolution and to any Applicable Series Resolution) held by the Applicable Trustee, except subject to the prior payment of the principal of all Outstanding Bonds of such Applicable Series the maturity of which has not been extended and of such portion of the interest on such Bonds as are not represented by such claims for interest. Nothing in the Resolution will be deemed to limit the right of the Authority to issue Refunding Bonds as permitted by the Resolution and by the Act and such issuance shall not be deemed to constitute an extension of the maturity of the Bonds of an Applicable Series refunded.

(Section 7.02)

Powers as to Bonds of an Applicable Series and Pledge

The Authority is duly authorized under the Act and all applicable laws to create and issue the Bonds of each Applicable Series, to adopt the Resolution and each Applicable Series Resolution and to pledge and assign the proceeds from the sale of such Bonds and the Applicable Trust Revenues that are to be deposited with the Applicable Trustee and all funds and accounts authorized pursuant to the Resolution which are pledged pursuant to the Resolution, and the rights of the Authority to receive payments to be made under the Applicable Loan Agreement in the manner and to the extent provided in the Resolution and in the Applicable Series Resolution. The Authority further covenants that the proceeds from the sale of each Applicable Series of Bonds, the Applicable Trust Revenues, the rights of the Authority to receive payments to be made under the Applicable Loan Agreement that are to be deposited with the Applicable Trustee and all funds and accounts authorized pursuant to the Resolution and established pursuant to the Applicable Series Resolution are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge created pursuant to the Resolution and pursuant to the Applicable Series Resolution, and that all corporate action on the part of the Authority to that end has been duly and validly taken. The Authority further represents that the Bonds of each Applicable Series and the provisions of the Resolution and of each Applicable Series Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution and of each Applicable Series Resolution. The Authority further covenants that it will at all times, to the extent permitted by law, defend, preserve and protect the pledge of, the proceeds of the Applicable Series of Bonds, the Applicable Trust Revenues, the rights of the Authority to receive payments to be made under the Applicable Loan Agreement that are to be deposited with the Applicable Trustee and all funds and accounts established pursuant to the Resolution which are pledged by the Resolution and by the Applicable Series Resolution and all of the rights of the Holders of the Applicable Series of Bonds under the Resolution and the Applicable Series Resolution against all claims and demands of all persons whomsoever.

(Section 7.03)

Further Assurance

The Authority, at any and all times, will, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and the Applicable Trust Revenues pledged or assigned pursuant to the Resolution, and pursuant to the Applicable Series Resolution, or intended so to be, or which the Authority may hereafter become bound to pledge or assign.

(Section 7.04)

Accounts and Audits

The Authority will keep proper books of records and accounts (separate from all other records and accounts), which, unless specifically directed to the contrary by the Authority, may be kept on behalf of the

Authority by the Applicable Trustee, in which complete and correct entries will be made of its transactions relating to each Applicable Series of Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, will be subject to the inspection of the Institution, the Mortgage Servicer, the Applicable Trustee or any Holder of a Bond of an Applicable Series or such Holder's representative duly authorized in writing. With respect to such records and accounts, the Applicable Trustee will annually prepare a report, which shall be furnished, to the Authority, the Mortgage Servicer and the Institution. Such report will include, at least, a statement of all funds and accounts (including investments thereof) held by the Applicable Trustee and the Authority pursuant to the provisions of the Resolution and of each Applicable Series Resolution; a statement of the Applicable Trust Revenues collected in connection with the Resolution and with each Applicable Series Resolution; a statement that the balance in the Applicable Debt Service Reserve Fund meets the requirements of the Resolution and of the applicable Series Resolution, and a statement that, in making such report, no knowledge of any default in the fulfillment of any of the terms, covenants or provisions of the Resolution and of each Applicable Series Resolution was obtained, or if knowledge of any such default was obtained, a statement thereof. A copy of such report will, upon receipt of a written request therefor, and payment of any reasonable fee or charge made in connection therewith, be furnished to the registered owner of a Bond or any beneficial owner of a Book Entry Bond requesting the same.

(Section 7.05)

Creation of Liens

The Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds of an Applicable Series on the proceeds from the sale of such Bonds, the Applicable Trust Revenues pledged for such Applicable Series of Bonds, the rights of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Applicable Trustee, the Applicable FHA Documents (except as allowed pursuant to provisions of the Resolution) or the funds authorized by the Resolution and established pursuant to the Applicable Series Resolution; provided, however, that nothing contained in the Resolution shall prevent the Authority from issuing bonds, notes or other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created pursuant to the Resolution.

(Section 7.06)

Enforcement of Duties and Obligations of the Institution

The Authority will not be required to monitor the financial condition of the Institution or the construction or physical condition of a Project and, unless otherwise expressly provided, will not have any responsibility with respect to reports, notices, certificates or other documents filed with it under the Resolution. The Authority will not be required to take notice of any breach or default by the Institution except when given written notice thereof by the holders of at least ten percent (10%) in aggregate principal amount of the Outstanding Bonds of an Applicable Series by the Applicable Trustee or by a Mortgage Servicer. The Authority will not be required to take any remedial action, other than the giving of notice, unless reasonable indemnity is furnished for any expense or liability to be incurred therein. Upon receipt of written notice, direction or instruction and indemnity, as provided above, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified as aforesaid, the Authority will promptly pursue the remedy provided by the Resolution and the Applicable Series Resolution or any of such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Holders of Bonds of the Applicable Series, and in its actions under this sentence the Authority will act for the protection of such Bondholders with the same promptness and prudence as would be expected of a prudent man in the conduct of his own affairs. Nothing in this paragraph will affect the obligations of the Authority, the Applicable Trustee or a Mortgage Servicer under the Applicable FHA Documents, under the Resolution or the Applicable Servicing Agreement.

(Section 7.07)

Offices for Payment and Registration of Bonds

The Authority will at all times maintain an office or agency in the State where Bonds of an Applicable Series may be presented for payment. The Authority may, pursuant to an Applicable Supplemental Resolution or Series Resolution or pursuant to a resolution adopted in accordance with the Resolution, designate an additional

Applicable Paying Agent or Paying Agents where Bonds of an Applicable Series authorized thereby or referred to therein may be presented for payment. The Authority will at all times maintain an office or agency in the State where Bonds of an Applicable Series may be presented for registration, transfer or exchange and the Applicable Trustee is pursuant to the Resolution appointed as its agent to maintain such office or agency for the registration, transfer or exchange of such Bonds. The provisions under this heading will be subject to the provisions of the Resolution.

(Section 7.09)

Notice as to Event of Default Under Loan Agreement

The Authority will notify the Applicable Trustee in writing that an Event of Default under a Loan Agreement, as such term is defined in such Loan Agreement, has occurred and is continuing, which notice shall be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Purchase of Bonds

The Authority covenants that it has not entered and will not enter into any arrangement, formal or informal, pursuant to which the Institution (or any related person, as defined in Section 144(a)(3) or 145(b)(3) of the Code), will purchase any of the Bonds of an Applicable Series in an amount related to the amount loaned by the Authority to the Institution under the Applicable Loan Agreement.

(Section 7.12)

Maintenance of Corporate Existence and FHA Mortgagee Status

The Authority will use its best efforts to maintain and renew its corporate existence and all its rights, powers and privileges under the Act for so long as any Bonds of a Series are Outstanding, and will comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements and directions of any legislative, executive, administrative or judicial body. The Authority will use its best efforts to maintain at all times its status in good standing as an FHA-approved mortgagee.

(Section 7.13)

Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage

With respect to each Applicable Series of Bonds:

(1) the Authority will enforce and will cause the Mortgage Servicer to enforce the full and punctual performance by the Institution of all covenants, agreements and obligations on the part of the Institution to be performed under the FHA Documents, including, without limitation, the Note, the Mortgage and the Security Agreement. The Authority will enforce the full and punctual performance by the Mortgage Servicer of all covenants, agreements and obligations on the part of the Mortgage Servicer to be performed under the Servicing Agreement;

(2) the Authority may consent to any amendment to the FHA Documents, which has also been consented to by FHA, including an amendment to the interest rate on the Note at Final Endorsement (or a reduction in principal payments in connection with a prepayment of the Note upon satisfaction of the requirements therefor as set forth in the Resolution and in the Loan Agreement or in connection with the issuance of Refunding Bonds), provided, however, that no such amendment may be made which would (i) extend or delay the commencement of amortization payments due under the Note; or (ii) adversely affect the timely receipt of interest and principal payments thereon without the consent of the Holders of 100% of the aggregate principal amount of the Bonds Outstanding or the Applicable Bond Insurer;

(3) the Authority, as mortgagee under the Mortgage, may, consent to the Institution's incurrence of indebtedness in addition to the Applicable Note secured by the Mortgaged Property, provided the Authority and the Applicable Trustee shall first have received:

(A) if the purpose for which such additional debt is being incurred is to pay or to complete the payment of the costs of a Capital Addition, a certificate of the Institution stating: (i) the estimated cost of completion of such Capital Addition; (ii) that the proceeds of such additional debt, together with any funds to be provided by the Institution, will be sufficient to pay such costs; (iii) that no Event of Default hereunder or under the FHA Documents or the Loan Agreement has occurred and is continuing; and (iv) the written consent of FHA to such Capital Addition;

(B) if such additional debt is to be insured by FHA and secured by the Mortgage, (i) executed evidence of an increase in the Mortgage Insurance to cover any such increase in the principal amount of the indebtedness secured by the Mortgage, (ii) executed or certified counterparts of amendments or supplements to the Applicable Note given by the Institution evidencing such additional debt as required by FHA and the Authority; and (iii) an amendment or supplement to the Applicable Mortgage as required by FHA and the Authority evidencing and securing such additional debt;

(C) if such additional debt is to be insured by FHA and secured by a supplemental mortgage; (i) evidence that such supplemental mortgage shall be eligible for insurance by FHA under the provisions of the National Housing Act, as amended; (ii) executed or certified counterparts of the supplemental note given by the Institution evidencing such additional debt as required by FHA and the Authority; and (iii) executed or certified counterparts of the supplemental mortgage securing such additional debt as required by FHA and the Authority;

(D) if such additional debt is not to be insured by FHA, the consent of FHA to the incurrence of such additional debt, the security therefore, and the terms thereof, as required by the Regulatory Agreement; which terms may include to the extent approved by FHA and the Authority, the release, subordination or the granting of a parity interest in any fixtures, furnishings or equipment located in or on or used in connection with any Mortgaged Property or any other security interest granted to the Authority pursuant to the Security Agreement or the Mortgage;

(E) if required by FHA, an executed counterpart of an amendment or supplement to the Mortgage or any supplemental mortgage providing that a default under such additional debt shall constitute an event of default under the Mortgage;

(F) executed counterparts of any other instruments given or agreements made by the Institution for the security of such additional debt, which may provide that any default thereunder will constitute a default under the Mortgage, together with an opinion of Counsel to the Institution that: (i) any amendments to the Note and Mortgage and all such other amendments, instruments or agreements are duly authorized, executed and delivered by the Institution and are legal, valid and binding obligations, enforceable in accordance with their terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights generally; and (ii) any consents or approvals of any governmental authorities required in connection with the issuance and related transactions have been obtained;

(G) such other documents, opinions, assurances and provisions, which Bond Counsel, the Authority, FHA, or the Applicable Trustee may reasonably require; and

(H) confirmation from each Rating Service of its then current rating on the Series 2009 Bonds, if such additional indebtedness is to be secured on parity with the Series 2009 Bonds.

(4) in connection with the incurring of additional indebtedness secured by the Mortgage pursuant to paragraph (3) subsections (A), (B) and (C) above or an amendment to the interest rate on the Note pursuant to paragraph (2) above, the Applicable Trustee will give or cause to be given to each Rating Service: (i) at least thirty (30) days' prior written notice of the proposed incurrence of such additional indebtedness or amendment to the interest rate on the Note; and (ii) Cash Flow Statement prepared by a Financial Consultant showing that the incurrence of such additional indebtedness or amendment to the interest rate on the Note will not adversely affect the sufficiency of Trust Revenues (including FHA mortgage insurance benefits) for the payment of debt service on the Bonds Outstanding;

(5) the Authority will not consent to the release of any cash or letters of credit held pursuant to the FHA Documents for the benefit of the Mortgagor without the consent of FHA; and

(6) Prior to the release of a Letter of Credit, the Trustee shall (i) obtain a Cash Flow Statement prepared in connection with such release which demonstrates that sufficient funds would be available to the Authority upon the release thereof and (ii) provide such Cash Flow Statement to the Rating Services, unless such Letter of Credit is replaced by Available Moneys in an amount equal to the stated amount of such Letter of Credit.

(Section 7.14)

Tax Exemption; Rebates

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Applicable Series and/or sub-series, the interest on which is intended to be tax-exempt, the Authority will comply with the provisions of the Code applicable to the Bonds of each such Applicable Series and/or such sub-series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each such Applicable Series of Bonds and/or such sub-series, reporting of earnings on the Gross Proceeds of each such Applicable Series of Bonds and/or sub-series, and rebates of Excess Earnings to the Department of the Treasury of the United States of America. In furtherance of the foregoing, the Authority will comply with the letter of instructions as to compliance with the Code with respect to each such Series of Bonds and/or sub-series, to be delivered by Bond Counsel at the time the Bonds of such Applicable Series and/or sub-series are issued, as such letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority will not take any action or fail to take any action, which would cause the Bonds of an Applicable Series or sub-series intended to be tax-exempt to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

Notwithstanding any other provision in the Resolution to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds and/or sub-series of an Applicable Series and/or sub-series will not entitle the Holder of Bonds of any other Applicable Series, or the Applicable Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions under this heading or of the Code.

(Section 7.15)

Events of Default

Each of the following constitutes an “Event of Default” under the Resolution and under an Applicable Series Resolution if:

(1) With respect to the Applicable Series of Bonds, payment of the principal 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

(2) 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

(3) The Authority files a petition under Chapter 9 of the Federal Bankruptcy Code; or

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

(5) 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 Applicable Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series; provided, that if such default is of such nature that it can be corrected within a reasonable time (as agreed to by the Applicable Trustee), but not within such 30 day period, the same shall not constitute an Event of Default so long as the Applicable Trustee determines that the Authority has commenced prompt corrective action and is diligently pursuing same.

An Event of Default under the Resolution with respect to an Applicable Series of Bonds shall not in and of itself be or constitute an Event of Default with respect to any other Applicable Series of Bonds.

(Section 8.02)

Acceleration and Annulment Thereof

(a) If any Event of Default as described in paragraph (1) or (2) under the heading “Events of Default” above occurs, the Applicable Trustee may, and upon request of the Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series shall, by notice in writing to the Authority, declare the Principal Amount of all Bonds Outstanding of the Applicable Series and all payments to be made by the Institution therefor (but, except as described under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below, solely pursuant to Section 10(a) of the Loan Agreement), and accrued interest on the foregoing, to be immediately due and payable, whereupon the same shall become due and payable immediately without any further notice or action, anything in the Resolution, the Applicable Series Resolution, the Loan Agreement or in such Bonds to the contrary notwithstanding.

(b) If, after any declaration of acceleration of the Principal Amount of an Applicable Series of Bonds, all arrears of interest upon such Bonds are paid, and all other outstanding Events of Default (other than the nonpayment of principal and interest due and payable solely by reason of such declaration) shall have been cured or provision deemed adequate by the Applicable Trustee shall have been made therefor, and all required payments by the Institution under the Loan Agreement have been made and the Authority and the Institution also perform all other things in respect to which they or any of them may have been in default under the Resolution or under the FHA Documents, all in accordance with the second paragraph of subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below, and provision is made for payment of reasonable charges of the Applicable Trustee and the Mortgage Servicer, including reasonable attorney’s fees, and if all claims under the FHA mortgage insurance have been withdrawn without payment, subject to the provisions of the second paragraph of subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” below, then, and in every such case, the Applicable Trustee, by notice to the Authority, may annul such declaration and its consequences. Any such annulment shall be binding upon the Applicable Trustee and upon all holders of Bonds of the Applicable Series, but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

(Section 8.03)

Remedies under Mortgage and FHA Mortgage Insurance

The following remedies apply in connection with each Applicable Series of Bonds issued under the Resolution, the Applicable Mortgage and the Institution; provided, however, a default in connection with one Applicable Series of Bonds shall not in and of itself be or constitute a default in respect of any other Series of Bonds:

(1) If the Institution fails to make any payment in full required under the Note or Mortgage and such failure continues for a period of thirty (30) days (the “Grace Period”), or if following a default by the Institution in the performance of any covenant in the Regulatory Agreement or the Mortgage, including but not limited to a default under the Mortgage or Regulatory Agreement caused by a cross-default provision therein or in a mortgage or regulatory agreement of the Institution securing a separate Applicable Series of Bonds, but only to the extent required or consented to by FHA, FHA will have requested and the

Authority, will have declared an acceleration of the unpaid principal balance of the Note, the Authority will immediately (not later than one Business Day after the end of the Grace Period or acceleration as the case may be) give, or cause the Mortgage Servicer to give, written notice to FHA (both the FHA Area Office and FHA Central Office), the Applicable Trustee and the Rating Service(s) of: (i) the occurrence of the default; (ii) the acts or omissions giving rise to the default; (iii) the time period, if any, available to cure such default; (iv) a schedule of remaining Interest Payment Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds; (v) a schedule of the funds available to make payments as they become due on the Bonds; (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds; (vii) the Authority's election to assign the Note and the Mortgage to FHA; and (viii) the Authority's intention and election to file a claim for Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement or the FHA Cash Lock Agreement, as and if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice the Authority or the Mortgage Servicer will request: (i) such forms and instructions relating to an assignment of the Mortgage; and (ii) an endorsement of the Mortgagee's title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions the Authority will submit legal documentation for review to the Office of General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit (by no later than thirty days after the date of recordation of the assignment to FHA) in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, and the FHA Debenture Agreement or the FHA Cash Lock Agreement, as and if applicable, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority's election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice in the manner provided in paragraph (1) under this heading to all Holders of Bonds of the Applicable Series of the occurrence of the default by the Institution and the Authority's intent to file such claim with FHA. The Applicable Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to all such Bondholders, and such certificate will be conclusive evidence that such notice was given to all such Bondholders in the manner required pursuant to the Resolution. Unless directed in writing to the contrary by the holders of one hundred percent (100%) in aggregate principal amount of the Outstanding Bonds of the Applicable Series, within twenty (20) days of the date notice of the Authority's election to assign the Note and Mortgage to FHA was sent to FHA, the Authority will, except as hereinbelow provided, take all actions necessary to assign the Note and Mortgage to FHA and to recover such claim under the FHA mortgage insurance; provided that, the Authority will use its best efforts to complete the assignment of the Note and Mortgage no later than the last Business Day preceding the 30th day following the giving of notice to FHA; provided, further, however, that in the event such assignment will be completed later than the last Business Day preceding the 30th day following the giving of notice to FHA, notice thereof will be given by the Authority to each Rating Service.

If, prior to the date the Note and Mortgage are assigned to FHA (pursuant to this subdivision or subdivision (2) below) the Institution (x) pays all amounts due under the Note, Mortgage and Loan Agreement and cures any other defaults thereunder and (y) delivers to the Applicable Trustee funds which are not less than the principal amount, if any, which has been withdrawn as described under the heading "Debt Service Reserve Fund" above from the Collateral Account and the Reserve Account, or delivers to the Applicable Trustee investment obligations meeting the requirements described under the heading "Deposit and Investment of Funds" above and in a form and amount which are satisfactory to the Authority and the Applicable Trustee, then notwithstanding the provisions of this subdivision and subdivision (2) below, the Authority will withdraw its notice of assignment to FHA (and give notice of such withdrawal to the Applicable Trustee who will give notice of such withdrawal to all Holders of Bonds of the Applicable Series in the manner provided in paragraph (1) under this heading of such withdrawal); provided, the Authority and the Applicable Trustee have first received: (i) written confirmation from FHA that the withdrawal of the Authority's claim will not adversely affect the FHA insurance of the Note, or be construed as a waiver or reduction thereof; (ii) agreement from a Qualified Financial Institution providing an Investment Agreement that such moneys can be reinvested at the same rate or rates as were applicable prior to such withdrawal or other comparable arrangements satisfactory to the Authority and the Rating Agencies were provided; (iii) Cash Flow Statements were provided evidencing that the failure to assign the Note and Mortgage to FHA as provided above in this heading will not adversely affect the sufficiency of

Trust Revenues for the payment of debt service on the Applicable Series of Bonds, which certificate with supporting calculations will be furnished by a Financial Consultant; (iv) the amount on deposit in the Reserve Account and the Collateral Account is not less than the Debt Service Reserve Fund Requirement, respectively; and (v) an unqualified opinion of nationally recognized bankruptcy Counsel satisfactory to the Applicable Trustee to the effect that amounts paid by the Institution pursuant to clauses (x) and (y) above will not constitute an avoidable preference or be subject to the automatic stay provisions of Section 547(b) or 362(a), respectively, of the Federal Bankruptcy Act in the event that a case in bankruptcy is commenced by or against the Institution. The Applicable Trustee will promptly certify to the Authority that it has mailed or caused to be mailed notice of such withdrawal to all Holders of Bonds of the Applicable Series, and such certificate will be conclusive evidence that such notice was given in the manner required under the Resolution.

(2) If a non-monetary default by the Institution under the terms of the Mortgage shall have occurred (including a default as a result of a cross-default provision included therein), the Authority will, within: (i) thirty (30) days after the occurrence of such default; or (ii) such other grace period as will be established under applicable FHA regulations, give notice of such default to FHA (both the FHA Area Office and FHA Central Office) and the Rating Service(s) and, on the basis of its determination as to which course of action will be in the best interest of the Bondholders, either:

A. declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Institution. Immediately upon such declaration the Authority will give, or cause the Mortgage Servicer to give, within one Business Day after the end of the applicable grace period, written notice to FHA (both the FHA Area Office and the FHA Central Office), the Applicable Trustee and the Rating Service(s) of: (i) the occurrence of such default; (ii) the acts or omissions giving rise to the default; (iii) the time period, if any, available to cure such default; (iv) a schedule of remaining Interest Payment Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds; (v) a schedule of the funds available to make payments as they come due on such Bonds; (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds; (vii) the Authority's election to assign the Note and the Mortgage to FHA; and (viii) the Authority's intention and election to file a claim for the Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement or the FHA Cash Lock Agreement, as and if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer will request: (i) required forms and instructions relating to the assignment of the Mortgage; and (ii) an endorsement of the Mortgagee's title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority will submit or cause to be submitted the legal documentation for review by the Office of General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit or cause to be completed and submitted (by no later than thirty days after the date of recordation of the assignment to FHA unless an extension of such time period is approved in writing by FHA), in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority's election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice as provided in paragraph (1) under this heading to all Bondholders of such Applicable Series of the occurrence of such default and of the Authority's intent to file such claim and promptly certify to the Authority that it has mailed such notice to all such Bondholders, which certificate will be conclusive evidence that such notice was given in the manner required pursuant to the Resolution. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Bonds Outstanding within twenty (20) days of the date such notice was given to FHA and mailed to the Bondholders or unless such default has been cured as provided in the second paragraph of paragraph (1) of this heading, the Authority will take all actions necessary to assign the Note and Mortgage to FHA and recover such claim on the FHA mortgage insurance; or

B. give, or cause the Mortgage Servicer to give, written notice to FHA of the occurrence of such default and enter into an agreement with the Institution, approved by FHA, extending the time for curing such default; provided that the Authority will not execute any such agreement unless the Authority: (i) has notified the Rating Service(s) then rating the Applicable Series of Bonds that the time for curing such default is being extended; and (ii) has received confirmation from each such Rating Service of its rating on such Bonds.

(3) Until the Note and Mortgage have been assigned to FHA pursuant to subdivision (1) or (2) under this heading, the Applicable Trustee will pay upon written request of the Authority and the Mortgage Servicer, from amounts in the Surplus Account, any hazard insurance premiums or mortgage insurance premiums which may become due prior to the date of assignment, unless payment of such mortgage insurance premiums is waived by FHA.

(4) The Authority will or will cause the Mortgage Servicer to proceed with due diligence to obtain payment of the FHA mortgage insurance on the earliest practicable date.

(5) In the event an FHA Debenture Agreement is in effect with respect to an Applicable Series of Bonds, payment of Mortgage Insurance Benefits will be requested (subject to the provisions of the penultimate sentence of this paragraph) in FHA debentures and not in cash. In making a claim on the FHA mortgage insurance, the Authority will cause a Financial Consultant to prepare a Cash Flow Statement, copies of which will be sent to the Rating Services and the Applicable Trustee, showing the minimum amount of FHA Debentures that will be required to provide a cash flow sufficient (without reinvestment) to make timely payment of the interest on the Applicable Series of Bonds when due and the Principal Amount of the Applicable Series of Bonds, no later than the latest respective maturity dates therefor; provided, however, that if FHA has indicated to the Authority that FHA will pay mortgage insurance benefits in an amount in excess of that amount necessary to pay interest when due and Principal Amount when due on the Applicable Series of Bonds, the Authority will cause to be prepared or verified by a Financial Consultant a Cash Flow Statement, copies of which will be sent to the Applicable Trustee and each Rating Service, showing the minimum amount of FHA debentures that will be required to provide a cash flow sufficient (without reinvestment) to make timely payment of the interest on the Applicable Series of Bonds when due and the Principal Amount of the Applicable Series of Bonds, no later than the latest respective maturity dates therefor, together with the amount necessary: (i) to pay the fees and expenses of the Authority and the Trustee; (ii) to pay any unpaid Servicing Fee; and (iii) to reimburse any Mortgagee Advances and, in such event, the Authority will request such amount of debentures as is shown to be necessary for such purposes in such Cash Flow Statement, although the Authority may accept a lesser amount of debentures if tendered by FHA, so long as the amount tendered is not less than the amount necessary as shown in such Cash Flow Statement to make timely payment of interest on the Applicable Series of Bonds when due and the principal amount of the Applicable Series of Bonds no later than the latest respective maturity dates therefor. Notwithstanding any other provision of the Resolution or any applicable FHA Debenture Agreement, the Authority may accept cash or the proceeds of a redemption of FHA debentures, if the amount to be derived thereby will be sufficient, together with all other available funds, to provide for the immediate Extraordinary Mandatory Redemption of all of the Applicable Series of Bonds. The Authority agrees to return to FHA any excess FHA debentures received in accordance with the provisions of an applicable FHA Debenture Agreement.

(6) In the event an FHA Cash Lock Agreement is in effect with respect to an Applicable Series of Bonds, payment of FHA Mortgage Insurance Benefits will be requested in cash and not in FHA debentures. Unless otherwise provided for in the Applicable Commitment, in making a claim on the FHA mortgage insurance, the Authority will limit any claim for FHA Mortgage Insurance Benefits to the amount of cash necessary to redeem any Outstanding Bonds as soon as practicable upon receipt of the FHA Mortgage Insurance Benefits plus accrued interest and redemption expenses, provided that in no event will the amount of FHA Mortgage Insurance Benefits exceed the amount of cash payable under 24 CFR Section 207.259. The Authority agrees to return to FHA any excess cash not utilized in connection with such Extraordinary Mandatory Redemption.

(7) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, the Applicable Trustee will, upon receipt of notice from the Authority that it has

received a direction from FHA pursuant to 24 C.F.R. Section 207.258(b)(5) or any other applicable regulation, pay to FHA any amounts which are required to be paid to FHA which remain on deposit in the Construction Fund. If by the date the assignment of the Note and Mortgage to FHA is completed, FHA has not directed the Authority to pay over the undisbursed balance in the Construction Fund, the Authority will direct the Applicable Trustee to transfer, within two (2) Business Days, such amounts to the Redemption Account and apply the same to the Extraordinary Mandatory Redemption of Bonds, provided the Authority has first given written notice to FHA that the Authority intends to apply the undisbursed balance in the Construction Fund to such redemption and the Authority has received written confirmation from FHA that it will not require payment of the undisbursed balance of the Construction Fund pursuant to 24 C.F.R. Section 207.258(b)(5) (or any successor regulation thereto).

(8) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, if at any time prior to final payment of all mortgage insurance benefits, the Authority determines that there will not be sufficient moneys available in the Debt Service Fund and the Debt Service Reserve Fund for payment of the Principal Amount of and interest on the Applicable Series of Bonds becoming due on the next Interest Payment Date, the Authority will, not later than 30 days prior to such Interest Payment Date, give written notice to FHA of such deficiency and request immediate payment in cash of all mortgage insurance benefits in an amount necessary to avoid an Event of Default under the Resolution.

(9) Upon payment of a claim for FHA mortgage insurance, the Authority will assign and transfer such mortgage insurance benefits to the Applicable Trustee immediately upon the receipt thereof. In the event such benefits are received in the form of FHA debentures, the Applicable Trustee will deposit such debentures upon receipt to the credit of the Applicable Debt Service Account and will apply all cash flow received with respect to such debentures as provided under the heading “Application of FHA Mortgage Insurance” below. In the event such benefits are received in the form of cash, the Applicable Trustee will deposit such cash in the Applicable Debt Service Account and apply such moneys as provided under the heading “Application of FHA Mortgage Insurance” below. The Applicable Trustee will mail or cause to be mailed notice as provided in subdivision (1) under this heading to the Holders of all Bonds Outstanding of the Applicable Series that the Applicable Trustee has received such FHA debentures or cash or a combination thereof. The Applicable Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to such Bondholders, and such certificate will be conclusive evidence that such notice was given in the manner required pursuant to the Resolution.

(10) As used under this heading, “notice” to the Bondholders will mean notice by mail, postage prepaid, to the Holders of Bonds of a Series at their last addresses appearing on the registration books of the Authority maintained at the principal office of the Applicable Trustee; however, if directed by an Authorized Officer of the Authority, the Applicable Trustee will also publish or cause to be published such notice in an Authorized Newspaper within ten (10) days from receipt of such FHA Mortgage Insurance Benefits.

(Section 8.04)

Application of FHA Mortgage Insurance Benefits

The following provisions apply in connection with any receipt of FHA Mortgage Insurance Benefits in connection with an Applicable Series of Bonds:

(1) Upon receipt of the final payment of Mortgage Insurance Benefits from FHA, the Applicable Trustee shall calculate the “Funds Available for Extraordinary Mandatory Redemption”, being the sum of: (i) all Mortgage Insurance Benefits paid in cash, including accrued interest paid on FHA debentures (“Cash Proceeds”); (ii) all uninvested moneys held in all funds and accounts (other than the Mortgage Account and the Equity Account of the Construction Fund and the Arbitrage Rebate Fund) established under the Applicable Series Resolution including any unused portion of any Letter of Credit held in such funds and accounts (“Cash on Hand”); and (iii) the amount which could be realized from the sale of all investments (not including FHA debentures) deposited to the credit of all funds and accounts

(other than the Mortgage Account, the Equity Account and the Arbitrage Rebate Fund) established under the Applicable Series Resolution (“Investments on Hand”).

(2) In the event that all Mortgage Insurance Proceeds are paid by FHA in cash and the Funds Available for Extraordinary Mandatory Redemption are sufficient in reliance upon a certification made or verified by a Financial Consultant, which is a firm of certified public accountants, to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption on the first practicable date such redemption can be made in accordance with the Resolution, the Applicable Trustee will sell all Investments on Hand and deposit the proceeds of sale, together with all Cash Proceeds and Cash on Hand, in the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of such Bonds.

(3) In the event that Mortgage Insurance Benefits are paid by FHA entirely in FHA debentures or in part in FHA debentures and in part in cash, except as provided in paragraph (4) below, the Applicable Trustee will deposit the cash and hold such FHA debentures in the Debt Service Account to their maturity, or until the Principal Amount of and interest on all Outstanding Bonds of the Applicable Series and all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer have been paid, whichever is the earlier; provided, however, that at the request of the Holders of 100% in aggregate Principal Amount of such Applicable Series of Bonds Outstanding, or upon the determination by the Applicable Trustee (in the absence of such request), which determination may be made in reliance on a certification made or verified by a Financial Consultant that is a firm of certified public accountants, that either: (i) the proceeds of the sale of the FHA debentures and all other investments of amounts deposited in the funds and accounts established under the Resolution (except the Arbitrage Rebate Fund), would produce sufficient funds together with all immediately available funds held by the Applicable Trustee under the Resolution to pay the Principal Amount of all Bonds Outstanding of such Applicable Series, accrued interest on such Bonds to the redemption date, the fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, and any Mortgagee Advances, the Applicable Trustee will at the direction of the Authority and with the consent of HUD, if applicable, sell such debentures and such other investments, and apply the same to the payments described above, including depositing the proceeds so obtained and such other immediately available funds held by the Applicable Trustee under the Resolution in the Applicable Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Applicable Series of Bonds Outstanding pursuant to the Resolution, and return any excess thereof to HUD; or (ii) the Funds Available for Extraordinary Mandatory Redemption (if applied on the first practicable date to Extraordinary Mandatory Redemption of Bonds) and the income and principal on any FHA debentures received as FHA Mortgage Insurance Benefits (if applied to Sinking Fund Redemption pursuant to the Resolution), would be sufficient to pay when due the Principal Amount of and interest on all of the Applicable Series of Bonds Outstanding and all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, and any Mortgagee Advances, then the Applicable Trustee will sell all Investments on Hand and deposit the proceeds of sale, together with all Cash Proceeds and Cash on Hand, in the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of Bonds of the Applicable Series and will deposit the FHA debentures to the credit of the Debt Service Account and apply the interest income thereon and the principal thereof to the Sinking Fund Redemption of Bonds.

(4) In the event that the amount of debentures received from FHA is sufficient to provide for the payment when due of the interest on the Applicable Series of Bonds Outstanding and to pay the Principal Amount thereof at or prior to maturity, but not sufficient to reimburse all Mortgagee Advances and to pay fees and expenses of the Applicable Trustee, the Authority and the Mortgage Servicer, the Authority will cause Cash Flow Statements to be prepared or verified by a Financial Consultant that is a firm of certified public accountants showing the debt service payments to be made on such Bonds on each succeeding Interest Payment Date using the funds available from the FHA debentures received by the Applicable Trustee, and any additional funds available from such FHA debentures on any Interest Payment Date which will not be needed to pay debt service on the Bonds in accordance with such Cash Flow Statement (prepared pursuant to the preceding sentence) will be applied first to the extent available to the reimbursement of Mortgagee Advances and the balance will be deposited in the Surplus Account. Notwithstanding the provisions of the Resolution, the Applicable Trustee will apply moneys in the Debt Service Account, including the interest payments and principal payments from the FHA debentures, to the

payment of the Principal Amount (pursuant to the Resolution) or Redemption Price (pursuant to the Resolution) of and interest (pursuant to the Resolution) on the Bonds Outstanding. The Applicable Trustee will apply moneys in the Surplus Account in accordance with the Resolution.

(5) In the event that all Mortgage Insurance Benefits, Cash on Hand and proceeds which could be realized from the sale of Investments on Hand are not sufficient to pay the principal or Redemption Price of and interest on all Bonds Outstanding of an Applicable Series in the manner described in subsections (1) or (2) above, and the Applicable Trustee and the Authority, have received Cash Flow Statements showing such insufficiency (copies of which will be sent to the Rating Service(s)), then all such Investments and all FHA debentures will be sold and the proceeds of such sale, with the consent of FHA, if required, together with all Cash On Hand (except the Arbitrage Rebate Fund), together with the redemption price of FHA debentures redeemed by FHA, will be applied to the extent available: first, to the Extraordinary Mandatory Redemption of the Bonds, second, to reimburse any Mortgagee Advances and to pay any unpaid Servicing Fee, and third, to pay the fees and expenses of the Authority and the Applicable Trustee; provided, that, if such moneys are insufficient to provide for the Extraordinary Mandatory Redemption of all of the Bonds of such Series, then such amounts will be applied, as will be recommended by the Authority, to a pro rata Extraordinary Mandatory Redemption of all such Bonds without preference or priority of one Bond of such Series over another, except as provided in the provisions of the Resolution in the case of claims for interest extended or transferred apart from the Bonds after maturity.

(6) In the event that all or any portion of Mortgage Insurance Benefits are paid in the form of FHA debentures, and such debentures are redeemed by FHA, the Applicable Trustee will deposit the amount paid as the redemption price for such debentures in the Applicable Redemption Account and apply the same in accordance with subdivisions (1), (2) and (3) under this heading.

(7) In the event there is in effect with respect to an Applicable Series of Bonds, an FHA Debenture Agreement, the Authority agrees to return or cause the Trustee to return to FHA, any excess FHA debentures received, all in accordance with the provisions of the Applicable FHA Debenture Agreement. In addition, to the extent required in any Applicable Commitment, the Authority agrees to return or cause the Trustee to return to FHA any remaining FHA debentures after the Applicable Series of Bonds are fully retired and the reasonable administrative expenses of redemption have been met.

(Section 8.05)

Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note

The following procedures shall apply in connection with a monetary default by the Institution:

(1) In lieu of the provisions of the Resolution described in subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” above, in the event of a monetary default under the Note and the Mortgage prior to the date set forth in the Applicable Bond Series Certificate or during a period when a prepayment premium in excess of one percent (1%) is payable under the Note, within one (1) Business Day following the lapse of the thirty (30) day grace period, the Authority will, or will cause the Mortgage Servicer to: (i) notify FHA (both the Area Office and the Central Office) and the Rating Service(s) of the default and of the fact that the Mortgage was given to secure an issue of tax-exempt bonds rated by the Rating Service(s), such notice to be accompanied by a schedule of funds available to make payments as they become due; (ii) file with the Central Office a request for a three (3) month extension of the time to file its notice of intention and election to file a claim for mortgage insurance in connection with such default; and (iii) file a copy of such extension request with the Authority and the Rating Service(s). In filing such notice, the Authority will, or will cause the Mortgage Servicer to, state that it intends to request priority processing of the mortgage insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor’s. Immediately upon the filing of such notice and request, the Authority will, or will cause the Mortgage Servicer to, request forms and instructions relating to the assignment of the Mortgage, and within five Business Days of the receipt of such forms and instructions, the Authority will, or will cause the Mortgage Servicer to, submit legal documentation for review to the Office of General Counsel of FHA. During the extension period approved by FHA (which, except as provided in subsection

(6) below, will be not longer than three months), the Authority will, or will cause the Mortgage Servicer to, follow the directions in subsection (2) below. If the request by the Authority for the extension is not approved, the Authority will, or will cause the Mortgage Servicer to, file with FHA (both the Central Office and the Area Office) notice of the Authority's intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the receipt of the decision from FHA and thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subsection (1) under the heading "Remedies under Mortgage and FHA Mortgage Insurance" above. A copy of the intention and election filed with FHA will also be filed with the Authority and the Rating Service(s).

(2) If an extension period is granted, during the extension period approved by FHA, the Authority will take the following actions, as appropriate:

A. assist the Institution in arranging a refinancing of the Note to cure the default and avert the filing of the claim for mortgage insurance;

B. report to FHA (both the Central Office and the Area Office) on a monthly basis the progress, if any, in arranging the refinancing;

C. cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the mortgage insurance claim;

D. if thirty (30) days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Applicable Series of Bonds, notify FHA (both the Central Office and the Area Office) of such deficiency and request the immediate payment of FHA mortgage insurance benefits in cash; and

E. if a determination is made by the Authority that the refinancing of the Note is not feasible: (i) file a request with the Central Office of FHA for its concurrence in such determination; (ii) submit to FHA (both the Central Office and the Area Office) a notice of intention and election to file a claim for mortgage insurance; (iii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s); and (iv) proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subsection (1) under the heading "Remedies under Mortgage and FHA Mortgage Insurance" above.

(3) The Authority agrees that it will not request more than one additional extension of the initial extension period approved by FHA and that it will not make such request until it receives (i) written confirmation from the Rating Service(s) that the rating for the Applicable Series of Bonds will not be affected by such request for extension, and (ii) has requested that a Cash Flow Statement be prepared by a Financial Consultant. If the conditions for such further extension are not met, the Authority will proceed with processing the mortgage insurance claim in a timely fashion in the manner described in subsection (1) under the heading "Remedies under Mortgage and FHA Mortgage Insurance" above.

(4) Anything under this heading to the contrary notwithstanding, simultaneous with the Authority's efforts to refinance the Note, the Authority will follow the procedures described in subsection (2) under the heading "Remedies under Mortgage and FHA Mortgage Insurance" above such that if the Note is not refinanced the Authority will be able to file its notice of intention and election to file a mortgage insurance claim within two (2) Business Days after the expiration of the approved extension period and proceed with the processing of the mortgage insurance claim in a timely fashion.

(5) To the extent a refinancing is arranged and approved by FHA, in accordance with the Cash Flow Statement described below, the Note will be prepaid, in whole or in part, and the proceeds will be applied to the Extraordinary Mandatory Redemption of the Bonds as provided the Resolution; provided, however, that the Authority will not consent to such refinancing until it has received written confirmation from the Rating Service(s) that the rating for the Applicable Series of Bonds will not be affected by such refinancing; provided further, that such refinancing will result in a prepayment of the Note, prior to the

expiration of the approved extension period (which, except as provided in subsection (6), in no event will be longer than three (3) months). Cash Flow Statements will be prepared by a Financial Consultant in connection with such refinancing.

(6) To the extent a refinancing is not approved by FHA, the Authority will, or will cause the Mortgage Servicer to: (i) file with FHA (both the Central Office and the Area Office) its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA; (ii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s); and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” above. To the extent a refinancing cannot be completed within the approved extension period, the Authority will or cause the Mortgage Servicer to: (i) file with FHA (both the Central Office and the Area Office) its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA; (ii) file a copy of such intention and election with the Applicable Trustee and the Rating Service(s); and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subsection (1) under the heading “Remedies under Mortgage and FHA Mortgage Insurance” above; provided, however, that at the option of the Authority, if a refinancing has been arranged and approved within the approved extension period in accordance with the Cash Flow Statement described in paragraph (5) above, and such refinancing can be completed within an additional thirty (30) days, at the Authority’s sole discretion, the refinancing will be accepted by the Authority, as mortgagee, if: (i) confirmation is received from the Rating Service(s) that the rating on the Applicable Series of Bonds will not be affected; and (ii) the Note and Mortgage have not been assigned to FHA. During the period when the Authority can exercise the right set forth in the prior sentence to accept a refinancing, it will not in any way delay the filing and processing of the mortgage insurance claim during the additional thirty (30) day period.

(7) To the extent there is a partial prepayment of the Note pursuant to a refinancing approved under this heading, the Authority shall consent to any subordinate or parity liens on the Mortgaged Property which may be required.

(8) Notwithstanding any other provisions of the Resolution, to the extent: (i) FHA does not immediately pay a claim as requested by the Authority pursuant to the Resolution; (ii) FHA does not process the claim provided in the Resolution; (iii) the Authority does not receive confirmation from the Rating Service(s) that the rating on the Applicable Series of Bonds is not affected as provided in the Resolution; or (iv) the processing of the mortgage insurance claim does not proceed in the fashion set forth in this heading, then the Authority shall proceed in a manner to preserve the mortgage insurance of the Note and the Mortgage, and otherwise protect the interest of the Bondholders.

(Section 8.06)

Legal Proceedings by Applicable Trustee

(a) If an Event of Default as defined in paragraph (5) under the heading “Events of Default” above has occurred, or if an Event of Default as defined in paragraph (5) under the heading “Events of Default” above has occurred by reason of a default by the Authority in the performance of its obligations described under the headings: “Maintenance of Corporate Existence and FHA Mortgagee Status,” “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage,” “Remedies under Mortgage and FHA Mortgage Insurance” and “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note” above, the Applicable Trustee will immediately record the assignment of the Applicable FHA Documents referred to under the heading “Pledge of Trust Revenues,” notify FHA of such assignment and will thereupon succeed to all duties and obligations of the Authority under the terms of such FHA Documents, and all duties and obligations of the Authority with respect to such FHA Documents under the Resolution and the Applicable Series Resolution, including without limitation duties and obligations described under headings: “Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage,” “Remedies under Mortgage and FHA Mortgage Insurance,” “Application of FHA Mortgage Insurance Benefits,” and “Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note.” The Applicable Trustee may not

declare the Principal Amount of the Bonds of such Series then Outstanding to be due and payable if an Event of Default as defined in paragraphs (3), (4) or (5) under the heading “Events of Default” above will have occurred.

(b) If any Event of Default has occurred and is continuing (other than an Event of Default as described in paragraph (3), (4) or (5) under the heading “Events of Default” above resulting from a default under the Mortgage), or if any event of default will occur in the Institution’s performance of any of its obligations under the Loan Agreement, the Applicable Trustee, in its discretion may, and upon the written request of the holders of twenty-five percent (25%) in aggregate principal amount of the Bonds of the Applicable Series then Outstanding and receipt of indemnity to its satisfaction, will, in its own name:

1. by suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Authority and the Institution to carry out any of their respective obligations under the Resolution and under the Loan Agreement or under any other agreements with, or for the benefit of, the Bondholders; and enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders for the sole purpose of curing such default; and

2. if an Event of Default described in paragraphs (1) or (2) under the heading “Events of Default” above has occurred and is continuing, bring suit upon the Applicable Series of Bonds.

(c) If any proceeding taken by the Applicable Trustee on account of any default is discontinued or is determined adversely to the Applicable Trustee, the Authority, the Institution, the Applicable Trustee and the Holders of the Applicable Series of Bonds shall be restored to their former positions and rights under the Resolution as though no such proceeding had been taken.

(d) The Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series will have the rights, subject to the prior written approval of FHA when necessary, to direct the method and place of conducting all remedial proceedings by the Applicable Trustee, provided such direction will not be otherwise than in accordance with law or the provisions of the Resolution and the Applicable Trustee will have the right to decline to follow any such direction which in the opinion of the Applicable Trustee would be prejudicial to Bondholders not parties to such direction.

(Section 8.07)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Applicable Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series, or, in the case of an event of default specified in paragraph (3) of under the heading “Events of Default” above, the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series, shall have made written request to the Applicable Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Applicable Trustee a reasonable opportunity either to proceed to exercise the powers granted pursuant to 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 Applicable Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Applicable Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Applicable Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and thereunder. It is understood and intended that no one or more Holders of the Bonds 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 provided in the Resolution, 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 8.08)

Waiver and Non-Waiver of Default

No delay or omission of the Applicable Trustee or any Holder of Bonds of an Applicable Series to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence therein. Every power and remedy given by this Article VIII to the Applicable Trustee and the Holders of Bonds of an Applicable Series, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Applicable Trustee, upon written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series may, or, in the case of a default specified in paragraph (3) under the heading "Events of Default" above, the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series shall waive any default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Resolution or before the completion of the enforcement of any other remedy under the Resolution; but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

(Section 8.11)

Modification and Amendment Without Consent

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

- (1) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;
- (2) 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;
- (3) To provide for additional security for the payment of the Bonds including, but not limited to, provisions to allow a Bond Insurer to confirm its obligations under a Bond Insurance Policy or Surety Bond; or
- (4) 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;
- (5) 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;
- (6) 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, or any Applicable Series Resolution, the Applicable Trust Revenues, or any pledge of any other moneys, Securities or funds;
- (7) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution or Supplemental Resolution in any other respect, provided that such

modifications shall not be effective, with respect to any Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution, and provided further that such Supplemental Resolution shall be effective with regards to all Bonds of an Applicable Series issued under an Applicable Series Resolution, adopted as of or after the date of adoption of such Supplemental Resolution and such Bonds shall contain a specific reference to the modifications contained in such subsequent resolutions;

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

(9) To amend a Series Resolution previously adopted by the Authority to provide for the issuance of an additional series or sub-series of bonds under such Series Resolution for the purpose of financing a Capital Addition, which additional bonds may be secured on a parity with any Outstanding Bonds issued under such Series Resolution; provided, however, that such additional bonds may only be issued upon: (i) compliance with the provisions of the Resolution relating to the issuance of an Applicable Series of Bonds; and (ii) receipt by the Applicable Trustee of written notification from all Rating Service(s) which then maintain a rating on the Outstanding Bonds issued under such Series Resolution that the issuance of such additional series of bonds will not result in a reduction, suspension or withdrawal of the rating in effect for such Outstanding Bonds immediately prior to the issuance of such additional series of bonds; and (iii) to the extent such additional series of bonds are secured by the Mortgage or Note, a Cash Flow Statement shall be prepared.

(Section 10.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

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 a Supplemental Resolution, subject to the consent of the Holders of Bonds of the Applicable Series in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Applicable Trustee of a copy thereof certified by the Authority.

(Section 10.03)

Amendment of Loan Agreement

No amendment to any Loan Agreement will be effective between the parties thereto until approved in writing by the Applicable Trustee, who will give such approval if it reasonably determines (in reliance upon an opinion of counsel, if so required by the Applicable Trustee), that such amendment or supplement is not inconsistent with the Resolution and would not impair the security of the Applicable Series of Bonds. In the event the Applicable Trustee has made no written response to any such request for approval of an amendment or supplement to a Loan Agreement by the close of business on the 30th day after confirmed receipt by a Trust Officer, the Applicable Trustee will be deemed to have given its approval. Notwithstanding the foregoing, the Loan Agreement may, without the consent of the Applicable Holders of Bonds, the Applicable Trustee or the Applicable Bond Insurer, if any, be amended, changed, modified or supplemented to make changes necessary or appropriate in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipment of the Project, to amend the description of the Project or to add an additional Project to the Loan Agreement or to finance a Capital Addition.

(Section 10.06)

Defeasance

(a) If the Authority will pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the

times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Applicable Trust Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Loan Agreement, the Note, the Mortgage and the Trust Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, will release the lien of the Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and securities provided for the payment of such Bonds, will cancel the Applicable Note and endorse the Applicable Mortgage for cancellation and return the same to the Institution together with a release of the Mortgage in proper form for recordation (unless the Note and Mortgage have been assigned to FHA or pledged for the benefit of the holders of any indebtedness authorized pursuant to the Resolution or indebtedness issued or incurred to refund the Applicable Series of Bonds in which latter case the Applicable Trustee will deliver and assign such Note and Mortgage to such person as the Institution will direct), and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and will turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds 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 including any amounts due under the Servicing Agreement; provided that if any of such Bonds are to be redeemed prior to the maturity thereof, the Authority will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with the Resolution or irrevocable instructions to mail such notice will have been given to the Applicable Trustee.

(b) Bonds of an Applicable Series for which moneys have been set aside and will be held in trust by the Applicable Trustee for the payment or redemption thereof (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the first subdivision under this heading. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first subdivision under this heading if: (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Applicable Trustee, in form satisfactory to it, irrevocable instructions to mail as provided in Article IV of the Resolution notice of redemption on said date of such Bonds; (ii) there have been deposited with the Applicable Trustee either moneys in an amount which will be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Applicable Trustee at the same time, will be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be; and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority has given the Applicable Trustee, in form satisfactory to it, irrevocable instructions to give notice to the Holders of such Bonds, by first-class mail, postage prepaid to the registered owners of Bonds of the Applicable Series which are to be redeemed, at their last known addresses, if any, appearing on the registration books of the Authority not more than ten (10) Business Days prior to the date such notice is given, that the deposit required by (i) above has been made with the Applicable Trustee and that such Bonds are deemed to have been paid in accordance with the provisions under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority will give written notice to the Applicable Trustee of its selection of the maturity for which payment will be made in accordance with this heading including the schedule of Sinking Fund Installments to be set forth in the Bond Series Certificate as the same may be amended by the Authority from time to time. The Applicable Trustee will select which Bonds of such Series and which maturity thereof will be paid in accordance with this heading in the manner provided in the Resolution. Neither direct obligations of the United States of America nor moneys deposited with the Applicable Trustee pursuant to this heading nor principal or interest payments on any such direct obligations of the United States of America will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Applicable Series of Bonds; provided that any moneys received from such principal or interest payments on such direct obligations of the United States of America deposited with the Applicable Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to

become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, will, to the extent certified by the Applicable Trustee to be in excess of the amounts required by the Resolution 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 Applicable 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 Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Institution, and any such moneys so paid by the Applicable Trustee will be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

(Section 12.01)

No Recourse under Resolution or on the Bonds

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution will be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse will be had for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on the Bonds of an Applicable Series or for any claims based thereon, hereon or on the Applicable Series Resolutions against any member, officer or employee of the Authority or any person executing such Bonds, all such liability, if any, being expressly waived and released by every Holder of a Bond of an Applicable Series by the acceptance of such Bonds.

(Section 14.04)

FHA Documents Controlling

Notwithstanding any other provision of the Resolution or any Series Resolution, should any conflict arise between any provision of the Resolution or any Series Resolution or any amendments thereto and the FHA Documents, the FHA Documents shall be controlling.

(Section 14.14)

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

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

Set forth below are summaries of certain sections of the Loan Agreement. These summaries do not purport to be complete and reference should be made to the Loan Agreement, copies of which are on file with the Authority and the Trustee, for a complete statement of the rights, duties and obligations of the Authority, the Trustee and the Bondholders under the Loan Agreement. The headings below are not part of the Loan Agreement but have been added for ease of reference only.

Project Financing

The Authority has agreed to use its best efforts to authorize, issue, sell and deliver the Bonds in an aggregate principal amount not exceeding the amount set forth in the Series Resolution. The proceeds of the Bonds, shall be applied as specified in the Resolution, the Series Resolution and the Bond Series Certificate relating thereto.

(Section 4)

Project

The Institution agrees that it has undertaken and will continue to undertake the acquisition, construction and installation of the Project in accordance with, and subject to, the terms, provisions and covenants of the Building Loan Agreement, and the documents executed in connection therewith or required thereby, including, without limiting the foregoing, the plans and specifications as approved by FHA.

(Section 5)

Application of Bond Proceeds

(a) The Authority shall deposit in the Mortgage Account, from the proceeds of the sale of the Bonds, an amount equal to the original principal amount of the Note. The Institution shall deposit into the Equity Account, in cash, a Letter of Credit or any combination thereof, an amount equal to the equity required pursuant to the FHA Documents, less any approved equity advances. Amounts on deposit in the Equity Account, if any, shall be applied as provided in the Resolution for Costs of the Project.

(b) The Authority shall deposit in the Reserve Account, from the proceeds of the sale of the Bonds, an amount equal to the Debt Service Reserve Fund Requirement, less an amount equal to the Collateral Account Requirement, if any. The Institution shall deposit in the Collateral Account cash, a Letter of Credit or any combination thereof in an amount equal to the Collateral Account Requirement, if any.

(c) The Authority shall deposit in the Costs of Issuance Account, from the proceeds of the sale of the Bonds and from any other source, an amount as specified in the Bond Series Certificate.

(d) The Authority agrees that there shall be remitted to the Institution any sums payable to the Institution from the Construction Fund and the Debt Service Reserve Fund in the amounts and as otherwise provided in the Resolution. The Authority further agrees that there shall be credited or applied to the reduction of the Letter of Credit deposited to the credit of the Collateral Account, if any, and to interest payments due from the Institution under the Note, and to prepayments of the Note, such sums as are to be so credited or applied at the times and in the manner provided in the Resolution.

(Section 6)

Payments from Construction Fund

(a) Payments from the Construction Fund shall be made only in accordance with the provisions of the Loan Agreement, the Resolution, the Series Resolution, the Building Loan Agreement and the Servicing Agreement. Until the conditions for disbursement from the Construction Fund have been met, as specified in the Loan

Agreement and in the Resolution, the Construction Fund shall be held for the benefit of the owners of the Bonds, subject to the provisions of the Resolution in the event the Note and Mortgage are in default and assigned to FHA.

(b) To the extent not paid from the Construction Fund, the Institution shall pay (i) to the Authority upon its written request, the Costs of Issuance, and (ii) to the Trustee, upon approval of the Authority, its reasonable fees and expenses.

(Section 7)

Institution to Complete the Project

No funds of the Authority, other than the proceeds of the Bonds available therefor as provided in the Resolution, shall be available to pay Costs of the Project.

(Section 8)

Prepayments under the Note; Redemption of Bonds

(a) The Institution agrees that, with respect to certain prepayments under the Loan Agreement and/or certain prepayments of the Note, the following requirements apply. However, such requirements shall not apply if such prepayment is to be made with (i) Net Insurance Proceeds or Net Condemnation Proceeds; (ii) borrowed funds which are required by the terms thereof to be applied to such prepayment; or (iii) the proceeds of refunding bonds.

(i) At least one-hundred twenty-three (123) days prior to the date on which notice is given for the redemption of Bonds to be made from a prepayment of either the Note or the Loan Agreement, the Institution shall (A) give written notice of the proposed prepayment to the Authority, the Trustee and the Mortgage Servicer, specifying the prepayment date and amount to be prepaid, (B) deposit with the Trustee an amount equal to the premium, if any, required to be paid in connection with any prepayment of the principal of the Note, (C) deposit with the Trustee the Non-Asset Bond Prepayment, if any, sufficient to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds such that, after giving effect to such redemption, the ratio of (i) the aggregate principal amount of Bonds Outstanding less the Debt Service Reserve Fund Requirement to (ii) the outstanding principal amount of the Note is the same, as nearly as practicable, as such ratio immediately prior to such redemption; and (D) deliver an opinion of nationally recognized counsel experienced in bankruptcy matters, addressed to the Authority, the Trustee and acceptable to the Authority, to the effect that any payment to or for the benefit of the bondholders of moneys deposited pursuant to clause (B) or clause (C) above would not constitute a transfer which may be avoided under Section 547 or Section 550 of the United States Bankruptcy Code in the event of an Act of Bankruptcy;

(ii) Prior to a prepayment permitted under the Loan Agreement, the Institution shall deliver to the Trustee a certificate stating that (i) the Institution or any of its Affiliates are not insolvent and will not likely become insolvent during the term of the Note, (ii) no Act of Bankruptcy has occurred or will likely occur during the term of the Note in connection with the Institution or any of its Affiliates, (iii) no threat has been made concerning the commencement of any such Act of Bankruptcy, (iv) the Institution has no reason to believe that an Act of Bankruptcy will occur during the term of the Note in connection with the Institution or any of its Affiliates and (v) the Institution and any of its Affiliates adhere to all corporate or entity formalities and maintain sufficient separateness to support a finding by a court exercising bankruptcy jurisdiction that the Institution's assets and liabilities would likely not be substantially consolidated with those of any Affiliate in connection with any Act of Bankruptcy concerning such Affiliate. The certificate shall be acceptable to the Authority and dated, signed and delivered prior to the date the redemption notice is given;

(iii) The Institution shall deposit with the Trustee, prior to the date of the Trustee's mailing of notice of such redemption, an amount equal to the principal amount of the Note to be prepaid, which deposit shall be invested as provided in the Resolution, but shall not be credited as a prepayment of the Note until the redemption date for the Bonds. The Institution shall deliver to the Trustee a certificate acceptable to the Authority which acknowledges that the Institution, or any of its Affiliates, has no legal or equitable interest (as such term is used in Section 541 of the Bankruptcy Code) in such deposits; and

(iv) On the redemption date, if the foregoing conditions are satisfied, (A) the deposits made pursuant to clause (B) of subparagraph (i) and subparagraph (iii) above shall be credited as a prepayment of principal of and premium on the Note and shall be applied to the reduction of succeeding payments due under the Note (as recast in the manner provided in the Note over the remaining term thereof), (B) subject to the provisions of the Resolution, the Bonds selected and called for redemption from the prepayment shall be redeemed and (C) any interest and income received upon the investment of the deposits made pursuant to subparagraphs (i) and (iii) above shall be credited to such person as the Institution directs, subject to the requirements of the Resolution.

(b) If the available amounts in the funds and accounts established under the Resolution and the Series Resolution are insufficient for the payment of the Redemption Price of the Bonds called for redemption, including accrued interest on the Bonds to the redemption date and expenses of giving notice and other expenses of such redemption, the Institution shall pay to the Trustee the amount of such deficiency in immediately available funds.

(Section 10)

Payments by the Institution

(a) The Institution covenants to make all payments under the Note on a timely basis; *provided, however,* that the Institution shall receive a credit against the amount required at any time to be paid under the Note for any cash in the Debt Service Account that is available for payment of the principal and Sinking Fund Installments of and interest on the Bonds which would otherwise be paid from amounts then payable under the Note.

(b) If at any time and for any reason amounts received by the Authority (as mortgagee under the Mortgage), or by the Mortgage Servicer on account of the principal and interest payments due under the Note, less the Servicing Fee payable pursuant to the Servicing Agreement, together with all other moneys held by the Trustee and then available under the terms of the Resolution, are not sufficient to pay when due (i) the Trustee's Annual Fee and other fees and expenses and (ii) the Authority's Annual Administrative Fee and other fees and expenses, the Institution will pay to the Trustee the amounts required to make up any such deficiencies as to amounts under clause (i) above and to the Authority, the amount of deficiency under clause (ii) above.

(c) The Institution shall pay an Annual Administrative Fee to the Authority. The Institution shall pay promptly to the Trustee the Trustee's Annual Fee to the extent that moneys in the Surplus Account are insufficient therefor.

(d) Within thirty (30) days after notice from the Paying Agent, the Institution shall pay to the Paying Agent or the Co-Paying Agent its reasonable fees and expenses.

(e) The Institution shall pay, on or before the date of delivery of the Bonds, the Authority Fee.

(f) The Institution shall pay, or provide for payment, on or before the date of delivery of the Bonds, the Costs of Issuance of the Bonds and other costs in connection with the issuance of the Bonds.

(g) The Institution shall pay promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority to the extent unpaid pursuant to (b) above, (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) to reimburse the Authority for any costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of the Project, including, but not limited to, costs and expenses of insurance, auditing and arbitrage analysis, (iv) for the costs and expenses incurred to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement, of the Servicing Agreement, of the FHA Documents, of the Series Resolution and of the Resolution in accordance with the terms thereof, and (v) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution and the Series Resolution to the extent unpaid pursuant to (b) above.

(h) In the event the Institution receives notice pursuant to the Resolution that as a result of the FHA cost certification process for Final Endorsement the principal amount of the Note is to be reduced in an amount in

excess of the amount available in the Construction Fund, the Institution shall promptly pay the Authority the amount necessary to reduce the Note to the amount to be so endorsed.

(i) The Institution shall pay promptly upon demand by the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds or otherwise available therefor under the Resolution and the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds.

(Section 11)

Payments by the Institution; Assignment

As a source of the payments to be made by the Institution under the Loan Agreement, except any payments required under this section, the Institution shall deliver or cause to be delivered to the Authority the FHA Documents. The Institution also consents to the assignment by the Authority to the Trustee, as provided in the Resolution, of any or all of the Authority's right, title and interest in and to the Loan Agreement, except for the rights of the Authority under the Loan Agreement to amend the Loan Agreement and to give consents, receive notices and receive indemnity against claims and payment of its fees and expenses. The Institution covenants to fully perform, in timely fashion, all of its agreements and obligations under the Loan Agreement and the FHA Documents.

(Section 12)

Funding of the Equity Account, the Collateral Account and the Investment Income Account

In the event that the Authority is required to make a deposit to the Equity Account, the Collateral Account or the Investment Income Account established under the Resolution and the Series Resolution, the Institution agrees to satisfy such required deposits with cash or Letters of Credit (as defined in the Resolution and the Series Resolution), to the extent that the Institution provides such Letters of Credit it shall also provide an opinion of counsel acceptable and addressed to the Authority and the Trustee to the effect that such Letters of Credit are valid and enforceable obligations of the issuer thereof and covering such other matters as are required for such purpose. In the event the Institution determines to satisfy such obligations with cash, such cash must constitute Available Moneys as defined in the Resolution. Any such obligation may be met by any combination of Letters of Credit or cash which satisfy the requirements under this heading.

(Section 13)

Compliance with Governmental Requirements

The Institution shall comply, and where applicable shall cause any operator of the Project to comply, with all Governmental Requirements with respect to the Mortgaged Property and the Project, or any part thereof, and the construction, operation, maintenance, repair and replacement thereof and any requirement of an insurance company writing insurance thereon irrespective of the nature of the work required to be done, extraordinary as well as ordinary and foreseen as well as unforeseen. Anything contained under this heading to the contrary notwithstanding, the Institution shall have the right to contest the validity of any Governmental Requirement or the application thereof at the Institution's sole cost and expense. During such contest, compliance with any such contested Governmental Requirement may be deferred by the Institution, provided that prior to commencing any action or proceeding, administrative or judicial, contesting such Governmental Requirement the Institution shall notify the Authority of the Institution's intention to contest such Governmental Requirement and, if the Authority requests, shall furnish to the Authority a surety bond, moneys or other security, reasonably satisfactory to the Authority, securing compliance with the contested Governmental Requirement and payment of all interest, penalties, fines, fees and expenses resulting from or in connection with such contest or the failure of the Institution to comply with the contested Governmental Requirement. Any such action or proceeding instituted by the Institution shall be commenced as soon as is reasonably possible after the assertion of the applicability to the Project or the Mortgaged Property, or any part thereof, of the contested Governmental Requirement by a governmental authority, and shall be prosecuted to final adjudication or other final disposition with reasonable dispatch. Notwithstanding the furnishing of any bond, deposit or other security, the Institution promptly shall comply with any such Governmental

Requirement and compliance shall not be deferred if at the time such Mortgaged Property or the Project, or any part thereof, to which such contested Governmental Requirement relates, would in the reasonable judgment of the Authority be in substantial danger by reason of the Institution's noncompliance with such Governmental Requirement of being sold, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would materially impair (i) the interests or security of the Authority under the Loan Agreement, under the Resolution or under the Mortgage; (ii) the ability of the Authority to enforce its rights under the Loan Agreement and thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Mortgage.

(Section 14)

Information Concerning the Institution

The Institution, whenever requested by the Authority, shall provide and certify or cause to be provided and certified: (i) such information concerning the Institution, its finances and other related topics as the Authority reasonably determines to be necessary or desirable, including, but not limited to, such information as in the sole judgment of the Authority is necessary to enable the Authority to complete, execute and deliver an Official Statement relating to and in connection with the sale of the Bonds at the time when the Bonds are to be offered for sale; (ii) that the Institution has reviewed the parts of the Official Statement describing the Institution, the Project, the Mortgaged Property, the sources and uses of the proceeds of the Bonds, and such other information as was supplied by the Institution and is contained in the Official Statement; (iii) that as of the dates of sale and delivery of the Bonds such parts of the Official Statement do not contain any untrue statement of a material fact and do not omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements were made, not misleading; (iv) such additional information as the Authority considers necessary to enable it to comply with any proposed or promulgated regulations of the Securities and Exchange Commission or the Municipal Securities Rulemaking Board; and (v) such additional information as the Authority from time to time reasonably considers necessary or desirable to enable it to make any reports or obtain any approvals required by law, governmental regulation or the Resolution in order to issue the Bonds or to effect any of the transactions contemplated by the Loan Agreement, by the Resolution or by the Series Resolution.

(Section 15)

Tax-Exempt Status

The Institution shall represent 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 the foregoing effect, and such letter or other notification has not been modified, limited or revoked, (iii) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (iv) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (v) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution shall agree that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project to be used in any manner, or for any trade or business or other non-exempt use unrelated to the purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds if the interest on such Bonds is intended to be excluded from federal gross income.

(Section 16)

Securities Acts Status

The Institution shall represent that it is an organization organized and operated: (i) exclusively for educational, benevolent or charitable purposes, (ii) not for pecuniary profit, and (iii) no part of the net earnings of which inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of

the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act or enter into any agreement which shall adversely affect such status as set forth in this heading.

(Section 17)

Maintenance of Corporate Existence

The Institution shall covenant that it will maintain its corporate existence, will continue to operate as a non-profit institution for charitable purposes as set forth in its charter, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institution as an institution for charitable purposes as set forth in its charter providing such services as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; *provided, however*, that if no Event of Default shall have occurred and be continuing and prior written notice shall have been given to the Authority and the Trustee, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with, acquire or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; *provided further, however*, (a) that any such sale, transfer, consolidation, merger or acquisition shall not in the opinion of counsel satisfactory to the Authority adversely affect the exclusion from federal gross income of the interest paid or payable on the Bonds, the interest on which is intended to be excluded from gross income, (b) that the surviving, resulting or transferee corporation or organization, as the case may be, is formed under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation or organization, as the case may be, shall, if not the Institution, assume in writing all of the obligations of and restrictions on the Institution hereunder acceptable to the Authority and under the Note and Mortgage and (d) shall furnish to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation, merger or acquisition of such organization shall be in compliance with each of the provisions of the Loan Agreement and the Bonds shall continue to be legally valid and enforceable in accordance with these terms and shall meet the requirements of the Act and (e) such other certificates and opinions as may reasonably be required by the Authority.

(Section 18)

Licensure

The Institution shall operate, or cause the operation of, the Project in accordance with all licensure and other requirements of the Department of Health of the State and/or the Department of Social Services of the State to the extent that such licensure and other requirements apply to the Project.

(Section 19)

Use of Project

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Institution shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Mortgaged Property, (ii) the operation of the Project and all Mortgaged Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Mortgaged Property.

(Section 21)

Restrictions on Religious Use

The Institution shall agree that with respect to the Project or any portion thereof financed by the Bonds, 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 such 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 *further provided, however*, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof financed by the Bonds to be used without regard to the above stated restriction, said restriction shall not apply to such Project or such portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project, or any portion thereof financed by the Bonds, is being used for any purpose proscribed by the Loan Agreement. The Institution shall further agree that prior to any disposition of any portion of the Project financed by the Bonds for less than its fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such 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 its fair market value 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 such Project financed by the Bonds, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of the Project, or a portion thereof financed by the Bonds, upon foreclosure or otherwise, shall be considered a sale for its fair market value.

(Section 22)

Maintenance, Repair and Replacement

Except as otherwise provided in the Mortgage and the Note, the Institution shall agree that throughout the term of the Loan Agreement: (i) it shall, at its own expense, hold, operate and maintain the Project and the Mortgaged Property in a careful, prudent and economical manner, and keep the same, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and shall from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of the Project and the Mortgaged Property may be properly and advantageously conducted; (ii) it shall not make any change or alteration of a structural nature in or to the Project without the prior written consent of FHA and the Authority; (iii) it shall have the right to remove or replace any equipment, furniture or fixtures in the Project it deems desirable or necessary, provided that if any such equipment, furniture or fixtures are replaced, they are replaced with other equipment, furniture or fixtures having equal or greater value and utility; and (iv) it shall pay at its own expense all extraordinary costs of maintaining, repairing and replacing the Project and the Mortgaged Property, except insofar as funds are made available therefor from insurance proceeds or condemnation or eminent domain awards.

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

In connection with the operation, maintenance, repair and replacement of the Project and the Mortgaged Property, the Institution shall comply with all applicable Governmental Requirements, any requirement relating to the Project of an insurance company writing insurance on such Project and any such requirement relating to such Project as is contained in the FHA Documents.

(Section 23)

Insurance

The Institution shall procure and maintain all insurance required by the FHA Documents in accordance with the terms and conditions thereof. In addition, the Institution shall insure against risks normally associated with the operations of similar facilities in the State, including specifically professional liability insurance in an annual aggregate amount of not less than \$2,000,000 and not less than \$1,000,000 per accident or occurrence; general

liability insurance in an annual aggregate amount of not less than \$2,000,000 and not less than \$1,000,000 per accident or occurrence; statutory workers compensation and employers liability insurance; fire and extended insurance. In addition to any other form of property insurance, the Institution shall also procure and maintain business income interruption insurance in an amount equal to one year's debt service and extra expense insurance in an amount sufficient to defray extra expenses incurred as a result of a covered loss for a period of not less than one hundred twenty (120) days. Boiler and machinery insurance shall also be required if there are any steam heat or pressure vessels used to provide heat to the Project and the vessels are located in or near buildings of the Project. Upon recommendation of an insurance consultant as hereinafter described, the insurance referred to herein may have deductibles and retentions which are deemed to be within the ability of the Institution to self-insure. Subject to the requirements of FHA, no provision under this heading shall be construed to prohibit the Institution from self-insuring against any risk which might otherwise be covered by insurance at the recommendation of an insurance consultant; *provided, however*, that the Institution shall provide adequate funding of such self-insurance as directed by such insurance consultant and not objected to by FHA, and no self-insurance, other than reasonable deductibles, shall be permitted unless approved by the Authority.

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

The policies procured by the Institution shall be filed with the Authority and open to inspection by the Trustee and the Mortgage Servicer at all reasonable times. Certificates of insurance describing the policies shall be forwarded by the Institution at or prior to delivery of the Bonds, and a list describing such policies and certificates as of each June 30 shall be furnished by the Institution to such parties annually, together with a certificate of an Authorized Officer of the Institution certifying that such insurance meets all the requirements of the Loan Agreement. Neither the Trustee nor the Authority shall have any other responsibilities with respect to any such insurance except as the Institution may be required, at the request of the Authority, to provide copies of such policies and certificates to the Mortgage Servicer for its records.

The Institution shall agree to give the Mortgage Servicer, the Authority, FHA and the Trustee written notice of any change in any insurance or insurance policy required by the Loan Agreement or the FHA Documents at least thirty (30) days prior to such change unless a lesser period of notice is expressly approved in writing by the Authority.

On the date of the delivery of the Bonds, the Institution shall designate, with the concurrence of the Authority, an insurance consultant, who may be an insurance broker or an insurance agent with whom the Institution, the Mortgage Servicer or the Authority transacts business. The Institution may replace such insurance consultant and appoint a new insurance consultant by giving the Authority at least ten (10) days' written notice, stating the name, address and qualifications of the proposed insurance consultant; and, unless within such ten-day period, the Authority shall give the Institution written notice of objection to such appointment, which notice shall state the reasonable grounds upon which it bases such objection, the insurance consultant named in such written notice shall be considered to be acceptable. The insurance consultant shall render, upon the request of the Authority, a report relating to the Institution's compliance with the requirements of this heading. Such report shall not be required more than once in any one calendar year and shall, upon any such request, be furnished to the Institution, the Trustee and the Mortgage Servicer.

All policies of hazard insurance required by the first paragraph under this heading shall be written in the names of FHA, the Authority (as mortgagee under the Mortgage) and the Institution as their respective interests may appear, and shall be made payable as provided therein. The policies for such insurance shall not be cancelable without the giving of at least thirty (30) days' written notice to the Authority, the Trustee and FHA and shall provide that all losses thereunder which are payable to the Authority shall be paid to the Authority notwithstanding any act or neglect of the Institution or other interested party which might otherwise result in a forfeiture of such insurance.

(Section 25)

Application of Proceeds of Hazard Insurance

(a) The Mortgage provides that amounts paid under a contract of hazard insurance shall be paid to the Authority, as mortgagee under the Mortgage. Any such amounts shall be released for the repairing or replacing of the Mortgaged Property or may be applied to the prepayment of the Note if approved in writing by FHA prior to the payment of such proceeds. The Authority shall recover and deliver to the Trustee all proceeds of hazard insurance payable to the mortgagee, for deposit in the Insurance and Condemnation Account of the Construction Fund pending application thereof pursuant to paragraph (c) below.

(b) In the event of any damage to the Project or the Mortgaged Property, the Institution shall immediately notify the Authority, the Trustee, the Mortgage Servicer and FHA, prepare an estimate of the costs of repairing or replacing the damaged property, and (if appropriate) prepare plans and specifications therefor. If the insurance proceeds received exceeds one percent of net Plant, Property and Equipment as shown on the Institution's audited financial statements for its most recent fiscal year (the "Threshold Amount"), such estimate and a copy of any such plans and specifications shall be filed with the Authority and FHA.

(c) If, within ninety (90) days from the occurrence of such damage or destruction, the Institution and the Authority agree in writing that the efficient utilization of the Mortgaged Property has not been so impaired that the ability of the Institution, taking into account all of its financial resources, to make the payments required under the Loan Agreement and the FHA Documents will be materially adversely affected prior to the completion of the replacement or restoration of such property so damaged or destroyed, the proceeds of insurance received by reason of such occurrence (after deducting any reasonable expenses incurred by the Authority or the Institution in collecting the same) and any investment earnings on such proceeds (the "Net Insurance Proceeds") shall, subject to any applicable FHA requirements, be applied to the repair or replacement of the property damaged or destroyed. If no such agreement shall be reached within such 90-day period (or such longer period as the Authority may agree in writing), all Net Insurance Proceeds shall, subject to the prior written approval of FHA and any other applicable FHA requirements, be credited to the prepayment of the principal of the Note in accordance and transferred to the Redemption Account for application to the Extraordinary Mandatory Redemption of the Bonds pursuant to the Resolution.

Such Net Insurance Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption. The amount of such prepayment shall be applied to the reduction of succeeding payments becoming due under the Note (as recast in the manner provided in the Note over the remaining term thereof).

(d) Notwithstanding the provisions of paragraph (c) above, if at the time of such damage or destruction there are any Non-Asset Bonds Outstanding and the Net Insurance Proceeds are to be applied to the prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee at least one-hundred twenty-three (123) days prior to the date on which notice is given for the redemption of Bonds to be made from such prepayment of the Note an amount equal to the Non-Asset Bond Prepayment. In no event shall the Non-Asset Bond Prepayment be credited as a prepayment of principal of the Note. Such Non-Asset Bond Prepayment and Net Insurance Proceeds shall be applied to the Extraordinary Mandatory Redemption of the Bonds in accordance with the Resolution.

(e) If the Net Insurance Proceeds to be applied to the repair or replacement of the property damaged or destroyed exceed the Threshold Amount, such proceeds shall be disbursed by the Trustee from the Insurance and Condemnation Account of the Construction Fund in accordance with the requisition procedures described in the Resolution. If the Net Insurance Proceeds are equal to or less than the Threshold Amount such proceeds shall, at the request of the Institution and with the approval of the Authority, be paid by the Trustee in accordance with the Resolution to or upon the order of the Institution, which shall keep them separate from all other funds for application first to pay the costs of repair or replacement of the property damaged or destroyed, second, to pay in full any unpaid fees or expenses of the Authority or the Trustee and third, subject to any applicable FHA requirements, to any lawful purpose of the Institution. The Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, the repair or replacement of the property damaged or destroyed in accordance with any plans and specifications approved by FHA (if required by the FHA Documents) and shall pay any amounts required for the completion of such repair or replacement if the Net Insurance Proceeds are insufficient therefor.

(Section 26)

Application of Proceeds of Condemnation Compensation

(a) The Mortgage provides that all proceeds of condemnation shall be paid to the Authority (as mortgagee under the Mortgage) to be applied at the option of the Authority and with the prior approval of FHA, either to prepayment of the Note or the restoration or repair of the damage to the residue of the Mortgaged Property. The Authority (as mortgagee under the Mortgage) shall recover and deliver to the Trustee all condemnation proceeds. Pending the application of such condemnation proceeds pursuant to paragraph (c) below, the proceeds shall be held by the Trustee in the Insurance and Condemnation Account of the Construction Fund.

(b) Upon the occurrence of any condemnation proceedings with respect to the Mortgaged Property, or any portion thereof, the Institution shall immediately notify the Authority, the Mortgage Servicer and the Trustee.

(c) Any condemnation proceeds (after deducting any reasonable expenses incurred by the Institution, the Mortgage Servicer, or the Authority in collecting the same) and any investment earnings on such proceeds (the "Net Condemnation Proceeds") received from a taking of all or substantially all of the Mortgaged Property shall, subject to any applicable FHA requirements, be applied to prepayment of the principal of the Note.

(d) Any Net Condemnation Proceeds received from a taking of less than substantially all of the Mortgaged Property shall be applied as follows:

(i) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the efficient utilization of the Mortgaged Property has not been impaired by such taking, then, subject to any applicable FHA requirements, all of the Net Condemnation Proceeds shall, whether or not such proceeds are equal to or less than the Threshold Amount, be paid to the Institution;

(ii) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the repair, rebuilding, restoration, or rearrangement of the Mortgaged Property is not possible so as to restore the operational condition of the Mortgaged Property to substantially the condition existing immediately preceding such condemnation or if FHA will not permit the Net Condemnation Proceeds to be so applied, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be applied to the prepayment of principal of the Note and transferred by the Trustee to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Bonds pursuant to the Resolution;

(iii) if the Authority (as mortgagee under the Mortgage) in its discretion determines that such repair, rebuilding, restoration or rearrangement is possible and that the efficient utilization of the Mortgaged Property has not been impaired, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be disbursed to the Institution as described in subparagraph (v) below for the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, so as to restore the operational condition thereof, insofar as may be possible, to that existing immediately preceding such condemnation (provided that, if the Net Condemnation Proceeds exceed the Threshold Amount, the estimate of the cost of repair, rebuilding, restoration or rearrangement of the Mortgaged Property and a copy of any plans and specifications prepared in connection therewith shall be filed with the Authority and FHA);

(iv) notwithstanding the provisions of subparagraph (ii) above, if at the time such Net Condemnation Proceeds are received there are any Non-Asset Bonds Outstanding and the Net Condemnation Proceeds are to be applied to prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee at least one-hundred twenty-three (123) days prior to the date on which notice is given for the redemption of Bonds to be made from such prepayment of the Note an amount equal to the Non-Asset Bond Prepayment. In no event shall the Non-Asset Bond Prepayment be credited as a prepayment of principal of the Note. Such Non-Asset Bond Prepayment and Net Condemnation Proceeds shall be applied to the Extraordinary Mandatory Redemption of Bonds in accordance with the Resolution; and

(v) if the Net Condemnation Proceeds are to be applied to the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and if such Net Condemnation Proceeds exceed the Threshold Amount, such Net Condemnation Proceeds shall be disbursed by the Trustee in accordance with the requisition procedures described in the Resolution upon the approval of FHA, if required. If such Net Condemnation Proceeds

are less than or equal to the Threshold Amount, such Net Condemnation Proceeds shall be paid by the Trustee in accordance with the Resolution to or upon the order of the Institution and with the approval of the Authority; the Institution shall keep them separate from all other funds and apply them first to pay the costs of repair, rebuilding, restoration or rearrangement of the Mortgaged Property, second to full payment of any unpaid fees or expenses of the Authority or the Trustee and third, subject to any applicable FHA requirements, to any lawful purpose of the Institution. In either of such events, the Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, such repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and shall pay any amounts required for the completion thereof if the Net Condemnation Proceeds are not sufficient therefor.

(e) Net Condemnation Proceeds to be applied to prepayment of principal of the Note pursuant to subsection (d) above shall be applied to the reduction of succeeding payments due under the Note (as recast in the manner provided in the Note over the remaining term thereof); provided that such Net Condemnation Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption.

(Section 27)

Taxes and Assessments

The Institution shall pay when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Project or the Mortgaged Property or any part thereof, and upon all ordinary costs of operating, maintaining, renovating, repairing and replacing the Project and the Mortgaged Property and its equipment. The Institution shall file exemption certificates as required by law. The Institution agrees to exhibit to the Authority within ten (10) days after written demand by the Authority, certificates or receipts issued by the appropriate authority showing full payment of all taxes, if applicable, assessments, water and sewer charges and other impositions; *provided, however*, that the good faith contest of such impositions shall be deemed to be complete compliance with the requirements of the Loan Agreement if the Institution deposits with the Authority the full amount of such contested impositions. Notwithstanding the foregoing, the Authority in its sole discretion, after notice in writing to the Institution, may pay (such payment shall be made under protest if so requested by the Institution) any such charges, taxes and assessments if, in the reasonable judgment of the Authority, the Project or the Mortgaged Property, or any part thereof, would be in substantial danger by reason of the Institution's failure to pay such charges, taxes and assessments of being sold, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would materially impair (i) the interests or security of the Authority under the Loan Agreement, under the Resolution or under the Mortgage; (ii) the ability of the Authority to enforce its rights under the Loan Agreement; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Mortgage, and the Institution agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Debt Service Fund on the date such payment was made by the Authority.

(Section 29)

Events of Default; Remedies

Failure by the Institution to observe and perform any covenant, agreement or obligation contained in the Loan Agreement for a period of thirty (30) days after written notice, specifying such failure and requesting the same to be remedied, has been given to the Institution by the Authority or the Trustee, shall constitute an Event of Default under the Loan Agreement; provided that if the Authority agrees that such failure is of such nature that it can be corrected within a reasonable time (as determined by the Authority), but not within thirty (30) days, and if the Institution promptly institutes corrective action and is diligently pursuing the same, such failure by the Institution to observe and perform such covenant, agreement or obligation shall not constitute an Event of Default unless it is not cured within such reasonable time (as determined by the Authority).

Upon the occurrence of an Event of Default under the Loan Agreement, in addition to any other rights which the Authority may have under law, the Authority may withhold further performance under the Loan

Agreement (including, without limitation, withholding further disbursements from the Insurance and Condemnation Account or the Mortgage Account) and may also take whatever action at law or in equity may appear necessary or desirable to enforce the performance and observation by the Institution of any of its obligations, agreements or covenants under the Loan Agreement and to collect any payments due or to obtain other remedies; *provided, however*, that prior to commencing any action, suit or proceeding hereunder against the Institution, the Authority shall have received the prior written consent of FHA, if required by the FHA Documents.

(Sections 35 and 36)

Arbitrage; Rebate Calculations

The Institution covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or the use of the proceeds of the Bonds, the interest on which is intended to be excluded from gross income for federal income tax purposes, which would cause such Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase such Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority. The Institution will, on a timely basis, provide the Authority with all necessary information and funds not in the Authority’s possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution. The Institution shall be required to pay for any consultant or report necessary to satisfy any such arbitrage rebate requirement.

The Authority shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof to the Department of the Treasury of the United States of America, which copies shall be subject at all reasonable times to the inspection of the Institution and its agents and representatives, any of whom may make copies thereof. Upon written request from the Institution, the Authority shall as soon as practicable provide the Institution with a copy of such documents, reports and computations.

(Sections 48 and 49)

Amendments to Loan Agreement and the FHA Documents

The Loan Agreement and the FHA Documents may be amended only in accordance with the Resolution and each such amendment shall be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which shall be filed with the Trustee.

(Section 55)

Termination

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

(Section 57)

FHA Documents Controlling

To the extent that any provision of the Loan Agreement shall be in conflict with any provision of the FHA Documents, or be in conflict with the National Housing Act or FHA regulations thereunder, the provisions of the

FHA Documents or the provisions of the National Housing Act and FHA regulations or written program requirements thereunder, as the case may be, shall be controlling.

(Section 58)

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PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

[Date of Closing]

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

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$82,955,000 aggregate principal amount of Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bonds, Series 2009 (the "Series 2009 Bonds") by the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"), created and existing under and pursuant to the Constitution and statutes of the State, including the Dormitory Authority Act, being Titles 4 and 4-B of Article 8 of the Public Authorities Law of the State of New York, as amended to the date hereof, including, without limitation, by the Health Care Financing Consolidation Act, being Title 4-B of the Public Authorities Law of the State of New York (as so amended, the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Series 2009 Bonds are issued under and pursuant to the Act, the Authority's Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted July 27, 2005, as amended by the First Supplemental Resolution adopted by the Authority on September 23, 2009 (collectively, the "Resolution") and the Authority's Series Resolution Authorizing Hospital for Special Surgery FHA-Insured Mortgage Hospital Revenue Bonds, Series 2009 (the "Series Resolution"), adopted September 23, 2009. The Resolution and the Series Resolution are herein collectively referred to as the "Resolutions." Unless otherwise defined herein, capitalized terms used herein have the respective meanings assigned to them in the Resolutions.

The Series 2009 Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolutions and the Bond Series Certificate (as defined in the Series Resolution).

The Authority and New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery (the "Hospital") have entered into a Loan Agreement, dated as of September 23, 2009 (the "Loan Agreement"), pursuant to which (a) the Authority has agreed to make a loan to the Hospital and (b) the Hospital is required to make payments sufficient to pay the principal and Sinking Fund Installments of and interest on the Series 2009 Bonds, as well as a part of the Authority's annual administrative expenditures and costs. All amounts payable under the Loan Agreement which are required to be paid to the Trustee under the Resolutions for payment of the principal or Redemption Price of or interest on the Series 2009 Bonds or to maintain the Debt Service Reserve Fund established for the Series

2009 Bonds at its requirement has been pledged by the Authority for the benefit of the Holders of the Series 2009 Bonds.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2009 Bonds in order that interest on the Series 2009 Bonds will be and remain not includable in gross income under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, required ownership of the financed facilities by a Section 501(c)(3) organization or a governmental unit, limits on the amount of tax-exempt financing of capital expenditures incurred on or before August 5, 1997 from which certain users of the facilities resulting from such expenditures (and related parties) may benefit, and the rebate to the United States of certain earnings with respect to investments. Failure to comply with the continuing requirements may cause interest on the Series 2009 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the General Resolution, the Series 2009 Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Institution have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. Bond Counsel will not independently verify the accuracy of those representations and certifications, nor will it verify ongoing compliance with such covenants.

Certain requirements and procedures contained or referred to in the Resolutions, the Loan Agreement and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents. Winston & Strawn LLP expresses no opinion as to any Series 2009 Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Based upon the foregoing and subject to the qualifications set forth herein, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2009 Bonds thereunder.

2. The Series Resolution has been duly adopted in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

3. The Series 2009 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolution and the Series Resolution. The Series 2009 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolution and the Series Resolution, are enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Series Resolution and are entitled to the benefits of the Resolution, the Series Resolution and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and assuming due authorization, execution and delivery thereof by the Hospital, constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

5. Based on the above stated assumptions, under existing statutes, regulations, rulings and court decisions, interest on the Series 2009 Bonds is not includable in gross income for federal income tax purposes. Interest on the Series 2009 Bonds is not an “item of tax preference” for purposes of computing the federal alternative minimum tax on individuals and corporations. Pursuant to the American Recovery and Reinvestment Act of 2009, interest on the Series 2009 Bonds owned by corporations will not be included in the calculation of adjusted current earnings used to calculate the federal alternative minimum

tax imposed on corporations (but not individuals). We express no opinion regarding other federal tax consequences related to the ownership of disposition of, or the accrual or receipt of interest on the Series 2009 Bonds.

6. Certain maturities of the Series 2009 Bonds are initially offered to the public at prices less than the principal amount thereof payable to maturity. If the first price at which a substantial amount of the Series 2009 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and principal amount constitutes original issue discount in respect of each Series 2009 Bond of the same maturity (the "Discount Bonds"). We are of the opinion that original issue discount, as it accrues, is not includable in gross income for federal income tax purposes, and is not subject to the alternative minimum tax, to the same extent as interest on the Series 2009 Bonds. The owner of such a Discount Bond who purchases it in the initial offering at the initial offering price is deemed to accrue in each taxable year original issue discount over the term of such bond under the "constant yield method" described in regulations interpreting Section 1272 of the Code with certain adjustments.

7. The interest on the Series 2009 Bonds is exempt under existing statutes from personal income taxes imposed by the State of New York and its political subdivisions thereof (including the City of New York).

We have examined a specimen of the executed Series 2009 Bond and, in our opinion, the form of said bonds are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Series 2009 Bonds and the Loan Agreement may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. Except as stated in paragraphs 5 and 6 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Series 2009 Bonds.

In connection with the delivery of this opinion letter, we are not passing upon the authorization, execution and delivery of the Loan Agreement by the Hospital.

Our opinions set forth herein are based upon the facts in existence and the laws in effect on the date hereof and we disclaim any obligation to update our opinions herein, regardless of whether changes in such facts or laws come to our attention after the delivery hereof.

Very truly yours,

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