

Ratings: S&P: A-  
Moody's: A3  
(See "Ratings" herein)



**\$369,915,000**  
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**  
**MOUNT SINAI SCHOOL OF MEDICINE OF NEW YORK UNIVERSITY**  
**REVENUE BONDS, SERIES 2009**

**Dated: Date of Delivery**

**Due: July 1, as shown on the inside cover**

**Payment and Security:** The Mount Sinai School of Medicine of New York University Revenue Bonds, Series 2009 (the "Series 2009 Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable solely from and secured by a pledge of certain payments to be made under the Building Loan Agreement, dated as of September 23, 2009, which is supplemental to the Loan Agreement, dated as of June 27, 2007 (collectively, the "Loan Agreement"), each between the Mount Sinai School of Medicine of New York University (the "Institution" or the "School") and the Authority and all funds and accounts (except the Arbitrage Rebate Fund) authorized under the Mount Sinai School of Medicine of New York University Revenue Bond Resolution, adopted June 27, 2007 (the "Resolution") and established under the Series 2009 Resolution Authorizing Up To \$370,000,000 Mount Sinai School of Medicine of New York University Revenue Bonds, Series 2009, adopted September 23, 2009 (the "Series 2009 Resolution").

The Loan Agreement is a general obligation of the Institution and requires the Institution to pay, in addition to the fees and expenses of the Authority and the Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Series 2009 Bonds, as such payments become due. The obligations of the Institution under the Loan Agreement to make such payments will be secured by a pledge of certain revenues of the Institution. At the time of delivery of the Series 2009 Bonds, a portion of the bond proceeds will be used to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement. **Neither the Loan Agreement nor the Series 2009 Bonds are obligations of New York University, The Mount Sinai Hospital or The Mount Sinai Medical Center, Inc.**

**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.**

**Description:** The Series 2009 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due July 1, 2010 and each January 1 and July 1 thereafter) will be payable by check or draft mailed to the registered owners of the Series 2009 Bonds at their addresses as shown on the registration books held by the Trustee or, at the option of a holder of at least \$1,000,000 in principal amount of Series 2009 Bonds, by wire transfer to the holder of such Series 2009 Bonds, each as of the close of business on the fifteenth day of the month next preceding an interest payment date. The principal or Redemption Price of the Series 2009 Bonds will be payable at the principal corporate trust office of Manufacturers and Traders Trust Company, Buffalo, New York, the Trustee and Paying Agent or, with respect to Redemption Price, at the option of a holder of at least \$1,000,000 in principal amount of Series 2009 Bonds, by wire transfer to the holders of such Series 2009 Bonds as more fully described herein.

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 and Purchase in Lieu of Optional Redemption:** *The Series 2009 Bonds are subject to redemption and purchase in lieu of optional redemption prior to maturity as more fully described herein.*

**Tax Matters:** In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). In the further opinion of Bond Counsel, interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 10 - TAX MATTERS" herein.

*The Series 2009 Bonds are offered when, as and if issued. The offer of the Series 2009 Bonds may be subject to prior sale or withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the Authority, and to certain other conditions. Certain legal matters will be passed upon for the Institution by Michael G. Macdonald, Esq., its Executive Vice President and General Counsel and by its Special Counsel, Winston & Strawn LLP, New York, New York, and for the Underwriters by their Counsel, Hawkins Delafield & Wood LLP, New York, New York. The Authority expects to deliver the Series 2009 Bonds in definitive form in New York, New York, on or about November 5, 2009.*

**J.P. Morgan**  
**Barclays Capital**  
**Jackson Securities**

**Citi**  
**Janney Montgomery Scott LLC**

**Goldman, Sachs & Co.**  
**Fidelity Capital Markets**  
**Merrill Lynch & Co.**

**\$369,915,000**  
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**  
**MOUNT SINAI SCHOOL OF MEDICINE OF NEW YORK UNIVERSITY**  
**REVENUE BONDS, SERIES 2009**

| <u>Due July 1</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP<sup>1</sup> Number</u> | <u>Due July 1</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP<sup>1</sup> Number</u> |
|-------------------|---------------|----------------------|--------------|---------------------------------|-------------------|---------------|----------------------|--------------|---------------------------------|
| 2016              | \$2,965,000   | 4.00 %               | 3.91%        | 649905RW8                       | 2022              | \$ 6,005,000  | 5.50%                | 4.83%*       | 649905SH0                       |
| 2016              | 3,295,000     | 5.00                 | 3.91         | 649905SK3                       | 2022              | 2,235,000     | 4.75                 | 4.83         | 649905RS7                       |
| 2017              | 3,245,000     | 4.00                 | 4.12         | 649905RM0                       | 2023              | 8,655,000     | 4.75                 | 4.90         | 649905RT5                       |
| 2017              | 3,300,000     | 5.00                 | 4.12         | 649905SC1                       | 2024              | 3,420,000     | 5.25                 | 4.96*        | 649905SJ6                       |
| 2018              | 2,835,000     | 4.25                 | 4.28         | 649905RN8                       | 2024              | 5,675,000     | 4.75                 | 4.96         | 649905RU2                       |
| 2018              | 4,000,000     | 5.00                 | 4.28         | 649905SD9                       | 2025              | 13,970,000    | 5.50                 | 5.02*        | 649905RX6                       |
| 2019              | 3,905,000     | 4.375                | 4.40         | 649905RP3                       | 2026              | 14,705,000    | 5.50                 | 5.07*        | 649905RY4                       |
| 2019              | 3,255,000     | 5.00                 | 4.40         | 649905SE7                       | 2027              | 15,470,000    | 5.50                 | 5.12*        | 649905RZ1                       |
| 2020              | 6,245,000     | 4.50                 | 4.56         | 649905RQ1                       | 2028              | 16,280,000    | 5.00                 | 5.17         | 649905SA5                       |
| 2020              | 1,245,000     | 5.25                 | 4.56*        | 649905SF4                       | 2029              | 6,120,000     | 5.00                 | 5.21         | 649905SL1                       |
| 2021              | 4,490,000     | 5.50                 | 4.71*        | 649905SG2                       | 2029              | 10,975,000    | 5.25                 | 5.21*        | 649905SB3                       |
| 2021              | 3,355,000     | 4.60                 | 4.71         | 649905RR9                       |                   |               |                      |              |                                 |

**\$63,740,000 5.25% Term Bonds Due July 1, 2033 Priced to Yield 5.33% CUSIP<sup>1</sup> Number 649905SM9**

**\$160,530,000 5.125% Term Bonds Due July 1, 2039 Priced to Yield 5.37% CUSIP<sup>1</sup> Number 649905RV0**

<sup>1</sup> 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 such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2009 Bonds.

\* Priced at the stated yield to the July 1, 2019 optional redemption date at a Redemption Price of 100%.

*No dealer, broker, salesperson or other person has been authorized by the Authority, the Institution or the 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, any such information or representations must not be relied upon as having been authorized by the Authority, the Institution or the Underwriters.*

*This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be 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.*

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

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

*The Institution reviewed the parts of this Official Statement describing the Institution, the Series 2009 Project, the Estimated Sources and Uses of Funds, the Principal, Sinking Fund Installments and Interest Requirements, the Series 2009 Mortgage, Continuing Disclosure and Appendix B. It is a condition to the sale and the delivery of the Series 2009 Bonds that the Institution certify that, as of each such date, such parts do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institution makes no representations as to the accuracy or completeness of any other information included in this Official Statement.*

*References in this Official Statement to the Act, the Resolution, the Series 2009 Resolution and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2009 Resolution and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2009 Resolution 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 its appendices, must be considered in its entirety.*

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

***IN CONNECTION WITH THE OFFERING OF THE SERIES 2009 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009 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., ESQ. - CHAIR**

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**OFFICIAL STATEMENT RELATING TO**  
**\$369,915,000**  
**DORMITORY AUTHORITY**  
**OF THE STATE OF NEW YORK**  
**MOUNT SINAI SCHOOL OF MEDICINE OF NEW YORK UNIVERSITY**  
**REVENUE BONDS, SERIES 2009**

**PART 1 - INTRODUCTION**

**Purpose of the Official Statement**

The purpose of this Official Statement, including the cover page, the inside cover page and appendices, is to provide information about the Dormitory Authority of the State of New York (the “Authority”) and the Mount Sinai School of Medicine of New York University (the “Institution” or the “School”) in connection with the offering by the Authority of \$369,915,000 principal amount of its Mount Sinai School of Medicine of New York University 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 is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

**Purpose of the Issue**

The Series 2009 Bonds are being issued to (i) finance the Costs of the Series 2009 Project, as more fully described in “PART 5 - THE SERIES 2009 PROJECT” herein, (ii) provide moneys sufficient to pay a portion of the interest accruing on the Series 2009 Bonds, (iii) make a deposit into the Debt Service Reserve Fund in order to satisfy the Debt Service Reserve Fund Requirement with respect to the Series 2009 Bonds, and (iv) pay certain Costs of Issuance of the Series 2009 Bonds. See “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.”

**Authorization of Issuance**

The Series 2009 Bonds will be issued pursuant to the Resolution, the Series 2009 Resolution and the Act. The Resolution authorizes the issuance of multiple Series of Bonds. Each Series of Bonds is to be separately secured by the Revenues and the funds and accounts established pursuant to a Series Resolution. The Series 2009 Bonds (and any additional Bonds heretofore or hereafter issued under the Resolution) are also secured by the pledge of the Authority’s security interest in the Pledged Revenues, subject to Prior Pledges.

See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Security for the 2009 Bonds - Pledged Revenues” and “PART 4 - THE INSTITUTION - GENERAL INFORMATION – Clinical Programs; Faculty Practice Associates.” In connection with future indebtedness of the Institution, the Institution may grant to the holders of such future indebtedness a security interest in the Pledged Revenues on a parity with the Authority’s security interest in the Pledged Revenues securing the Series 2009 Bonds and the 2007 Bonds (as hereinafter defined), subject to the hereinafter referred to Prior Pledges. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Additional Bonds/Parity Indebtedness” and “Appendix C - Summary of Certain Provisions of the Loan Agreement.” The Series 2009 Resolution authorizes the issuance of the Series 2009 Bonds in an amount not to exceed \$370,000,000. 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 and to purchase and make certain loans in connection with its student loan program. See “PART 7 - THE AUTHORITY.”

### **The Institution**

The Institution is an independent, coeducational, nonsectarian institution of higher education chartered by the Board of Regents of the State. The Institution is located in New York, New York. See “PART 4 - THE INSTITUTION” and “Appendix B - Consolidated Financial Statements of Mount Sinai School of Medicine of New York University for the Years Ended December 31, 2008 and 2007 and for the Years Ended December 31, 2007 and 2006 with Reports of Independent Auditors.” **Neither the Loan Agreement nor the Series 2009 Bonds are obligations of New York University, The Mount Sinai Hospital or The Mount Sinai Medical Center, Inc.**

### **The Series 2009 Bonds**

The Series 2009 Bonds will be dated the date of delivery, and will bear interest from such date (payable July 1, 2010 and on each January 1 and July 1 thereafter) at the rates set forth on the inside cover page of this Official Statement. See “PART 3 - THE SERIES 2009 BONDS.”

### **Payment of the Series 2009 Bonds**

The Series 2009 Bonds will be special obligations of the Authority payable solely from the Revenues which consist of certain payments to be made by the Institution under the Loan Agreement. The Loan Agreement is a general obligation of the Institution. Pursuant to the Resolution and the Series 2009 Resolution, the Revenues and the Authority’s right to receive the Revenues have been pledged to the Trustee. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS.”

### **Outstanding Obligations**

The Authority has previously issued several series of bonds on behalf of the Institution of which four are currently outstanding in the total principal amount of \$312,150,000 (the “Outstanding Bonds”). As of September 30, 2009, the Outstanding Bonds consist of \$119,470,000 Mount Sinai School of Medicine of New York University Revenue Bonds, Series 2007 (the “2007 Bonds”); \$42,085,000 Mount Sinai School of Medicine of New York University Insured Revenue Bonds, Series 2003 (the “2003 Bonds”); \$143,105,000 Mount Sinai School of Medicine Insured Revenue Bonds, Series 1994A (the “1994A Bonds”); and \$7,490,000 Mount Sinai School of Medicine Insured Revenue Bonds, Series 1994B (the “1994B Bonds”). In connection with the issuance of each series of Outstanding Bonds, the Institution granted the Authority a security interest in Pledged Revenues. The Pledged Revenues granted as security for the 2003 Bonds, the 1994A Bonds and

the 1994B Bonds constitute Prior Pledges. The Pledged Revenues granted as security for the 2007 Bonds will be on a parity with the pledge of Pledged Revenues granted as security for the Series 2009 Bonds.

In connection with the issuance of the 1994A Bonds and 1994B Bonds, the Institution granted as additional security a leasehold mortgage on its property located at 1425 Madison Avenue (the “1994 Mortgage”); in connection with the issuance of the 2003 Bonds, the Institution granted as additional security a leasehold mortgage on 5 East 98 Street and a leasehold mortgage on its property located at 1425 Madison Avenue (the “2003 Mortgages”); and, in connection with the 2007 Bonds, the Institution granted as additional security a fee mortgage on 5 East 102 Street (the “2007 Mortgage” and, together with the 1994 Mortgage and the 2003 Mortgages, the “Existing Mortgages”).

### **Security for the Series 2009 Bonds**

The Series 2009 Bonds will be secured by the Revenues and the funds and accounts established pursuant to the Series 2009 Resolution. The Series 2009 Bonds (and any additional Bonds heretofore or hereafter issued under the Resolution) are also secured by the pledge of the Authority’s security interest in the Pledged Revenues, subject to Prior Pledges. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Security for the 2009 Bonds - Pledged Revenues” and “PART 4 - THE INSTITUTION - GENERAL INFORMATION - Clinical Programs; Faculty Practice Associates.” In connection with future indebtedness of the Institution, the Institution may grant to the holders of such future indebtedness a security interest in the Pledged Revenues on a parity with the Authority’s security interest in the Pledged Revenues securing the Series 2009 Bonds and the 2007 Bonds, subject to Prior Pledges. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Additional Bonds/Parity Indebtedness” and “Appendix C - Summary of Certain Provisions of the Loan Agreement.” The Series 2009 Bonds will also be secured by the proceeds from the sale of the Series 2009 Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2009 Resolution (with the exception of the Arbitrage Rebate Fund), which include a Debt Service Reserve Fund. The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds and the Series 2009 Bonds. Except as set forth above, 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. The Pledged Revenues, which are subject to Prior Pledges, will secure the Institution’s obligations under the Loan Agreement. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Security for the Series 2009 Bonds.”

**The Series 2009 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.**

### **The Mortgage**

The Institution’s obligations to the Authority under the Loan Agreement will be additionally secured by a building loan mortgage and a project loan mortgage (collectively, the “Series 2009 Mortgage”; the Series 2009 Mortgage and the 2007 Mortgage collectively referred to herein as the “Parity Mortgages”) on the Series 2009 Mortgaged Property (as hereinafter defined) and security interests in certain fixtures, furnishings and equipment now or hereafter located therein or used in connection therewith. The Series 2009 Mortgaged Property will consist of the real property on which the Series 2009 Project will be located, on a site located at 1470 Madison Avenue and 4-10 East 102nd Street, between Madison Avenue and Fifth Avenue in New York, New York (the “Series 2009 Mortgaged Property”). The Authority may, but has no present intention to, assign the Series 2009 Mortgage and such security interests to the Trustee. Upon the occurrence of certain events of default under the Loan Agreement, the Authority is obligated to assign the Series 2009 Mortgage and the related security interests to the Trustee. In addition, upon the occurrence of an event of default under the Resolution, other than an event of default as a result of which interest on the 2007 Bonds is no longer excludable from gross income for federal income tax purposes, upon request of the Insurer of the 2007 Bonds

as provided in the Resolution, the Authority is obligated to assign the 2007 Mortgage and the related security interests to the Trustee. Under the Intercreditor Agreement (as defined below), an obligation to assign either the Series 2009 Mortgage or the 2007 Mortgage will trigger an obligation on the part of the Authority to assign both Parity Mortgages to the Trustee, at which time the Parity Mortgages will secure the Series 2009 Bonds and the 2007 Bonds. Unless the Parity Mortgages and such security interests are assigned to the Trustee, neither the Parity Mortgages, the security interests in such fixtures, furnishings and equipment nor any proceeds therefrom will be pledged to the Holders of the Series 2009 Bonds or the 2007 Bonds.

In connection with the issuance of the Series 2009 Bonds, the Authority and the Trustee will enter into an Intercreditor Agreement (the "Intercreditor Agreement"). Pursuant to the terms of the Intercreditor Agreement, the distribution of proceeds from the enforcement or foreclosure of the Parity Mortgages will be pro rata based on the outstanding principal amount (after deducting certain amounts) of the Series 2009 Bonds and the 2007 Bonds secured by such Parity Mortgages, thereby effectively placing the Series 2009 Bonds and the 2007 Bonds on a parity with respect to foreclosure proceeds regardless of the order of priority of the liens granted under such Parity Mortgages. The Intercreditor Agreement may be amended in connection with any additional Bonds issued under the Resolution to provide that Holders of such additional indebtedness may share on a parity with respect to foreclosure proceeds of the Parity Mortgages, including the Series 2009 Mortgage. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - The Mortgage" and "PART 4 - THE INSTITUTION."

### **The Series 2009 Project**

The Series 2009 Project consists of (i) the construction of an 11-story building at 1470 Madison Avenue, New York, New York, to be known as the Center for Science and Medicine ("CSM Building") that will support certain Institution and Hospital programs, (ii) the construction of a 10-story (plus three subsurface floors) contiguous base building facility (collectively, the "102nd Street Facility") at 4-10 East 102nd Street, New York, New York, to support the operation of the CSM Building and the 102nd Street Facility, (iii) the cost of additions to the Institution's and Hospital's power plant located at One Gustave L. Levy Place, New York, New York in or proximate to the basement of the Annenberg Building located at 1180-88 Fifth Avenue, New York, New York, and (iv) renovations, repairs and equipment purchases that functionally support or are related to the items described in (i), (ii) and/or (iii) above. See "PART 5 - THE SERIES 2009 PROJECT."

## **PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS**

*Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2009 Bonds and certain related covenants. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Series 2009 Resolution and the Loan Agreement. Copies of the Resolution, the Series 2009 Resolution and the Loan Agreement are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement" and "Appendix D - Summary of Certain Provisions of the Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto. All references to the Debt Service Fund and the Debt Service Reserve Fund refer to such funds established pursuant to the Series 2009 Resolution.*

### **Payment of the Series 2009 Bonds**

The Series 2009 Bonds will be special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2009 Bonds are payable solely from the Revenues. The Revenues consist of the payments required to be made by the Institution under the Loan Agreement to satisfy the principal, Sinking Fund Installments and Redemption Price of and interest on the Bonds and to maintain the Debt Service Reserve Fund at its requirement. The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Series 2009 Bondholders.



The Loan Agreement is a general obligation of the Institution and obligates the Institution to make payments to satisfy the principal and interest on Outstanding Series 2009 Bonds and any other Bonds issued under the Resolution. Such payments are to be made monthly on the 10th day of each month. Each payment is to be equal to a proportionate share of the interest coming due on the next succeeding interest payment date and of the principal and Sinking Fund Installments coming due on the next succeeding July 1. Unless otherwise agreed to by the Authority, the Loan Agreement also obligates the Institution to pay, at least 45 days prior to a redemption date of Series 2009 Bonds called for redemption, the amount, if any, required to pay the Redemption Price of such Bonds. See “PART 3 - THE SERIES 2009 BONDS - Redemption and Purchase in Lieu of Optional Redemption Provisions.”

**The Loan Agreement is not an obligation of New York University, The Mount Sinai Hospital or The Mount Sinai Medical Center, Inc.**

The Authority has directed, and the Institution has agreed, to make such payments directly to the Trustee. Such payments are to be applied by the Trustee to the payment of the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2009 Bonds. The payments to be made by the Institution to restore the Debt Service Reserve Fund are to be made directly to the Trustee for deposit to such fund.

**Security for the Series 2009 Bonds**

The Series 2009 Bonds will be secured by the pledge and assignment of the Revenues, all funds and accounts authorized under the Resolution and established under the Series 2009 Resolution (with the exception of the Arbitrage Rebate Fund) and the Authority’s security interest in the Pledged Revenues on a parity with the pledge of Pledged Revenues in connection with the 2007 Bonds, subject to the Prior Pledges. See “PART 4 - THE INSTITUTION - GENERAL INFORMATION – Clinical Programs; Faculty Practice Associates.” Pursuant to the terms of the 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 Resolution regardless of their dates of issue.

*Pledged Revenues*

The Series 2009 Bonds (and any additional Bonds heretofore or hereafter issued under the Resolution) are also secured by the pledge of the Authority’s security interest in the Pledged Revenues, consisting of moneys, income, rents and revenues receivable by the Institution from the fees charged for the professional services rendered to patients by members of the Institution’s faculty who participate in the Institution’s Faculty Practice Associates Plan or any successor or alternative arrangement and the right to receive the same, and the proceeds thereof, and the right to receive such Pledged Revenues, on a parity with the pledge of Pledged Revenues in connection with the 2007 Bonds, subject to Prior Pledges. See “PART 4 - THE INSTITUTION - GENERAL INFORMATION – Clinical Programs; Faculty Practice Associates.” In connection with future indebtedness of the Institution, the Institution may grant to the holders of such future indebtedness a security interest in the Pledged Revenues on a parity with the Authority’s security interest in the Pledged Revenues securing the Series 2009 Bonds and the 2007 Bonds, subject to Prior Pledges. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Additional Bonds/Parity Indebtedness” and “Appendix C - Summary of Certain Provisions of the Loan Agreement.”

*Debt Service Reserve Fund*

The Series 2009 Resolution establishes the Debt Service Reserve Fund. The Debt Service Reserve Fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Series 2009 Bonds. The Debt Service Reserve Fund for the Series 2009 Bonds shall be maintained at an amount equal to the least of (i) the greatest amount required in the then current or any future

calendar year to pay the sum of interest on Outstanding Series 2009 Bonds payable during such calendar year, and the principal and Sinking Fund Installments of Outstanding Series 2009 Bonds payable on July 1 of such calendar year, (ii) 10% of the net proceeds of the sale of the Series 2009 Bonds or (iii) 125% of the average of the principal and interest on the Series 2009 Bonds becoming due in one calendar year. The Debt Service Reserve Fund will be funded upon the issuance of the Series 2009 Bonds with proceeds of the Series 2009 Bonds. The Institution may substitute a surety bond, insurance policy or letter of credit meeting the requirements of the Resolution (a "Reserve Fund Facility") for all or a portion of the Debt Service Reserve Fund Requirement. See "Appendix D - Summary of Certain Provisions of the Resolution."

Moneys are to be withdrawn from the Debt Service Reserve Fund and deposited in the Debt Service Fund whenever the amount in such Debt Service Fund on the 4th Business Day prior to an interest payment date is less than the amount which is necessary to pay the principal and Sinking Fund Installments, if any, of and interest on Outstanding Series 2009 Bonds payable on such interest payment date. The Loan Agreement requires that the Institution restore the Debt Service Reserve Fund to its requirement by paying the amount of any deficiency to the Trustee within 5 days after receiving notice of a deficiency. Moneys in the Debt Service Reserve Fund in excess of its requirement shall be withdrawn and applied in accordance with the Resolution. See "Appendix D - Summary of Certain Provisions of the Resolution."

## **Financial Covenants**

The Loan Agreement contains certain financial covenants of the Institution, including a maintenance covenant and a test to incur Additional Parity Indebtedness as described below. See "Appendix A - Certain Definitions" for the definitions of the defined terms used below but not defined in the forepart of this Official Statement. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement" for a further description of the financial covenants contained in the Loan Agreement.

### *Maintenance Covenant*

The Institution covenants that it shall maintain a Debt Service Coverage Ratio of at least 1:10:1.0 in each fiscal year. If as of the last day of the Institution's fiscal year the Debt Service Coverage Ratio is less than 1:10:1.0, the Institution will, unless waived by the Authority, promptly employ a Consultant acceptable to the Authority.

### *Additional Parity Indebtedness*

The Institution further covenants that it shall not incur any Additional Parity Indebtedness unless the chief financial officer of the Institution provides a certificate to the Authority stating (i) that the Faculty Practice Plan Revenues for the immediately preceding fiscal year of the Institution for which audited financial statements are available were at least equal to maximum aggregate Debt Service on all Outstanding Bonds and Additional Parity Indebtedness, calculated after giving effect to the incurrence of the Additional Parity Indebtedness then to be incurred; and (ii) the Debt Service Coverage Ratio for the most recent fiscal year for which audited financial statements are available was at least 1.20 after taking into account the Additional Parity Indebtedness then proposed to be issued; and (iii) that the Additional Parity Indebtedness then proposed to be issued would not cause the Debt to Capitalization Ratio to exceed 85%.

## **The Mortgage**

In connection with the delivery of the Series 2009 Bonds, the Institution will execute and deliver the Series 2009 Mortgage to the Authority on the Series 2009 Mortgaged Property and grant the Authority a security interest in certain fixtures, furnishings and equipment to secure the payments required to be made by the Institution pursuant to the Loan Agreement. The Series 2009 Mortgaged Property will consist of the real property on which the Series 2009 Project will be located, on a site located at 1470 Madison Avenue and 4-10 East 102nd Street, between Madison Avenue and Fifth Avenue in New York, New York. The Authority may

assign its rights under the Loan Agreement and the Series 2009 Mortgage and its security interests to the Trustee, but has no present intention to do so. Upon the occurrence of certain events of default under the Loan Agreement, the Authority is obligated to assign the Series 2009 Mortgage and the related security interests to the Trustee. In addition, upon the occurrence of an event of default under the Resolution, other than an event of default as a result of which interest on the 2007 Bonds is no longer excludable from gross income for federal income tax purposes, upon request of the Insurer of the 2007 Bonds as provided in the Resolution, the Authority is obligated to assign the 2007 Mortgage and the related security interests to the Trustee. Under the Intercreditor Agreement, an obligation to assign either the Series 2009 Mortgage or the 2007 Mortgage will trigger an obligation on the part of the Authority to assign both Parity Mortgages to the Trustee, at which time the Parity Mortgages will secure the Series 2009 Bonds and the 2007 Bonds. Unless the Parity Mortgages and such security interests are assigned to the Trustee, neither the Parity Mortgages, the security interests in such fixtures, furnishings and equipment nor any proceeds therefrom will be pledged to the Holders of the Series 2009 Bonds or the 2007 Bonds and the property subject to the Parity Mortgages may be released, and the Parity Mortgages may be amended, with the prior written consent of the Authority, and the Insurer of the 2007 Bonds with respect to the 2007 Mortgage, but without the consent of the Trustee or the Holders of any Series 2009 Bonds or the 2007 Bonds. The Holders of the Series 2009 Bonds should not regard the Parity Mortgages as security for payment of principal and interest on the Series 2009 Bonds until such time as the Parity Mortgages are assigned to the Trustee.

Pursuant to the terms of the Intercreditor Agreement, the distribution of proceeds from the enforcement or foreclosure of the Parity Mortgages will be pro rata based on the outstanding principal amount (after deducting certain amounts) of the Series 2009 Bonds and the 2007 Bonds secured by such Parity Mortgages, thereby effectively placing the Series 2009 Bonds and the 2007 Bonds on a parity with respect to foreclosure proceeds regardless of the order of priority of the liens granted under such Parity Mortgages. The Intercreditor Agreement may be amended in connection with any additional Bonds issued under the Resolution to provide that Holders of such additional indebtedness may share on a parity with respect to foreclosure proceeds of the Parity Mortgages, including the Series 2009 Mortgage. See "PART 4 - THE INSTITUTION."

#### **Events of Default and Acceleration**

The Resolution provides that events of default thereunder and under the Series 2009 Resolution constitute events of default only with respect to the Series 2009 Bonds. The following are events of default under the Resolution: (i) a default in the payment of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2009 Bonds; (ii) the Authority shall default in the due and punctual performance of any covenants contained in the Series 2009 Resolution to the effect that the Authority shall comply with the provisions of the Code applicable to the Series 2009 Bonds necessary to maintain the exclusion of interest thereon from gross income under Section 103 of the Code and shall not take any action which would adversely affect the exclusion of interest on the Series 2009 Bonds from gross income under Section 103 of the Code and, as a result thereof, the interest on the Series 2009 Bonds shall no longer be excludable from gross income under Section 103 of the Code; (iii) a default by the Authority in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Series 2009 Bonds or in the Resolution or in the Series 2009 Resolution which continues for 30 days after written notice thereof is given to the Authority by the Trustee (such notice to be given at the Trustee's discretion or at the written request of the Holders of not less than 25% in principal amount of Outstanding Series 2009 Bonds); and (iv) an "Event of Default," as defined in the Loan Agreement, shall have occurred and is continuing and all sums payable by the Institution under the Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Unless all sums payable by the Institution under the Loan Agreement are declared immediately due and payable, an event of default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default (other than as described in clause (ii) of the preceding paragraph) occurs and continues, the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2009 Bonds, by written notice to the Authority,

declare the principal of and interest on all the Outstanding Series 2009 Bonds to be due and payable immediately. At the expiration of 30 days from the giving of such notice, such principal and interest shall become immediately due and payable. The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of the Series 2009 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment. See “Appendix D - Summary of Certain Provisions of the Resolution.”

The Holders of not less than 25% in principal amount of the Outstanding Series 2009 Bonds or, in the case of a default described in subclause (ii) in the first paragraph under this subheading, the Holders of not less than a majority in principal amount of the Outstanding Series 2009 Bonds, shall have the right to direct the method and place of conducting all remedial proceedings to be taken by the Trustee.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the Holders of the Series 2009 Bonds within 30 days, after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that except in the case of default in the payment of principal, Sinking Fund Installments or Redemption Price of, or interest on, any of the Series 2009 Bonds, the Trustee shall be protected in withholding such notice thereof to the Holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Series 2009 Bonds.

## **General**

The Series 2009 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See “PART 7 - THE AUTHORITY.”

## **Additional Bonds/Parity Indebtedness**

In addition to the Series 2009 Bonds, the Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other specified purposes for the benefit of the Institution. Each such Series of Bonds will be separately secured by the revenues and the funds and accounts established pursuant to a Series Resolution authorizing such Series. However, any additional Bonds issued under the Resolution will also be secured by a parity Mortgage and by the pledge of the Authority’s security interest in the Pledged Revenues, on a parity with the Series 2009 Bonds and the 2007 Bonds, but subject to Prior Pledges. See “PART 4 - THE INSTITUTION - GENERAL INFORMATION – Clinical Programs; Faculty Practice Associates.” In addition, the Institution may incur other indebtedness in the future and may grant to the holders of such indebtedness a security interest in the Pledged Revenues on a parity with the Authority’s security interest in the Pledged Revenues securing the Series 2009 Bonds, the 2007 Bonds and any such additional indebtedness, subject to Prior Pledges. See “Appendix C - Summary of Certain Provisions of the Loan Agreement.”

## **PART 3 - THE SERIES 2009 BONDS**

### **Description of the Series 2009 Bonds**

The Series 2009 Bonds will be issued pursuant to the Resolution and the Series 2009 Resolution. The Series 2009 Bonds will be dated the date of delivery, and will bear interest from such date (payable July 1, 2010 and on each January 1 and July 1 thereafter) at the rates, and will mature at the times, set forth on the inside cover page of this Official Statement.

The Series 2009 Bonds will be issued as fully registered bonds. 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. Purchases 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 Resolution. See “Book-Entry Only System” herein and “Appendix D - Summary of Certain Provisions of the Resolution.”

Interest on the Series 2009 Bonds will be payable by check mailed to the registered owners thereof. The principal or redemption price of the Series 2009 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of Manufacturers and Traders Trust Company, Buffalo, New York, the Trustee and Paying Agent; or, with respect to Redemption Price, at the option of a holder of at least \$1,000,000 in principal amount of Series 2009 Bonds, by wire transfer to the holders of such Series 2009 Bonds. As long as the Series 2009 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See “Book-Entry Only System” herein.

For a more complete description of the Series 2009 Bonds, see “Appendix D - Summary of Certain Provisions of the Resolution.”

### **Redemption and Purchase in Lieu of Optional Redemption Provisions**

The Series 2009 Bonds are subject to optional, special and mandatory redemption, and purchase in lieu of optional redemption, as described below.

#### *Optional Redemption*

The Series 2009 Bonds maturing on or before July 1, 2019 are not subject to optional redemption prior to maturity. The Series 2009 Bonds maturing after July 1, 2019 are subject to redemption prior to maturity on or after July 1, 2019 in any order at the option of the Authority, in whole or in part at any time, at a Redemption Price of 100% of the principal amount of the Series 2009 Bonds to be redeemed, plus accrued interest to the redemption date.

#### *Special Redemption*

The Series 2009 Bonds are also subject to redemption, in whole or in part, at a Redemption Price of 100% of the principal amount of the Series 2009 Bonds to be redeemed, plus accrued interest to the redemption date, at the option of the Authority on any interest payment date, from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Series 2009 Mortgaged Property, and from unexpended proceeds of the Series 2009 Bonds upon the abandonment of all or a portion of the Series 2009 Project due to a legal or regulatory impediment.

*Mandatory Redemption*

In addition, the Series 2009 Bonds are also subject to redemption, in part, on each July 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of Series 2009 Bonds specified for each of the years shown below:

**Term Bonds  
Maturing on July 1, 2033**

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2030        | \$17,670,000  |
| 2031        | 18,595,000    |
| 2032        | 19,575,000    |
| 2033        | 7,900,000†    |

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† Final maturity

**Term Bonds  
Maturing on July 1, 2039**

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2033        | \$12,705,000  |
| 2034        | 21,665,000    |
| 2035        | 22,775,000    |
| 2036        | 23,940,000    |
| 2037        | 25,170,000    |
| 2038        | 26,460,000    |
| 2039        | 27,815,000†   |

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† Final maturity

The Authority may from time to time direct the Trustee to purchase Series 2009 Bonds with moneys in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any Series 2009 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2009 Bonds of the same maturity. The Institution also may purchase Series 2009 Bonds and apply any Series 2009 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2009 Bonds of the same maturity. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's Series 2009 Bonds of the maturity so purchased will be reduced for such year.

*Purchase in Lieu of Optional Redemption*

The Series 2009 Bonds maturing after July 1, 2019 are subject to purchase in lieu of optional redemption prior to maturity, at the election of the Institution, on or after July 1, 2019, in any order, in whole or in part at any time, at a price of 100% of the principal amount thereof (the "Purchase Price"), plus accrued interest to the date set for purchase (the "Purchase Date").

### *Selection of Bonds to be Redeemed*

In the case of redemptions of Series 2009 Bonds described above under the heading “*Optional Redemption*,” the Authority will select the maturities of the Series 2009 Bonds to be redeemed. In the case of redemptions of Series 2009 Bonds described above under the heading “*Special Redemption*,” Series 2009 Bonds will be redeemed to the extent practicable pro rata among maturities within the Series 2009 Bonds to be redeemed. If less than all of the Series 2009 Bonds of a maturity are to be redeemed (pursuant to an optional or special redemption), the Series 2009 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

### *Notice of Redemption*

The Trustee is to give notice of the redemption of the Series 2009 Bonds in the name of the Authority which notice shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2009 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than 10 Business Days prior to the date such notice is given. If the Authority’s obligation to redeem Series 2009 Bonds is subject to one or more conditions, then such notice must describe the conditions to such redemption. The failure of any owner of a Series 2009 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2009 Bond with respect to which notice has been given in accordance with the provisions of the Resolution. If directed in writing by an Authorized Officer of the Authority, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2009 Bonds.

If on the redemption date moneys for the redemption of the Series 2009 Bonds of like maturity to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, and if notice of redemption shall have been mailed, then interest on the Series 2009 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2009 Bonds will no longer be considered to be Outstanding under the Resolution and the Series 2009 Resolution.

### *Notice of Purchase in Lieu of Optional Redemption and its Effect*

Notice of purchase in lieu of optional redemption of the Series 2009 Bonds will be given in the name of the Institution to the registered owners of the Series 2009 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the Purchase Date specified in such notice. The Series 2009 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2009 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event Series 2009 Bonds are called for purchase in lieu of an optional redemption, such purchase shall not operate to extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2009 Bonds and such Series 2009 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest.

The Institution’s obligation to purchase a Series 2009 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Series 2009 Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Series 2009 Bonds to be purchased, the former registered owners of such Series 2009 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the Purchase Price. If sufficient money is not available on the Purchase Date for payment of the Purchase Price, the Series 2009 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the Purchase Date, who will be entitled to the payment of

the principal, Sinking Fund Installments, if any, of and interest on such Series 2009 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2009 Bonds of a maturity are to be purchased, the Series 2009 Bonds of such maturity to be purchased will be selected by lot in the same manner as Series 2009 Bonds of a maturity to be redeemed in part are to be selected.

For a more complete description of the redemption, purchase in lieu of optional redemption and other provisions relating to the Series 2009 Bonds, see “Appendix D - Summary of Certain Provisions of 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 securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2009 Bond certificate 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 3.5 million U.S. and non-U.S. equity, corporate and municipal debt issues and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with Direct Participants, “Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 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 Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase; Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 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 bond certificates representing their ownership interests in the 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 the Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 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 the Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as securities 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 securities depository is not obtained, the Series 2009 Bond certificates are required to be printed and delivered.

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

**The information herein concerning DTC and DTC's book-entry-only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof. The Beneficial Owners should confirm the foregoing information with DTC or the Direct Participants or the Indirect Participants.**

Each person for whom a Participant acquires an interest in the Series 2009 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other

communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2009 BONDS.

So long as Cede & Co. is the registered owner of the Series 2009 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2009 Bonds (other than under the caption "TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2009 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of Series 2009 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2009 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2009 Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Series 2009 Bond certificates will be delivered as described in the Resolution.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2009 BONDS UNDER THE RESOLUTION; (iii) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2009 BONDS; (iv) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2009 BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE 2009 BONDS; OR (vi) ANY OTHER MATTER.

#### **Principal, Sinking Fund Installments and Interest Requirements**

The following table sets forth the amounts, after giving effect to the issuance of the Series 2009 Bonds, required to be paid by the Institution during each twelve month period ending June 30 of the years shown for the payment of debt service on the currently outstanding indebtedness of the Institution, the principal and Sinking Fund Installments of and interest on the Series 2009 Bonds and the total debt service on all indebtedness of the Institution, including the Series 2009 Bonds.

**Debt Service on Institution Indebtedness<sup>†</sup>**

| 12 Month<br>Period<br>Ending<br>July 1, | Series 2009 Bonds                              |   |                      |  |                          |
|---|--|---|----------------------|--|--------------------------|
|   | Debt Service<br>on Outstanding<br>Indebtedness | Principal<br>Payments and<br>Sinking Fund<br>Installments | Interest<br>Payments | Total Debt<br>Service on the<br>Series 2009<br>Bonds | Total<br>Debt<br>Service |
| 2010                                    | \$ 29,314,330                                  | \$ 0  | \$ 12,438,666        | \$ 12,438,666  | \$ 41,752,996            |
| 2011                                    | 29,315,075                                     | 0   | 18,974,236           | 18,974,236   | 48,289,311               |
| 2012                                    | 29,334,150                                     | 0   | 18,974,236           | 18,974,236   | 48,308,386               |
| 2013                                    | 29,335,300                                     | 0   | 18,974,236           | 18,974,236   | 48,309,536               |
| 2014                                    | 29,335,863                                     | 0   | 18,974,236           | 18,974,236   | 48,310,099               |
| 2015                                    | 29,334,213                                     | 0   | 18,974,236           | 18,974,236   | 48,308,449               |
| 2016                                    | 23,762,913                                     | 6,260,000   | 18,974,236           | 25,234,236   | 48,997,149               |
| 2017                                    | 23,762,663                                     | 6,545,000   | 18,690,886           | 25,235,886   | 48,998,549               |
| 2018                                    | 23,765,163                                     | 6,835,000   | 18,396,086           | 25,231,086   | 48,996,249               |
| 2019                                    | 23,763,663                                     | 7,160,000   | 18,075,599           | 25,235,599   | 48,999,262               |
| 2020                                    | 23,766,663                                     | 7,490,000   | 17,742,005           | 25,232,005   | 48,998,668               |
| 2021                                    | 22,897,163                                     | 7,845,000   | 17,395,618           | 25,240,618   | 48,137,781               |
| 2022                                    | 22,891,913                                     | 8,240,000   | 16,994,338           | 25,234,338   | 48,126,251               |
| 2023                                    | 22,894,110                                     | 8,655,000   | 16,557,900           | 25,212,900   | 48,107,010               |
| 2024                                    | 22,903,340                                     | 9,095,000   | 16,146,788           | 25,241,788   | 48,145,128               |
| 2025                                    | 8,322,050                                      | 13,970,000  | 15,697,675           | 29,667,675   | 37,989,725               |
| 2026                                    | 8,319,300                                      | 14,705,000  | 14,929,325           | 29,634,325   | 37,953,625               |
| 2027                                    | 8,325,550                                      | 15,470,000  | 14,120,550           | 29,590,550   | 37,916,100               |
| 2028                                    | 8,324,800                                      | 16,280,000  | 13,269,700           | 29,549,700   | 37,874,500               |
| 2029                                    | 8,326,800                                      | 17,095,000  | 12,455,700           | 29,550,700   | 37,877,500               |
| 2030                                    | 8,320,800                                      | 17,670,000  | 11,573,513           | 29,243,513   | 37,564,313               |
| 2031                                    | 8,326,550                                      | 18,595,000  | 10,645,838           | 29,240,838   | 37,567,388               |
| 2032                                    | 8,322,800                                      | 19,575,000  | 9,669,600            | 29,244,600   | 37,567,400               |
| 2033                                    | 8,319,300                                      | 20,605,000  | 8,641,913            | 29,246,913   | 37,566,213               |
| 2034                                    | 8,325,300                                      | 21,665,000  | 7,576,031            | 29,241,031   | 37,566,331               |
| 2035                                    | 8,324,550                                      | 22,775,000  | 6,465,700            | 29,240,700   | 37,565,250               |
| 2036                                    | 8,326,550                                      | 23,940,000  | 5,298,481            | 29,238,481   | 37,565,031               |
| 2037                                    | 8,323,425                                      | 25,170,000  | 4,071,556            | 29,241,556   | 37,564,981               |
| 2038                                    | 0  | 26,460,000  | 2,781,594            | 29,241,594   | 29,241,594               |
| 2039                                    | 0  | 27,815,000  | 1,425,519            | 29,240,519   | 29,240,519               |

<sup>†</sup> Excludes amounts due on Authority tax-exempt leasing program loans and capitalized leases in the amount of \$2,311,000 as of December 31, 2008.

## **PART 4 - THE INSTITUTION**

### **GENERAL INFORMATION**

#### **History**

The School was founded as a teaching and research institution. The School is affiliated with The Mount Sinai Hospital (“Hospital”), a tertiary-care teaching hospital with 1,406 certified beds, and The Mount Sinai Medical Center, Inc. (the “Medical Center” and, together with the School and the Hospital, “Mount Sinai”), a not-for-profit corporation which coordinates the fund-raising activities of the School and the Hospital. The School conducts research and clinical programs and educates physicians, scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. The School grants M.D., Ph.D. and Masters Degrees.

The School was granted a charter by the Board of Regents in 1968. Since July 1, 1999, the School has had an academic affiliation with New York University (“NYU”). The School, however, functions autonomously, is self-governing with a separate Board of Trustees, and remains financially independent from NYU. The School sets its own educational goals and objectives, develops its own curricula, evaluates its own programs, recruits and employs its own faculty and staff, and maintains separate finances and infrastructure from NYU. The School and NYU are in the process of dissolving the affiliation, which will result in the School being an independent degree-granting institution without a university affiliation. While the School retains degree-granting authority under its Charter, until the dissolution of the affiliation, degrees will continue to be awarded by NYU. (See “PART 4 - THE INSTITUTION - GENERAL INFORMATION - Accreditation”).

Although the School is a separate legal entity from the Hospital, the two institutions are closely affiliated, the management structures of each and their respective Boards of Trustees function on an integrated basis, and they share a four-block campus on the upper east side of Manhattan. The relationship between the Hospital and the School permits these institutions to fulfill their commitment to providing high quality medical care, medical education and medical research. In furtherance of this close relationship, a faculty appointment at the School is required for appointment to the medical staff of the Hospital, unless a waiver is granted.

**NEITHER THE HOSPITAL, THE MEDICAL CENTER NOR NYU IS OBLIGATED WITH RESPECT TO THE SERIES 2009 BONDS OR THE LOAN AGREEMENT, NOR IS THE SCHOOL OBLIGATED WITH RESPECT TO INDEBTEDNESS OF THE HOSPITAL, THE MEDICAL CENTER OR NYU.**

#### **Governance**

The School is governed by a Board of Trustees comprised of an authorized maximum of 70 members. The Board holds five regular meetings each year. In addition, the Board of Trustees has formed several committees, including an Executive Committee, which is authorized to act for the full Board of Trustees and meets five times per year, and Finance and Audit Committees, among others.

The current membership of the Board of Trustees is as follows:

| <u>Trustee</u>                 | <u>Affiliation</u>                             | <u>Initially Elected</u> |
|--------------------------------|--|--------------------------|
| May, Mr. Peter W. (Chairman)   | Triam Partners                                 | 1989                     |
| Blau, Mr. Harvey R.            | Griffon Corporation                            | 2000                     |
| Block, Mr. Thomas R.           | Block Buildings LLC                            | 1976                     |
| Brody, Mr. Christopher W.      | Vantage Partners, LLC                          | 1994                     |
| Bronfman, Mr. Charles R.       | The Andrea and Charles Bronfman Philanthropies | 2002                     |
| Colin, Ms. Cynthia             | Smith Barney, Inc.                             | 1978                     |
| Crystal, Mrs. Jean C.          | Philanthropist                                 | 1996                     |
| Crystal, Mr. James W.          | Frank Crystal & Co., Inc.                      | 1982                     |
| Cullman, Mr. Edgar M.          | Culbro, LLC                                    | 1957                     |
| Dubin, Mr. Glenn               | Highbridge Capital Management                  | 2004                     |
| Ehrenkranz, Mr. Joel S.        | Ehrenkranz & Ehrenkranz LLP                    | 1982                     |
| Einhorn, Mr. Steven G.         | Omega Advisors, Inc.                           | 2001                     |
| Fogg, Mr. Blaine V.            | Skadden, Arps, Slate, Meagher & Flom           | 1987                     |
| Friedman, Mr. Richard A.       | Goldman, Sachs Inc.*                           | 2001                     |
| Friedman, Mr. Robert           | Radical Thinking                               | 2001                     |
| Gaisman, Mrs. Henry J.         | Philanthropist                                 | 1978                     |
| Glimcher, Mr. Arne             | Pace Wildenstein                               | 2000                     |
| Gogel, Mr. Donald J.           | Clayton, Dubilier & Rice, Inc.                 | 1982                     |
| Goldsmith, Mr. Clifford H.     | The Prendel Company                            | 1980                     |
| Goldstein, Dr. Martin S.       | Mount Sinai Alumni                             | 2009                     |
| Gross, Mr. Michael S.          | Magnetar Capital                               | 2005                     |
| Gross, Mrs. Vicki              | Philanthropist                                 | 2005                     |
| Grumbach, Jr., Mr. George J.   | Philanthropist                                 | 1980                     |
| Hamburg, Dr. David A.          | Cornell Weill Medical College                  | 1984                     |
| Heineman, Mr. Andrew D.        | Philanthropist                                 | 1975                     |
| Icahn, Mr. Carl C.             | Icahn Associates, Corp.                        | 2000                     |
| Jones, Mr. Lewis P.            | JP Morgan Asset Management**                   | 1994                     |
| Katz, Mrs. Ellen               | Philanthropist                                 | 1986                     |
| Klingenstein, Mr. Frederick A. | Klingenstein, Fields & Co., L.P.               | 1971                     |
| Kravis, Mr. Henry R.           | Kohlberg Kravis Roberts & Company              | 1981                     |
| Lasry, Mr. Marc                | Avenue Capital Group                           | 2006                     |
| Levin, Mr. John A.             | Levin Capital Strategies, LP                   | 1980                     |
| Levinson, Mrs. Patricia S.     | Philanthropist                                 | 1981                     |
| Mimran, Mr. David              | Milestone International Partners               | 2005                     |
| Mindich, Mr. Eric              | Eton Park Capital Management                   | 1998                     |
| Minikes, Mr. Michael           | JP Morgan Clearing Corp.**                     | 1997                     |
| Neustein, Ms. Robin Chemers    | Goldman, Sachs & Co.*                          | 1998                     |
| Nussbaum, Mr. Bernard W.       | Wachtell, Lipton, Rosen & Katz                 | 1994                     |
| Rubin, Mrs. Judith O.          | Philanthropist                                 | 1993                     |
| Rubin, The Honorable Robert E. | Council on Foreign Relations                   | 1999                     |
| Ruttenberg, Mr. Eric M.        | Tinicum Incorporated                           | 1991                     |
| Saul, Mr. Andrew M.            | Saul Partners, L.P.                            | 1979                     |
| Schwartz, Mr. Stephen L.       | The Brookdale Foundation                       | 1983                     |
| Stern, Mr. Daniel H.           | Reservoir Capital Group                        | 2005                     |
| Strauss, Mr. Thomas W.         | Ramius Capital Group, LLC                      | 1983                     |
| Surnamer, Mrs. Maura           | Philanthropist                                 | 2006                     |
| Urfirer, Mr. Michael J.        | Stone Key Partners                             | 2000                     |

\* Goldman, Sachs & Co. is co-senior underwriting manager for the Series 2009 Bonds.

\*\* J.P. Morgan Securities Inc. is the senior underwriting manager for the Series 2009 Bonds.

## Senior Management

The senior management of the School is as follows:

Kenneth L. Davis, M.D., Chief Executive Officer. Dr. Davis was appointed Dean and Chief Executive Officer of the School and Chief Executive Officer of the Hospital and the Medical Center in 2003. Under his leadership, Mount Sinai entered a new era of innovation in research, education, and clinical care, and has grown in both scope and ambition, accelerating the momentum of translational research, intensifying collaboration across all disciplines, and providing the impetus to reach new heights of excellence through closer integration of the research, clinical and educational dimensions of Mount Sinai's mission.

Dr. Davis served as Dean of the School from January 2003 through March 2007. Dr. Davis joined the faculty of the School in 1979, becoming Chief Executive of Psychiatry at James J. Peters VA Medical Center (Bronx) ("Bronx VA"). He spearheaded the School's research program in the biology of schizophrenia and was the first director of the Schizophrenia Biological Research Center at Bronx VA. In 1987, he was appointed Chairman of the School's Department of Psychiatry.

Dr. Davis directed Mount Sinai's National Institute on Aging-supported Alzheimer's Disease Research Center from 1984 to 2002. His work focused on all aspects of experimental therapeutics, including animal models, assessment instruments, and design issues in drug testing, including numerous studies of potential therapeutic agents to slow the course of Alzheimer's disease. Dr. Davis also directed the National Institute of Mental Health-funded Silvio O. Conte Center on the Neurosciences of Mental Disorders.

Dr. Davis received his bachelor's degree from Yale University, from which he graduated magna cum laude. He received his medical degree from the School, where he was valedictorian. He completed an internship and residency, and a fellowship in psychiatry and psychopharmacology, at Stanford University Medical Center, and thereafter won a career development award from the Veterans Administration to pursue his research in cholinergic mechanisms and neuropsychiatry diseases. Dr. Davis has authored or co-authored hundreds of scientific articles, and has been recognized by the Institute for Scientific Information as one of the most highly cited researchers in his field.

Dennis S. Charney, M.D., Dean. Dr. Charney is the Anne and Joel Ehrenkranz Dean of the School and Executive Vice President for Academic Affairs of the Medical Center. Dr. Charney succeeded Dr. Davis as Dean of the School in March 2007. From 2004-2006 he was the School's Dean for Research and Senior Vice President for Academic Affairs. From 2000-2004 Dr. Charney was the Chief of the Mood and Anxiety Disorder Research Program and the Experimental Therapeutics and Pathophysiology Branch at the National Institute of Mental Health ("NIMH"). Prior to his time at NIMH, Dr. Charney was Professor of Psychiatry and Deputy Chair of Academic and Scientific Affairs in the Department of Psychiatry at the Yale University School of Medicine.

Dr. Charney has accelerated the pace of change at Mount Sinai by emphasizing translational research, intensifying collaboration across disciplines, and further integrating research, clinical, and educational initiatives through the implementation of the School's strategic plan. This plan includes the creation of fourteen new translational research institutes, a redesign of the medical and graduate school curriculums, the expansion and establishment of outstanding clinical programs, and the construction of large new research and clinical buildings that are transforming the Mount Sinai campus.

Dr. Charney is a leading investigator in the neurobiology and treatment of mood and anxiety disorders. He has made fundamental contributions to the understanding of neural circuits, neurochemistry and functional neuroanatomy of the regulation of mood and anxiety and the psychobiological mechanisms of human resilience to stress. In addition, his research group has focused on the discovery of novel and more effective treatments for mood and anxiety disorders.

Dr. Charney has served on numerous national committees in the service of advancing the understanding of the causes and treatment of psychiatric disorders. He has been a member of the Food and Drug Administration Psychopharmacologic Drug Advisory Committee. Dr. Charney has chaired the Board of Scientific Counselors for NIMH and the Scientific Advisory Board of the Anxiety Disorders Association of America, the Depression and Bipolar Support Alliance Scientific Advisory Board, and is past President of the American College of Neuropsychopharmacology. He is also a member of the Scientific Advisory Board of the National Association for Research in Schizophrenia and Affective Disorder and the National Alliance for the Mentally Ill.

Douglas Jabs, M.D., M.B.A., Chief Executive Officer, Faculty Practice Associates, Dean for Clinical Affairs, Professor and Chair, Department of Ophthalmology, Professor of Medicine. Dr. Jabs is Chief Executive Officer of the Faculty Practice Associates, Dean for Clinical Affairs, and Professor and Chairman of the Department of Ophthalmology at the School. Previously, he was The Alan C. Woods Professor of Ophthalmology and Professor of Medicine at The Johns Hopkins University School of Medicine, Professor of Epidemiology at The Johns Hopkins University Bloomberg School of Public Health, and the Director of the Division of Ocular Immunology at The Wilmer Eye Institute. He received his undergraduate degree from Dartmouth College, his M.D. from The Johns Hopkins University School of Medicine, and his M.B.A. from Johns Hopkins University. He completed an internship in internal medicine at the Cornell Medical Center/New York Hospital, a residency in internal medicine at The Johns Hopkins Hospital, a residency in ophthalmology at The Wilmer Eye Institute, and a fellowship in rheumatology at The Johns Hopkins Medical Institutions. In 1984, he joined the faculty at The Johns Hopkins University School of Medicine and was promoted to Professor in both Ophthalmology and Medicine in 1993. In 2007, he became Chairman of the Department of Ophthalmology at the School, and in 2009, Dean for Clinical Affairs and CEO of the Faculty Practice Associates.

Dr. Jabs has been the recipient of such honors and awards as the Research to Prevent Blindness Olga Keith Wiess Scholar Award, the Research to Prevent Blindness Lew R. Wasserman Merit Award, the Research to Prevent Blindness Senior Scientific Investigator, the American Academy of Ophthalmology Achievement and Senior Achievement Awards, and the Ethel Baxter Award for Excellence in Research from the Sjögren's Syndrome Foundation. He was President of the American Uveitis Society from 2000 to 2002. He was a member of the Council of the American Academy of Ophthalmology, where he represented the American Uveitis Society from 2001 to 2006. He served on the National Eye Institute's Visual Sciences A Study Section from 1994 to 1998, the Association for Research in Vision and Ophthalmology's planning committee for the Immunology and Microbiology Section from 2000 to 2003, and the National Eye Institute Intramural Program's Data and Safety Monitoring Committee from 2001 to 2009. Dr. Jabs has held funding from the National Eye Institute since 1986. He is the chairman of the Studies of Ocular Complications of AIDS Research Group, an NIH-funded clinical research program since 1988, which has completed five randomized, controlled, clinical trials on the treatment of cytomegalovirus retinitis, and now conducts an ongoing prospective, cohort study of patients with AIDS. He is chairman of the Multicenter Uveitis Steroid Treatment Trial Research Group, an NIH-funded international multicenter clinical trials program, which is conducting a randomized, controlled, clinical trial of treatments for severe uveitis. He has authored or coauthored over 220 publications and 44 book chapters. He is an internationally acknowledged expert in the areas of uveitis and its treatment, the ocular complications of immune deficiency and of immune suppression, and cytomegalovirus retinitis.

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

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

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

Mr. Scanlon has been a Certified Public Accountant in New York State since 1987, and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Jeffrey Silberstein, Executive Vice President and Chief Operating Officer. Mr. Silberstein was appointed Executive Vice President, Administrative Affairs and Chief Administrative Officer of the School, the Hospital and the Medical Center in April 2003 and Chief Operating Officer of the School in 2009. Mr. Silberstein joined the School in June 1997, as the Administrative Director of the Department of Psychiatry. In March 2001, he became the Vice-Chairman of the Department of Psychiatry. Prior to joining Mount Sinai, Mr. Silberstein served as a consultant on financial information systems and was a Vice President at Salomon Brothers Inc. He received his Master in Business Administration from New York University and his bachelor's degree from the University of Pittsburgh.

Stephen T. Harvey, Senior Vice President and Chief Financial Officer. Mr. Harvey joined the School in 1991 and was appointed Chief Financial Officer of the School in 1999. As Chief Financial Officer of the School, Mr. Harvey is responsible for all aspects of the financial accounting and reporting for the School as well as accounts payable, payroll and cash management for the Medical Center. Prior to joining the School, Mr. Harvey was an audit manager at Coopers & Lybrand in Boston, MA with audit responsibilities principally in the higher education, healthcare and investment company industries. Mr. Harvey is a Certified Public Accountant. He received his Masters of Business Administration and Bachelor's Degree in Business Administration from University of Maine at Orono.

Mark Kostegan, FAHP, Senior Vice President for Development. Mr. Kostegan was appointed Senior Vice President for Development, Mount Sinai Medical Center in February of 2008. In this capacity, he is responsible for all fund-raising efforts for the Hospital and the School, providing leadership to Mount Sinai's one billion dollar capital fundraising campaign, *The Campaign for Mount Sinai-Special Place - Special Time*. The campaign was initiated in 2006 to support the strategic priorities of Mount Sinai. Mr. Kostegan has over thirty years of experience in medical fundraising. For seventeen of those years he worked in the Harvard University system, most recently as Vice President and Chief Development Officer for Brigham and Women's Hospital in Boston.

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



Office of Investments, Mr. Pittman taught corporate finance and microeconomics full time at Baylor's Hankamer School of Business.

### **Conflict of Interest**

The School has formal programs, monitored by its Audit and Compliance Committee, to identify potential conflicts of interest. The purpose of these programs is to ensure that all institutional decisions are made solely to promote the best interests of the School without favor or preference based upon personal considerations, and to provide for the highest ethical conduct with respect to the actions and business relations of all trustees, employees and voluntary staff. The School has procedures in place to ensure compliance with these programs as well as with the various laws and regulations affecting the School.

### **Principal Facilities and Properties**

*Icahn Medical Institute (1425 Madison Avenue)* – The Icahn Medical Institute, which is owned by the School, opened in January 1997. Approximately 55% of the 17-story, 735,000 square foot building provides state-of-the art biomedical research space for the School's expanding research program. The School leases the remainder of the building to the Hospital for patient care, clinical laboratories and administrative support activities.

*Annenberg Building (One Gustave L. Levy Place)* – The School leases approximately two-thirds of this 31-story, 586,000 square foot structure from the Hospital for teaching facilities, multidisciplinary laboratories and offices of instructional departments. The remainder of the facility is used for patient care by the Hospital.

*5 East 98th Street* – This building is used by the School for administrative offices, faculty practice patient care activities, and related teaching and research functions. The School occupies 92% of the 131,000 square feet in 5 East 98th Street. The remaining 8% of the building is used by the Hospital for its administrative offices. This 16-story building is leased by the School from the Hospital.

*Atran-Berg Laboratory (One Gustave L. Levy Place)* – The Atran-Berg Laboratory is a 10-story 126,000 square foot building leased from the Hospital, which houses both clinical and research laboratories.

*Center for Advanced Medicine (5-17 East 102<sup>nd</sup> Street)* – This 8-story newly renovated building, owned by the School, was opened in May 2008. The School occupies approximately 40% of the building to provide a variety of educational and research programs. The School leases the remainder of the building to the Hospital for outpatient clinical units, outpatient physical rehabilitation units as well as imaging and diagnostic facilities for outpatients.

*Jane B. Aron Hall (50 East 98<sup>th</sup> Street)* – The Jane B. Aron Hall owned by Mount Sinai Residential Real Estate Corporation was completed in 1984. The 14-story dormitory building contains 613 units which are occupied by medical students, graduate students, nurses and residents.

## Degree Granting Educational Programs

The School has robust degree granting programs and all of the students who graduate receive M.D. and/or Ph.D. and/or Masters Degrees. The number of medical students, graduate doctoral students and dual M.D./Ph.D. students attending the School for the 2009-2010 academic year is 439, 180 and 91, respectively. The School is highly selective and has a well-qualified student body. Of the 4,762 first year applications received for the 2009-2010 school year, the School accepted 335 and enrolled 140 students. The following table shows enrollment and matriculation for the past five years:

| <u>Entry Class</u> | <u>Total Enrollment</u> | <u>Applications Received</u> | <u>Students Accepted</u> | <u>Percentage Accepted</u> | <u>First Year Matriculation</u> |
|--------------------|-------------------------|------------------------------|--------------------------|----------------------------|---------------------------------|
| 2009               | 533                     | 4,762                        | 335                      | 7.0%                       | 140                             |
| 2008               | 516                     | 4,855                        | 320                      | 6.6%                       | 140                             |
| 2007               | 503                     | 4,730                        | 340                      | 7.2%                       | 140                             |
| 2006               | 487                     | 4,273                        | 271                      | 6.3%                       | 120                             |
| 2005               | 477                     | 4,153                        | 227                      | 5.5%                       | 120                             |

Candidates for admission to the School must submit letters of recommendation, interview with representatives of the Admissions Committee, take the Medical College Admissions Test (“MCAT”) and report their undergraduate grade point average (“GPA”). For the 2009-2010 academic year, the School attracted students with an overall MCAT average of 34.90 and an undergraduate GPA of 3.69. The student retention rate has averaged almost 99% over the past five years.

The School draws its students from all over the United States and Canada, with New York students representing approximately 45% of the student population. As a reflection of the high caliber of the student body, the six undergraduate schools which have provided the most enrollees to the School in the current academic year are: Johns Hopkins University, Cornell University, New York University, Columbia University, Duke University and Harvard College.

The School charges tuition to its students and has a robust financial aid and scholarship program to assist students in meeting their tuition payments and living expenses.

## Post Graduate Residency Education and Fellowship Program

The School’s residency and fellowship program educates and trains 870 residents and fellows in 72 programs approved by the Accreditation Council for Graduate Medical Education. The School’s post graduate residents and fellows are provided a broad educational experience, which is enhanced by the School’s close relationship with the Hospital and Elmhurst and Queens Hospital Centers, which are staffed by faculty from the School. The program is enhanced by the School’s formation and leadership of the Mount Sinai School of Medicine Consortium for Graduate Medical Education (“MSSM Consortium”). Through the MSSM Consortium, the School is affiliated with members of the Atlantic Health System (Morristown Memorial Hospital and Overlook Hospital), Elmhurst Hospital Center, Englewood Hospital and Medical Center, Good Samaritan Hospital Medical Center, Jersey City Medical Center, Bronx VA, North General Hospital, Queens Hospital Center, and St. Joseph’s Regional Medical Center. Through the MSSM Consortium, Mount Sinai residents and fellows are provided a broad educational experience and are afforded the opportunity to perform clinical rotations at the participating institutions with diverse patient bases and programmatic strengths.

## Research

The School is a major health sciences research center. In addition to the School’s traditional clinical and basic science departments found in all research centers of this kind, the School has created multidisciplinary interdepartmental research institutes and multidisciplinary centers, which are high in

scientific diversity, depth and integration. The research centers include the Brookdale Center for Molecular Biology, the Dr. Arthur M. Fishberg Research Center for Neurobiology, and the Derald H. Ruttenberg Cancer Center. Fourteen research institutes were created in 2006 to encourage a highly focused research effort and intense and frequent interaction of faculty from diverse backgrounds. The resulting departmental institute matrix is designed to provide the best opportunities for scientific breakthroughs relevant to human disease. The fourteen institutes include:

#### Health & Disease-Related Institutes

- Brain
- Cancer
- Child Health & Development
- Cardiovascular
- Emergency Pathogens
- Genomics
- Immunology
- Metabolism

#### Integrative Technology Institutes

- Disease Prevention & Public Health
- Experimental Therapeutics
- Medical Education
- Personalized Medicine
- Stem Cell
- Translational & Molecular Imaging

Each of these departments, centers, and institutes perform significant research activities, which are supported by federal and other sources. Recently, the School received major research grants in many areas, including but not limited to the following:

- Clinical and Translational Science (“CTSA”)
- Environmental medicine
- Medical genetics
- Human genomic studies
- Biomathematics and biophysical design of “smart” drugs
- Research, evaluation, and treatment systems for AIDS
- Drug abuse, research, and management
- Heart attack, strokes, and blood clotting
- Schizophrenia
- Aging malfunction
- Medical scientist training (M.D./Ph.D.)
- Rehabilitation after head and spinal cord trauma
- Neurobiology sciences

Research expenses were \$303.8 million in 2008 and have grown at an average annual rate of approximately 9.3% over the past five years. The School’s financial policies include grant acceleration initiatives that encourage research faculty to spend their annual grant awards according to the budget. Despite the acceleration in grant spending, as a result of the success of the School’s faculty in obtaining new grants, the backlog of unexpended grants continues to grow, exceeding \$268 million at the end of August 2009.

The following table summarizes federal and non-federal sponsored research award expenditures over the past five years and the eight months ended August 31, 2009 (dollars in thousands):

|                               |      | Federal             |              | Non-Federal       |              | Total               |               |
|-------------------------------|------|---------------------|--------------|-------------------|--------------|---------------------|---------------|
|                               |      | Amount              | % of Tot     | Amount            | % of Tot     | Amount              | % of Tot      |
| Eight Months Ended August 31, | 2009 | \$ 169,798          | 81.8%        | \$ 37,701         | 18.2%        | \$ 207,499          | 100.0%        |
| Year Ended December 31,       | 2008 | 253,319             | 83.4%        | 50,526            | 16.6%        | 303,845             | 100.0%        |
| Year Ended December 31,       | 2007 | 221,507             | 83.8%        | 42,677            | 16.2%        | 264,184             | 100.0%        |
| Year Ended December 31,       | 2006 | 229,736             | 83.9%        | 44,065            | 16.1%        | 273,801             | 100.0%        |
| Year Ended December 31,       | 2005 | 208,476             | 84.4%        | 38,576            | 15.6%        | 247,052             | 100.0%        |
| Year Ended June 30,           | 2004 | 181,625             | 80.6%        | 43,659            | 19.4%        | 225,284             | 100.0%        |
|                               |      | <u>\$ 1,264,461</u> | <u>83.1%</u> | <u>\$ 257,204</u> | <u>16.9%</u> | <u>\$ 1,521,665</u> | <u>100.0%</u> |

The School is optimistic about the research program given the current grant backlog, the new stimulus grants through the American Renewal and Recovery Act Program, from which the School has already received 104 grants for more than \$34.6 million, the success of new research recruits and the success of existing faculty in retaining existing grant awards and obtaining new awards. Other examples of this success include:

- The School's NIH funding ranked among academic medical centers has increased from #25 to #18 over the past five years.
- Based on a recent American Association of Academic Medical Center (AAMC) Survey, the School's research productivity, as measured by direct research expenditures per principal investigator (\$275,000), and grant \$'s per net assignable square foot (\$651), are among the highest for academic medical centers.
- A five year \$35 million CTSA translational research award was received this June, the largest CTSA award made by NIH this year.

### Clinical Programs; Faculty Practice Associates

To support the School's education, research and patient care missions, faculty members are encouraged to engage in direct patient care activities. These clinical activities facilitate the recruitment and retention of superior full-time faculty and enrich the training opportunities available to the School's health staff and students. They are essential to the School's clinical research programs and to the promotion of the highest quality patient care.

The Faculty Practice Associates Plan (the "Plan" or "FPA") is in its 38th year of operation. Almost all physicians with full-time faculty appointments in the School who practice primarily at Mount Sinai participate in the Plan. The balance of the School's clinical faculty members do not practice primarily at Mount Sinai and do not participate in the Plan. In addition, voluntary members of the faculty are not eligible to participate. Rules and procedures governing participation in the Plan are based on recommendations of the Plan's Advisory Council, subject to approval of the Dean, and are applicable to all participants. As of August 31, 2009, there were 867 participants in the Plan.

FPA receipts growth has averaged 15.1% annually over the past five years and approximated \$364 million in 2008. FPA receipts were ranked among the top 5 U.S. academic medical center faculty practices in receipts per doctor, at \$439,041 in 2008. The rapid growth results from new recruits, physician productivity and billing/collection improvement initiatives. The uniform compensation plan model that was implemented across the 25 clinical departments sets limitations on salary supplementation and standards for clinical effort which is measured with effort reports and work relative value units (wRVUs). According to the compensation model, clinicians who do not meet these productivity standards risk having their supplements and base salaries reduced.

The success of faculty productivity initiatives are enhanced by more effective billing and collection activities. The installation of a unified billing system has been enhanced with additional modules that scrub claims before they are submitted to minimize denials. In 2008, the EPIC electronic medical record system was successfully installed in the FPA clinics.

FPA finances are closely monitored with a monthly performance matrix that evaluates each clinical department's faculty practice performance on 15 separate financial, operational, quality and compliance indicators. On a quarterly basis, Dr. Davis and Dean Charney review the performance matrix with the department chairmen. These quarterly meetings provide a forum to review and discuss the financial results for each department and an opportunity to share ideas for both continued financial improvement and corrective actions for departments that have financial issues.

During 2008, gross revenues from the Plan provided approximately 37% of the School's total revenues. Funds generated by the School from these activities are used to support educational research and training programs of the School, including salaries of faculty and staff, along with administrative and other expenses. The Plan has grown both in the number of participants and in gross receipts over the past three and one-half years, which the School attributes to better capacity utilization and enhanced efficiencies. The following table illustrates this growth (dollars in thousands):

|                       | <u>December 31,</u> |             |             | <u>August 31,</u> |
|-----------------------|---------------------|-------------|-------------|-------------------|
|                       | <u>2006</u>         | <u>2007</u> | <u>2008</u> | <u>2009</u>       |
| Receipts              | \$273,833           | \$310,995   | \$363,526   | \$264,353         |
| Total Faculty Members | 750                 | 789         | 828         | 867               |
| Receipts / Faculty    | \$365               | \$394       | \$439       | \$305*            |

\* Projected annualized receipts/faculty: \$457.

The School has pledged revenues of the Plan to secure the School's obligations under the Loan Agreement. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2009 BONDS - Security for the Series 2009 Bonds - Pledged Revenues."

### **Professional Services Agreement**

In addition to the clinical programs described above, the School provides professional services to Elmhurst Hospital Center and Queens Hospital Center, both located in Queens, New York, pursuant to an agreement with the New York City Health and Hospitals Corporation ("HHC Professional Services Agreement"). In accordance with the governing affiliation agreement, currently negotiated through June 30, 2012, HHC pays the School for its professional services on a cost based budget. For 2009, the School anticipates that it will receive approximately \$180.0 million pursuant to this agreement. For the years ended, December 31, 2008 and 2007, the School received \$173.9 million and \$160.4 million, respectively. These long-standing affiliations provide an important enhancement of the School's educational and clinical programs.

### **Philanthropy**

The School's strong financial performance and the capital campaign element of the Strategic Plan (See "PART 4 - THE INSTITUTION – GENERAL INFORMATION - The Strategic Plan and Factors Affecting Financial Performance") have facilitated growth in donor support. Unrestricted, temporarily restricted and permanently restricted donations increased dramatically from \$59.8 million in 2004 to \$112.2 million in 2008. The significant growth in philanthropic support includes temporarily restricted support of more than \$150 million over the past five years for the President's Fund, which the School is using to support faculty recruitment and retention initiatives.

A \$1 billion Medical Center capital campaign to support strategic plan growth initiatives is currently in the silent phase with more than \$450.5 million of cash and pledges identified. In 2009, \$67.4 million has been received or pledged, including a recent \$33.3 million grant from the Helmsley Foundation to support heart research, electrophysiology clinical programs and clinical immunology.

The following table summarizes restricted gifts and pledges over the past five years and eight months ended August 31, 2009. Private grants and contracts are included in the previous sponsored research table (dollars in thousands):

|                               |      | <u>Unrestricted<br/>Contributions</u> | <u>Temporarily<br/>Restricted<br/>Contributions</u> | <u>Permanently<br/>Restricted<br/>Contributions</u> | <u>Total<br/>Contributions</u> |
|-------------------------------|------|---------------------------------------|---|---|--------------------------------|
| Eight Months Ended August 31, | 2009 | \$ 5,980                              | \$ 23,734   | \$ 4,401  | \$ 34,115*                     |
| Year ended December 31,       | 2008 | 28,818                                | 55,863  | 27,521  | 112,202                        |
| Year ended December 31,       | 2007 | 28,151                                | 113,391   | 1,153   | 142,695                        |
| Year ended December 31,       | 2006 | 28,279                                | 37,125  | 25,131  | 90,535                         |
| Year ended December 31,       | 2005 | 30,938                                | 39,094  | 22,832  | 92,864                         |
| Year ended June 30,           | 2004 | 26,450                                | 30,697  | 2,597   | 59,744                         |

\* Does not include \$33.3 million Helmsley Foundation grants for Heart and Immunology Institutes.

## Faculty

As of December 31, 2008, the School had 1,751 full-time faculty members consisting of both M.D.s and Ph.D.s, of which approximately 1,561 are in the clinical sciences department and approximately 190 are in the basic sciences department. In addition, the School currently has approximately 324 salaried, part-time faculty members who have admitting privileges at the Hospital. In addition, the School has 1,856 voluntary faculty members.

The size of the faculty provides the School with a favorable faculty to student ratio of 3.3 faculty members for every medical student and 7.9 faculty members for every graduate student.

The following chart shows various levels of the School's employed faculty for the fall of the last five years:

| <u>Fiscal<br/>Year</u> | <u>Full-time<br/>Faculty</u> | <u>Part-time<br/>Faculty</u> | <u>Total Faculty</u> | <u>Percent of<br/>Total Faculty<br/>Tenured</u> |
|------------------------|------------------------------|------------------------------|----------------------|---|
| 2008 - 2009            | 1,751                        | 324                          | 2,075                | 11.9%   |
| 2007 - 2008            | 1,739                        | 312                          | 2,051                | 11.3  |
| 2006 - 2007            | 1,721                        | 313                          | 2,034                | 11.2  |
| 2005 - 2006            | 1,754                        | 288                          | 2,042                | 11.5  |
| 2004 - 2005            | 1,697                        | 252                          | 1,949                | 12.5  |

## Employees

Most employees of the School are not represented by a union. The major exceptions are: (i) a group of 376 physicians, 58 physician assistants and 185 technical staff who provide professional services at Elmhurst Hospital Center and Queens Hospital Center and (ii) 103 support staff who work on the main School campus in Manhattan (less than 5% of the support staff on the School's main campus). The 376 physicians are represented by the Doctor's Council (pursuant to a Collective Bargaining Agreement that was ratified by the Doctor's Council on September 23, 2009 and expires on June 30, 2012), and the 58 physician assistants and 185 technical staff are represented by 1199SEIU (pursuant to a Collective Bargaining Agreement that expires

on September 30, 2011). The 103 support staff on the main campus are represented by two different unions: 1199SEIU and the New York State Nurses Association. The School has a positive relationship with each of these collective bargaining agents.

The School also purchases services from the Hospital, which has a large percentage of its employees represented by unions. The unions which represent a significant number of employees at the Hospital are 1199SEIU and NYSNA. Other unions at the Hospital include a security guard's union, a pharmacists' union, a physical therapist's union and a real estate maintenance workers' union. The Hospital, to date, has had satisfactory working relationships with its unions.

The School offers all employees the opportunity to participate in a Tax Sheltered Annuity 403(b) plan. Currently, all employees are eligible to contribute to the plan upon date of hire. Additionally, the School contributes to the 403(b) accounts for faculty and staff in varying amounts based upon the terms of the plan. The plan is funded monthly. The School provides health insurance, life insurance, and prescription benefits to certain of its retired employees who, as of January 1, 2004, satisfied certain criteria related to length of service at the School and are at least 62 years-old at retirement. The plan contains cost-sharing features such as deductibles and coinsurance. To date, the School has made all required contributions to all applicable pension plans and there are no funding deficiencies.

## **The Strategic Plan and Factors Affecting Financial Performance**

### *Strategic Plan*

The School's ability to attract and retain outstanding research faculty has been enhanced by its Strategic Plan, which was implemented in 2006. The Strategic Plan emphasizes "focused growth in translational research," and is designed to facilitate "therapeutic breakthroughs." According to the translational model, the School hopes to enhance its biomedical research by building research teams for 21st century science that are characterized by (i) moderate size, (ii) a multidisciplinary approach, and (iii) intense and frequent interaction with peers. The School's faculty has embraced the translational science vision for the School's future as reflected in the strong faculty retention and recruitment results over the past four years.

The goal of the 10-year Strategic Plan is to identify and recruit research leaders who share the School's strategic vision and goals. To facilitate this recruitment, the School has engaged in substantial capital spending, to culminate in the construction of the Center for Science and Medicine. The recruits will be supported by operations, existing pledges and a capital campaign. The research of the new recruits will focus on integrated clinical research across the life span, specific diseases, and research opportunities appropriate to the available patient population.

There are two phases to the recruitment plan. First, the School planned to recruit as many as 65-75 additional research and clinical faculty members by 2011. To date, more than 60 additional research and clinical faculty members have been recruited. These researchers occupy six floors of recently renovated research space in the Atran-Berg building and new research space included in the Center for Advanced Medicine. Existing research space to support new recruits will also be reallocated from departments that are not achieving the School's research productivity targets. These new recruits currently have more than \$50 million of grant awards.

Next, the School plans to construct the Center for Science and Medicine, a new translational research facility to support the recruitment of 90-100 new basic science research faculty members, which will be completed in early to mid-2012.

To ensure that each new recruitment builds on the School's continuing financial improvement and achieves favorable financial results, all recruitment plans are subject to financial policies that require business

plans, adherence to the School's research productivity standards and identified funding sources to support the start-up phase of each program.

### *Center for Science and Medicine*

Construction of the Center for Science and Medicine (CSM) is the centerpiece of the Strategic Plan. Construction of this facility is critical to the success of the Strategic Plan:

- As a result of the continuing success of research and clinical programs (and despite creation of new research space in the Center for Advanced Medicine, Atran-Berg and Annenberg), the School is very close to fully utilizing its available research and clinical space. The CSM will provide the space necessary for the continued growth in translational research, cancer clinical operations, and FPA physician practice facilities.
- The School's revenue diversity is similar to that of other private, stand-alone medical schools, which rely on sponsored research and the faculty practice to a much greater degree than tuition revenue. The CSM will enhance research and clinical revenues, the School's two largest revenue sources.
- CSM will facilitate the linkage between research and clinical treatments and will ultimately increase the quality of clinical care in various disease managements.
- The research investment in CSM will focus on: (i) Health Policy, Environmental Medicine and the Epidemiology of serious medical disorders, (ii) Basic Science leading to therapeutic discoveries, and (iii) an emphasis on discovery leading to valuable intellectual property and industry partnerships.

See "PART 5 - THE SERIES 2009 PROJECT", for a more complete description of the Project.

### *Capital Project Funding*

Over the past four years the School has expended more than \$330 million on capital renovations in support of Strategic Plan initiatives and to help enable the construction of CSM. These capital projects were constructed with School funds and bond proceeds. The most significant projects include:

- The renovation of the 161,000 square-foot Center for Advanced Medicine (formerly the School's 102<sup>nd</sup> Street parking garage), completed in 2008, facilitated the consolidation of Hospital clinics and provides space for research and clinical programs that were displaced from the Primary Care and Basic Science Buildings (which were demolished to make room for construction of the CSM). The Center for Advanced Medicine is used approximately 60% by the Hospital and 40% by the School. The total cost of renovating the parking garage was \$78.0 million, which was financed with \$63 million of 2007 Bonds and \$15.8 million of equity.
- *The Atran-Berg Laboratory* – This 95,000 square-foot, eight-floor building was completely renovated at a total cost of \$53.7 million to provide research and clinical space for the School's rapidly growing programs. The project costs were financed with \$11.8 million of 2007 Bonds and \$41.9 million of equity.
- *The Annenberg Building* – The School has conducted more than \$78.3 million of renovations to upgrade research, education and administrative space in this 35 year-old building over the past 4 years. These projects were supported with \$25.6 million of 2007 Bonds and \$74.4 million of equity. The School has applied for \$60 million of construction funding



through the Federal ARRA Stimulus grant programs which, if awarded, will be used to replace HVAC systems and renovate additional laboratory space in the Annenberg Building.

#### *Expense Reduction Plan*

The School successfully implemented a 5% expense reduction program that more than covers the modest loss in the 5% endowment spending rate income supporting operations that resulted from market losses in 2008.

#### *CARTS Budget Model/Financial Oversight*

The School implemented a formula-based CARTS budget model (C – Clinical, A – Administrative, R – Research, T – Teaching, S – Strategic) in 2003. The CARTS model allocates departmental funding based upon performance. The School enhanced the CARTS model with improved financial reports that evaluate the performance of each department chairman according to financial, operational, quality and compliance indicators. A Financial Improvement Committee oversees corrective actions and ensures they are implemented in a timely fashion when either basic science or clinical departments experience financial problems. All capital projects are subject to a critical review to ensure they add value to education, research and patient care initiatives. Prudent business plans are required for all new recruitments and programmatic initiatives.

#### *Measures of Success*

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

- The School's *U.S. News & World Report* ranking has increased from #33 to #22 in the past five years.
- The School's NIH ranking has increased from #25 to #18 in the past five years (based on publicly available data).
- To date, the School is among the largest recipients in New York of Federal research grants awarded through the ARRA stimulus program with 84 grants totaling \$28 million.
- The School received a \$35 million five year CTSA grant award in June to conduct translational research, the largest CTSA grant awarded by NIH to any academic medical center this year.
- Best Doctors in New York (as published by *New York Magazine*)
  - 152 FPA Doctors in 49 specialties
  - Total 415 in 56 specialties (includes voluntaries, affiliates, and non-FPA)
- 4,762 applications for entering Medical Education class of 140
- 2009 winner of AAMC Spencer Foreman Community Service Award

**THERE CAN BE NO ASSURANCES THAT ACTIONS TAKEN OR PLANNED WILL HAVE THE INTENDED IMPACT ON THE SCHOOL'S PERFORMANCE OR FINANCES.**

#### **Accreditation**

In 2005, the School received a 7-year re-accreditation from the Liaison Committee for Medical Education, the nationally acknowledged authority for accreditation of educational programs leading to the M.D. degree. The School is a member of the Association of American Medical Colleges and the Associated Medical Schools of New York State. The School is also included within the scope of the accreditation of NYU by the Middle State Commission on Higher Education ("MSCHE"). The School is in the process of obtaining

independent accreditation from Middle States and is currently in a “Self-Study”, which is the final stage of this process. The School anticipates that it will receive MSCHE accreditation by November 2010. In addition, all MSSM degree-granting educational programs are registered with the New York State Education Department (NYSED), and in 2010, the School will petition NYSED for a charter amendment to recognize the School’s independent status. After the School has received MSCHE accreditation and NYSED approval, the dissolution of the NYU academic affiliation will be completed.

## **Affiliations**

The School also has affiliation agreements with a number of other healthcare institutions. These affiliations enrich the educational, clinical and research programs of the School (see “PART 4 - THE INSTITUTION – GENERAL INFORMATION - Post Graduate Residency Education and Fellowship Program”). The major affiliations include:

- Atlantic Health System, which includes Morristown Memorial Hospital and Overlook Hospital;
- Elmhurst Hospital Center in Queens, a hospital center that is part of New York City Health and Hospitals Corporation (the School provides professional services at Elmhurst Hospital Center pursuant to the HHC Professional Services Agreement (see “Professional Services Agreement” above));
- Englewood Hospital and Medical Center, a teaching hospital and the largest voluntary acute care facility in Bergen County, New Jersey;
- Good Samaritan Hospital Medical Center, which includes Bon Secours Community Hospital, Good Samaritan Hospital, and St. Anthony Community Hospital;
- James J. Peters Veterans Affairs Medical Center (Bronx VA), a tertiary care center for veterans in metropolitan New York, which also includes major research facilities;
- Jersey City Medical Center, a teaching hospital in Jersey City, New Jersey;
- The Jewish Home and Hospital for the Aged, which includes two large nursing home facilities in Manhattan and the Bronx;
- Maimonides Medical Center, a facility located in Brooklyn, New York, with numerous outpatient clinics, ambulatory care centers, community affiliations and partnerships;
- New York University (the School is affiliated with NYU for degree granting purposes);
- North General Hospital, which provides primary and secondary care services to residents of Central and East Harlem;
- Queens Hospital Center, a major provider of healthcare services to the Southeast Queens community that is part of the New York City Health and Hospitals Corporation (the School provides the professional services at Queens Hospital Center pursuant to the HHC Professional Services Agreement (see “Professional Services Agreement” above));
- St. Joseph’s Hospital and Medical Center, a medical center located in Paterson, New Jersey, including a Children’s Hospital that is one of four designated children’s hospitals in the State of New Jersey.

## OPERATING INFORMATION

### Financial Discussion

#### ANNUAL FINANCIAL STATEMENT INFORMATION

The following selected financial data for the years ended December 31, 2008, 2007 and 2006 are derived from the consolidated financial statements of the School (See “Appendix B - Consolidated Financial Statements of Mount Sinai School of Medicine of New York University for the Years Ended December 31, 2008 and 2007 and for the Years Ended December 31, 2007 and 2006 with Reports of Independent Auditors”). The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein (dollars in thousands):

|   | <b>December 31</b> |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | <b>2008</b>        | <b>2007</b>       | <b>2006</b>       |
| <b>Changes in unrestricted net assets:</b>                                      |                    |                   |                   |
| <b>Revenues, gains, support and reclassifications:</b>                          |                    |                   |                   |
| Patient care services   | \$ 402,565         | \$ 374,444        | \$ 348,127        |
| New York City Health and Hospitals Corporation                                  | 173,865            | 160,423           | 151,512           |
| Private gifts, grants and contracts   | 79,344             | 70,829            | 72,346            |
| Federal grants and contracts  | 253,319            | 221,507           | 229,736           |
| Return on long-term investments   | (76,346)           | 64,042            | 58,486            |
| Tuition and fees  | 20,409             | 18,865            | 18,330            |
| Royalty revenue   | 36,559             | 24,632            | 19,000            |
| Other support   | 20,047             | 22,091            | 20,886            |
| The Mount Sinai Hospital CARTS transfer   | <u>74,824</u>      | <u>67,415</u>     | <u>60,705</u>     |
|   | 984,586            | 1,024,248         | 979,128           |
| Net assets released from restrictions   | <u>45,780</u>      | <u>32,726</u>     | <u>21,759</u>     |
| <b>Total revenues, gains support and reclassifications</b>                      | <u>1,030,366</u>   | <u>1,056,974</u>  | <u>1,000,887</u>  |
| <b>Expenses:</b>  |                    |                   |                   |
| Program Services:   |                    |                   |                   |
| Patient care services   | 467,296            | 437,992           | 416,846           |
| Sponsored research  | 223,991            | 191,477           | 191,655           |
| Basic and clinical sciences   | 241,682            | 216,380           | 171,655           |
| Scholarships  | <u>2,072</u>       | <u>2,200</u>      | <u>1,882</u>      |
| <b>Total program services</b>   | <u>935,041</u>     | <u>848,049</u>    | <u>782,038</u>    |
| Support Services:   |                    |                   |                   |
| General administration and support services                                     | <u>201,069</u>     | <u>165,895</u>    | <u>160,303</u>    |
| <b>Total expenses</b>   | <u>1,136,110</u>   | <u>1,013,944</u>  | <u>942,341</u>    |
| (Decrease)/Increase in unrestricted net assets before non-operating items       | <u>(105,744)</u>   | <u>43,030</u>     | <u>58,546</u>     |
| Effect of change in accounting principle for other postretirement plan          | -                  | (1,072)           | -                 |
| Investment return deficiency on permanently restricted net assets               | (11,461)           | -                 | -                 |
| Decrease in net assets for the disassociation of International Longevity Center | <u>(8,369)</u>     | <u>-</u>          | <u>-</u>          |
| <b>(Decrease)/Increase in unrestricted net assets</b>                           | <u>(125,574)</u>   | <u>41,958</u>     | <u>58,546</u>     |
| <b>Changes in temporarily restricted net assets:</b>                            |                    |                   |                   |
| Private gifts, grants and contracts   | 55,863             | 113,391           | 37,125            |
| Return on long-term investments   | (69,506)           | 13,879            | 26,551            |
| Decrease in net assets for the disassociation of International Longevity Center | (602)              | -                 | -                 |
| Net assets released from restrictions   | <u>(45,780)</u>    | <u>(32,726)</u>   | <u>(21,759)</u>   |
| <b>Total changes in temporarily restricted net assets</b>                       | <u>(60,025)</u>    | <u>94,544</u>     | <u>41,917</u>     |
| <b>Changes in permanently restricted net assets:</b>                            |                    |                   |                   |
| Decrease in net assets for the disassociation of International Longevity Center | (2,821)            | -                 | -                 |
| Private gifts   | <u>27,521</u>      | <u>1,153</u>      | <u>25,131</u>     |
| <b>Total changes in permanently restricted net assets</b>                       | <u>24,700</u>      | <u>1,153</u>      | <u>25,131</u>     |
| (Decrease)/Increase in net assets   | (160,899)          | 137,655           | 125,594           |
| Net assets at beginning of year   | <u>925,605</u>     | <u>787,950</u>    | <u>662,356</u>    |
| Net assets at end of year   | <u>\$ 764,706</u>  | <u>\$ 925,605</u> | <u>\$ 787,950</u> |

Note to table: Return on long-term investment includes the School’s total investment returns. The School’s unrestricted operating results for each of the three years (2006-2008) are approximately breakeven if just the 5% endowment spending income is included.

## Management's Discussion of Financial Performance

This section includes a discussion of financial performance for the years ended December 31, 2008, 2007 and 2006 as well as the significant financial initiatives that resulted in financial improvements and the strategic plan implementation during the 2006-2008 period.

### *Years Ended December 31, 2008 and 2007*

For the year ended December 31, 2008, the School recorded a decrease in total net assets of (\$160.9) million compared to an increase in total net assets of \$137.7 million for the year ended December 31, 2007. For 2008, the School's unrestricted operating results, including the 5% endowment spending rate, were approximately breakeven. However, when investment losses beyond the 5% endowment spending rate of (\$114.3) million and a one-time disaffiliation charge of (\$8.4) million are included, the operating loss was (\$125.6) million. The total decrease in net assets for the year ended December 31, 2008 consists of a (\$125.6) million decrease in unrestricted net assets, a (\$60.0) million decrease in temporarily restricted net assets comprised of \$55.9 million of gifts, offset by net assets released from restrictions (\$45.8) million and investment losses of (\$69.5) million, and a \$24.7 million increase in permanently restricted net assets primarily from endowment gifts.

For the year ended December 31, 2008, the School recorded total revenues, gains, support and reclassifications of \$998.5 million consisting of: 40% from patient care services (principally the School's faculty practice); 25% from research activities, including federal and nonfederal direct revenue and facilities and administrative recovery; 17% from the HHC Professional Services Agreement; 7% from Hospital support; 16% from philanthropic sources; (15%) from investment losses; 2% from tuition and fees; and 8% from other sources. As compared to 2007, total revenues, gains, support and reclassifications decreased by \$154.2 million, where increases in patient care services of \$28.1 million, federal grants and contracts of \$31.8 million, HHC professional services agreement revenue of \$13.4 million, Hospital CARTS support of \$7.4 million, royalty revenue of \$11.9 million and tuition of \$1.5 million were offset by decrease in private gifts, grants and contracts of (\$22.6) million, losses on long-term investments of (\$223.7) million, and other revenue of (\$2.0) million.

Expenses for 2008 totaled \$1.14 billion consisting of: 41% in patient care services; 20% in sponsored research; 21% in basic and clinical sciences and scholarships; and 18% in general administration and support services and other charges. As compared with 2007, total expenses increased by \$122.2 million or 12%. The increases in expenses related to patient care services of \$29.3 million and basic and clinical sciences department and scholarships of \$25.3 million were largely the result of growth in clinical programs, principally the Faculty Practice Association and growth in departmental activities related to the Strategic Plan to support expansion in education, research and patient care programs. Research expenses increased by \$32.5 million as a result of the success of existing research faculty in obtaining new grants and from the grants of new research faculty recruited as part of the Strategic Plan. Research expenses are funded primarily by reimbursement from the federal and nonfederal sponsors of the research, which is supplemented by institutional sources. General administration and support services expenses increased by \$35.2 million as the School provided more services and facilities to support education, research and clinical programs according to the Strategic Plan.

### *Years Ended December 31, 2007 and 2006*

For the year ended December 31, 2007, the School recorded an increase in total net assets of \$137.7 million compared to an increase in total net assets of \$125.6 million for the year ended December 31, 2006. The \$42.0 million net operating surplus is primarily attributable to growth in patient care services, growth in federal and nonfederal research operations, favorable investment returns and controlling the growth of operating expenses. The total increase in net assets for the year ended December 31, 2007 consists of a \$42.0 million increase in unrestricted net assets, a \$94.5 million increase in temporarily restricted net assets comprised of \$113.4 million of gifts, \$13.9 million of investment returns offset by (\$32.7) million of net assets

released from restrictions and a \$1.2 million increase in permanently restricted net assets from endowment gifts.

For the year ended December 31, 2007, the School recorded total revenues, gains, support and reclassifications of \$1.153 billion consisting of: 32% from patient care services (principally the School's faculty practice); 19% from research activities, including federal and nonfederal direct revenue and facilities and administrative recovery; 14% from the HHC Professional Services Agreement; 6% from Hospital support; 16% from philanthropic sources; 7% from investment returns; 1.6% from tuition and fees; and 4.4% from other sources. As compared to 2006, total revenues, gains, support and reclassifications increased by \$84.7 million, where increases in patient care services of \$26.3 million, private gifts, grants and contracts of \$50.8, HHC professional services agreement revenue of \$8.9 million, Hospital CARTS support of \$6.7 million, royalty revenue of \$5.6 million, other revenue of \$1.2 million and tuition of \$0.5 million were offset by decrease in federal grants and contracts of (\$8.2) million and losses on long-term investments of (\$7.1) million.

Expenses for 2007 totaled \$1.014 billion consisting of: 43% in patient care services; 19% in sponsored research; 21% in basic and clinical sciences and scholarships; and 17% in general administration and support services and other charges. As compared with 2006, total expenses increased by \$71.6 million or 8%. The increases in expenses related to patient care services of \$21.1 million principally from growth in physician compensation related to their productivity in the Faculty Practice and basic and clinical sciences department and scholarships of \$45.0 million which is directly related to Strategic Plan investments in new clinical and research recruitments. The research expenses are reimbursed by the federal and nonfederal sponsors of the research and decreased slightly ((\$.1) million) in 2007 compared to 2006. General administration and support services expenses increased by \$5.6 million.

### **Endowment and Investments**

At December 31, 2008, the market value of the School's investments, including endowment funds, totaled approximately \$478.1 million, which had increased to \$526.9 million as of August 31, 2009. At December 31, 2008, approximately \$288.8 million was classified as permanently restricted and \$104.6 million was classified as temporarily restricted in accordance with U.S. generally accepted accounting principles. The remaining \$84.7 million was classified as unrestricted net assets.

Endowment fund net assets are subject to certain restrictions that are set forth in the gift instruments. Permanently restricted net assets include endowment assets that must be held in perpetuity, such as the original dollar value of the gift. Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets.

The amount available for endowment spending is currently determined annually by applying a rate (currently 5%) to the average market value of endowment assets for the preceding three calendar years. This policy is intended to utilize the School's endowment income to sustain growth of the endowment while providing funds for operational expenses. The Board of Trustees approves the endowment spending rate policy annually.

*Investment Pool Oversight, Valuation and Liquidity*

The Investment Committee of the Board of Trustees establishes the investment policy and guidelines and is responsible for supervising the investment of the endowment and similar funds. There are a minimum of six investment committee meetings per year. Day to day oversight and monitoring of the investment portfolio has been enhanced with the hiring of a Chief Investment Officer, Scott Pittman, this past January. The Investment Committee membership includes:

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

The majority of the School's investments are in a pooled investment portfolio maintained for the benefit of the Hospital, the Medical Center and the School. Investments consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value as determined based on independent published sources (quoted market prices). Investment income is allocated to investment pool participants using the market value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually and is based on total return. Realized gains and losses from the sale of securities are computed using the average cost method. The School also recognizes investment income (realized and unrealized) pertaining to investments held by the Medical Center on its behalf.

The value of the investment pool is determined on a monthly basis and a comprehensive monthly investment report is provided to the Investment Committee. The School retains established investment managers, with whom the Chief Investment Officer speaks on a regularly basis, to manage its funds. No individual manager is responsible for more than 5.8% of the total investment pool. The investments are diversified with less than 10% of the portfolio allocated to private equity. Although, the allocation to hedge funds is significant at 70%, the individual funds are broadly diversified and most have quarterly or annual withdrawal terms. There has never been an instance where the full market value as reported in the monthly investment report was not received when an investment was liquidated from the pool.

Despite the market downturn in 2008, the School portion of the investment pool has grown by \$162.9 million over the past six years to \$503.2 million as of August 2009. Mount Sinai's investment portfolio loss of (25.5%) in 2008 was significantly better than the S&P 500 loss of (37.0%). The portfolio has gained 15.1% through August of 2009.

Cash requirements, principally the 5% endowment spending rate funds that support operations, are budgeted annually and updated monthly. The time restrictions on investments withdrawals are monitored on a monthly basis. As a result, cash in excess of immediate 5% endowment spending rate needs is readily available.

The following table shows the value of the School's investments at carrying value at the end of each of the past three years and at August 31, 2009 (dollars in thousands):

|  | December 31,      |                   |                   | August 31         |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2006              | 2007              | 2008              | 2009              |
|  | Carrying Value    | Carrying Value    | Carrying Value    | Carrying Value    |
| Cash and cash equivalents  | \$ 43,080         | \$ 41,400         | \$ 3,096          | \$ 32,201         |
| Fixed income securities  |                   |                   |                   |                   |
| Corporate and other  | 7,745             | -                 | -                 | -                 |
| U.S. Government agency obligations, including interpool settlement | 1,565             | (2,596)           | 2,466             | 4,836             |
| Marketable equity securities                                       | -                 | -                 | -                 | -                 |
| Alternative investments  |                   |                   |                   |                   |
| Hedge funds  | 460,979           | 533,737           | 374,819           | 380,289           |
| Private equity   | <u>43,520</u>     | <u>53,725</u>     | <u>62,775</u>     | <u>85,874</u>     |
|  | 556,889           | 626,266           | 443,156           | 503,200           |
| Investments in other   | <u>25,161</u>     | <u>41,122</u>     | <u>34,949</u>     | <u>23,794</u>     |
| Total  | <u>\$ 582,050</u> | <u>\$ 667,388</u> | <u>\$ 478,105</u> | <u>\$ 526,994</u> |

### Composition of Investment Pool

|                            | December 31,       |                    |                    | August 31,         |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
|                            | 2006               | 2007               | 2008               | 2009               |
| Cash                       | 5%                 | 6%                 | 1%                 | 6%                 |
| Domestic Equity            | 11%                | 10%                | 8%                 | 8%                 |
| International Equity       | 2%                 | 5%                 | 4%                 | 2%                 |
| Fixed Income               | 6%                 | 5%                 | 6%                 | 6%                 |
| Hedge Funds                | 71%                | 69%                | 73%                | 68%                |
| Private Equity/Real Estate | <u>5%</u>          | <u>5%</u>          | <u>8%</u>          | <u>10%</u>         |
| <b>Total</b>               | <b><u>100%</u></b> | <b><u>100%</u></b> | <b><u>100%</u></b> | <b><u>100%</u></b> |

### Property, Plant and Equipment

The following table shows the historical cost and net book value of the School's physical plant at the end of each of the past three years and at August 31, 2009 (dollars in thousands):

|  | December 31,      |                   |                   | August 31,        |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2006              | 2007              | 2008              | 2009              |
| Land   | \$ 8,282          | \$ 8,282          | \$ 4,142          | \$ 4,142          |
| Buildings and improvements                     | 258,966           | 303,526           | 380,579           | 417,232           |
| Furniture, fixtures and equipment              | 139,581           | 146,541           | 168,068           | 176,404           |
| Leasehold interest and improvements            | 171,990           | 171,990           | 171,991           | 171,991           |
| Deferred financing charges, net                | <u>5,643</u>      | <u>8,572</u>      | <u>7,594</u>      | <u>7,019</u>      |
|  | 584,462           | 638,911           | 732,374           | 776,788           |
| Less accumulated depreciation and amortization | <u>(283,031)</u>  | <u>(294,475)</u>  | <u>(334,256)</u>  | <u>(366,456)</u>  |
| Subtotal                                       | 301,431           | 344,436           | 398,118           | 410,332           |
| Capital projects in progress                   | <u>56,712</u>     | <u>108,834</u>    | <u>122,371</u>    | <u>138,741</u>    |
| Total  | <u>\$ 358,143</u> | <u>\$ 453,270</u> | <u>\$ 520,489</u> | <u>\$ 549,073</u> |

## Long-Term Debt

Long-term debt of the School at December 31, 2008, consisted of the following (dollars in thousands):

|  |                  |
|--|------------------|
| - The Authority's Mount Sinai School of Medicine of New York University Insured Revenue Bonds, Series 2007 payable (including unamortized original issue premium of \$4,684); maturing through 2037 with interest rates from 4.00% to 5.00% per annum.         | \$124,899        |
| - The Authority's Mount Sinai School of Medicine of New York University Insured Revenue Bonds, Series 2003 payable (including unamortized original issue premium of \$1,438); maturing through 2015 with interest rates varying from 3.25% to 5.25% per annum. | 49,508           |
| - The Authority's Mount Sinai School of Medicine Insured Revenue Bonds, Series 1994A payable (net of unamortized original issue discount of \$1,363); maturing through 2025 with interest rates varying from 5.00% to 5.15% per annum.                         | 141,742          |
| - The Authority's Mount Sinai School of Medicine Insured Revenue Bonds, Series 1994B payable, maturing through 2012 with interest rates of 5.15% to 5.70% per annum.   | 14,030           |
| - Authority tax-exempt leasing program loans due in monthly installments of \$111, with interest rates ranging from 4.0% to 4.23% through June 2010.   | 1,351            |
| - Other capital leases, monthly installments of \$8 through 2011.  | 960              |
|  | <u>\$332,490</u> |

As of August 31, 2009, all debt service payments are current and outstanding debt is \$318 million. All School long term debt is fixed rate with an average interest rate of about 5%. Neither the School nor the Hospital is a party to any swap agreements.

## Professional and General Liability Insurance Program

The School carries an all-risk property insurance policy on its buildings and contents, including fire and allied lines and boiler and machinery written on a replacement cost basis. The School also carries commercial general liability insurance with limits of \$1 million per occurrence/\$2 million aggregate for property damage and bodily injury; vehicle liability and physical damage insurance covering its leased and owned vehicles; commercial crime and fidelity insurance; directors and officers liability insurance; and miscellaneous errors and omissions coverage. The School also carries excess umbrella liability policies with a combined limit of \$50 million per occurrence/aggregate above the general liability policy. In addition to these policies, the School maintains statutory workers' compensation and disability insurance as required by law. The School also maintains substantial professional liability insurance which currently consists of a combination of captive insurance and commercial insurance. In the opinion of the management of the School, based on prior experience, their potential malpractice losses are fully and adequately insured. To date, no loss has been sustained which has exceeded the School's insurance coverage.

## Litigation

Professional and general liability claims have been asserted against the School by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. The outcome of these actions cannot be predicted with certainty by management or by counsel to the School or by the respective insurance companies handling such matters. There are known incidents that may result in the assertion of additional claims, and such other claims may arise. It is the opinion of the management of the School, based on prior experience, that adequate insurance is maintained to provide for all significant professional liability losses which may arise and that the eventual liability from general liability claims, if any,



against which management of the School believes it has established adequate reserves, will not have a material adverse effect on the financial position of the School or on its ability to make required debt service payments. The School has no other litigation or proceedings and, to its knowledge, none have been threatened against the School which would materially adversely affect its operations or financial condition.

### **The Mount Sinai Hospital**

As described in “PART 4 - THE INSTITUTION - GENERAL,” the School and the Hospital have a close relationship that enables them to fulfill their commitment to provide high quality medical education, research and patient care. The Hospital, a tax-exempt New York not-for-profit corporation, was established in 1852 and is a major acute care teaching hospital located on the upper east side of Manhattan. While the Hospital and the School share a close relationship, they are distinct legal entities, each paying its own obligations and operating expenses from its own funds and assets. The Hospital is not in any respect an obligor with respect to the Series 2009 Bonds, nor is the School an obligor with respect to any Hospital debt.

As a tertiary care facility, the Hospital draws patients from surrounding communities, across the country and around the world. The Hospital has a medical staff of approximately 2,000 full-time and voluntary physicians who treat over 62,000 inpatients and 480,000 outpatients each year. The Hospital provides a comprehensive range of medical and surgical services. These services include general surgery, vascular surgery, cardiology and cardiothoracic surgery, minimally invasive abdominal surgery, gastroenterology, endocrinology, oncology, neurosurgery, obstetrics and gynecology, adult intensive care, neonatal intensive care, pediatrics, transplant, psychiatry and AIDS care.

## **RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE SCHOOL**

*The following is a discussion of certain risks that could affect payments to be made with respect to the Series 2009 Bonds. Such discussion is not exhaustive, should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2009 Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto. Copies of documents summarized herein are available as described in this Official Statement.*

### **General**

The ability of the School to meet its obligations under the Loan Agreement with respect to the Series 2009 Bonds may be limited by many factors. Among other things, educational, research and health care institutions are subject to laws and regulations administered by federal, state and local authorities. Changes in such laws or regulations in the future could adversely affect the operations or financial results of the School.

### **Federal Policy Affecting Research Facilities**

The School relies upon federal support of its research programs. This federal support is subject to federal budget priorities and Congress’ annual appropriation process. In addition, the School’s federally sponsored research is subject to the reimbursement rules and regulations of the United States Office of Management and Budget. The effect of changes in the availability and amount of federal funding or of changes in existing regulations which provide for federal reimbursement is not determinable. Such changes could adversely affect the School’s future operations.

### **Health Care Industry Factors Affecting the School**

The health care industry is highly dependent on a number of factors which may limit the ability of the School to meet its obligations under the Loan Agreement with respect to the Series 2009 Bonds. Among other things, participants in the health care industry are subject to significant regulatory requirements of federal, state

and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third party reimbursement programs.

### **Construction of Series 2009 Project**

Construction of the Series 2009 Project is subject to the usual risks associated with construction projects including but not limited to delays in issuance of necessary approvals or permits, strikes, shortages of materials and adverse weather conditions. Such events could result in delaying completion of the Series 2009 Project or increased costs for the Series 2009 Project.

### **Insurance and Malpractice Lawsuits**

Although the School carries professional and general liability insurance and, to date, no loss has been sustained which has exceeded the School's insurance coverage, the ability of, and the costs to, the School to insure or otherwise protect itself against malpractice claims may adversely affect its future results of operations or financial condition. For further information, see "PART 4 - THE INSTITUTION - OPERATING INFORMATION - Professional and General Liability Insurance Programs".

### **Reimbursement from Third Parties**

As of August 31, 2009, the School had approximately 867 employed faculty members providing patient care services through its Faculty Practice Associates Plan. See "PART 4 - THE INSTITUTION - General Information - Clinical Programs; Faculty Practice Associates" for a more detailed description of this aspect of the School's operations. The activities and operations of the School are affected by numerous federal and state statutes and regulations governing the furnishing of patient care services as a significant portion of the School's patient care service revenues are derived from third party payors. The payors reimburse or pay the School for the services provided to patients covered by such third parties for such services. Third party payors include Medicare, Medicaid, private health plans and commercial insurers, including health maintenance organizations and preferred provider organizations. Many third party payors reimburse health care providers at rates other than the charges of the provider. In most cases, most third party payor rates are not based on the actual costs incurred in providing services to such patients. Accordingly, there can be no assurance that payments made under such programs will be adequate to cover the School's actual costs.

In addition, federal and state legislative and regulatory actions over the past several years have included changes in the structure of the Medicare and Medicaid payment systems, limitations on increases in Medicaid payments and efforts to increase competition among health care providers. Any new, significant legislations or governmental policies affecting health care providers could adversely affect the revenues of the School.

Furthermore, amounts received by the School under the Medicare and Medicaid programs are subject to audit by governmental agencies. Such audits determine whether Medicare and Medicaid reimbursement for patient care services were reasonable, allowable and documented in accordance with state and federal regulations. Although the management of the School believes that the School is in material compliance with all Medicare and Medicaid reimbursement requirements, any determination that is not in compliance could adversely affect the revenues of the School.

### **Philanthropy and Investments**

Income from private philanthropy and from investments contributes to the net income of the School. No assurance can be given as to future philanthropic contributions to the School or that the investments of the School will produce positive results or that additional losses on investments will not occur in the future. For

further information, see “PART 4 - THE INSTITUTION - GENERAL INFORMATION - Philanthropy” and “- OPERATING INFORMATION - Endowment and Investments”.

A portion of the funding of the Series 2009 Project relies upon private philanthropic contributions, the majority of which have been received or are expected by the end of the School’s 2009 fiscal year. No assurance can be given that present or future philanthropic contributions will be received as anticipated.

## **PART 5 - THE SERIES 2009 PROJECT**

The proceeds of the Series 2009 Bonds (net of the deposits to the Debt Service Reserve Fund and Costs of Issuance) will be used to finance a portion of the costs of the Series 2009 Project, which consists of the following, including all necessary and usual attendant and related facilities, equipment, furnishings and fixtures, together with related demolition, site improvements and utility work, if applicable:

**The CSM Building.** The construction of an 11-story, approximately 420,000 square foot building at 1470 Madison Avenue, New York, New York, to be known as the Center for Science and Medicine (the “CSM Building”), which will cost approximately \$387,280,000 and will support Institution and Hospital programs, including clinical units, imaging and diagnostic facilities, research facilities (including a vivarium), administrative facilities, medical offices, medical education facilities, a conference center, space containing mechanical systems (e.g., mechanical, electrical and plumbing equipment, flues, ducts, fans, etc.) to support the operation of the CSM Building, and shell space to be built out in the future for any of the foregoing purposes or for other purposes of the Institution or the Hospital.

**The 102nd Street Facility.** The construction of a 10-story (plus three subsurface floors) contiguous base building facility of approximately 147,000 square feet at 4-10 East 102nd Street, New York, New York, (together with appurtenant structures and facilities above the 10th floor providing a portion of the mechanical systems hereafter described) (collectively, the “102nd Street Facility”), which will cost approximately \$70,990,000 and will include a medical lobby, FPA clinical space, medical offices, medical education facilities, space containing mechanical systems (e.g., mechanical, electrical, and plumbing equipment, flues, ducts, fans and other air-handling equipment and utilities hereafter described) to support the operation of the CSM Building and the 102nd Street Facility, a three- floor, 200 space, underground parking garage (to the extent such garage is allocable to use by the Institution and the Hospital), and a center for health and fitness and other amenities (to the extent used by Hospital and Institution employees, staff and students).

**Utility Upgrade.** The cost of additions to the Institution’s and Hospital’s power plant located at One Gustave L. Levy Place, New York, New York in or proximate to the basement of the Annenberg Building located at 1180-88 Fifth Avenue, New York, New York, which will cost approximately \$12,700,000 and will include building renovations and the acquisition and installation of additional generating capacity, chillers and refrigeration facilities to provide utility service to the CSM Building, the 102nd Street Facility and other areas of the Campus.

In addition, the Series 2009 Project will include certain renovations, repairs and equipment purchases that functionally support or are related to the items described in the CSM Building, the 102nd Street Facility and the Utility Upgrade.

The remaining portion of the Series 2009 Project costs will be paid out of equity and/or a contribution by The Mount Sinai Hospital.

See “PART 4 - THE INSTITUTION – GENERAL INFORMATION – The Strategic Plan and Factors Affecting Financial Performance - Center for Science and Medicine.”

**PART 6 - ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds (exclusive of accrued interest) are as follows:

**Sources of Funds**

|  |           |                           |
|--|-----------|---------------------------|
| Principal Amount of Series 2009 Bonds..... | \$        | 369,915,000               |
| Net Original Issue Discount.....           |           | (4,410,669)               |
| Equity Contribution* .....                 |           | 182,521,427               |
| <b>Total Sources .....</b>                 | <b>\$</b> | <b><u>548,025,758</u></b> |

**Uses of Funds**

|  |           |                           |
|--|-----------|---------------------------|
| Costs of the Series 2009 Project .....     | \$        | 458,869,545               |
| Capitalized Interest .....                 |           | 52,065,719                |
| Deposit to Debt Service Reserve Fund ..... |           | 29,667,675                |
| Costs of Issuance .....                    |           | 4,985,742                 |
| Underwriters' Discount .....               |           | <u>2,437,077</u>          |
| <b>Total Uses.....</b>                     | <b>\$</b> | <b><u>548,025,758</u></b> |

\* The equity contribution will be paid by the Institution after the expenditure of bond proceeds and will not be held by the Trustee.

**PART 7 - 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:

| <b><u>Public Programs</u></b>  | <b><u>Bonds Issued</u></b> | <b><u>Bonds Outstanding</u></b> | <b><u>Notes Outstanding</u></b> | <b><u>Bonds and Notes Outstanding</u></b> |
|--|----------------------------|---------------------------------|---------------------------------|---|
| State University of New York<br>Dormitory Facilities.....                | \$ 2,250,196,000           | \$ 943,590,000                  | \$ 0                            | \$ 943,590,000                            |
| State University of New York Educational<br>and Athletic Facilities..... | 13,243,272,999             | 5,698,118,149                   | 0                               | 5,698,118,149                             |
| Upstate Community Colleges of the<br>State University of New York.....   | 1,590,645,000              | 666,520,000                     | 0                               | 666,520,000                               |
| Senior Colleges of the City University<br>of New York.....               | 9,935,931,762              | 3,040,924,213                   | 0                               | 3,040,924,213                             |
| Community Colleges of the City University<br>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<br>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<br>Improvement Program.....                  | <u>985,555,000</u>         | <u>781,415,000</u>              | <u>0</u>                        | <u>781,415,000</u>                        |
| Totals Public Programs.....  | <u>\$ 49,039,973,036</u>   | <u>\$ 22,408,580,866</u>        | <u>\$ 0</u>                     | <u>\$ 22,408,580,866</u>                  |
|  |                            |                                 |                                 |   |
| <b><u>Non-Public Programs</u></b>  | <b><u>Bonds Issued</u></b> | <b><u>Bonds Outstanding</u></b> | <b><u>Notes Outstanding</u></b> | <b><u>Bonds and Notes Outstanding</u></b> |
| Independent Colleges, Universities<br>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<br>Financing Program.....             | <u>95,000,000</u>          | <u>0</u>                        | <u>0</u>                        | <u>0</u>                                  |
| 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                     |
| <br>  |                          |                          |
| <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..... | <u>2,414,240,000</u>     | <u>7,670,000</u>         |
| 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., Esquire, *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 M. STEINER, Ph.D., *Commissioner of Education of the State of New York, Albany; ex-officio.*

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

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

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

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

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

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the 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 8 - 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 in 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 9 - 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 Resolution and in the Series 2009 Bonds.

## **PART 10 - TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is 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 is of the further opinion that interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2009 Bonds is less than the amount to be paid at maturity of such Series 2009 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2009 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Series 2009 Bonds is the first price at which a substantial amount of such maturity of the Series 2009 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2009 Bonds accrues daily over the term to maturity of such Series 2009 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2009 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2009 Bonds. Beneficial Owners of the Series 2009 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2009 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2009 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2009 Bonds is sold to the public.

Series 2009 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in

a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2009 Bonds. The Authority, the Hospital and the Institution have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2009 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2009 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2009 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2009 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Michael G. Macdonald, Esq., Vice President and General Counsel of the Institution, regarding the current qualification of the Institution and the Hospital as organizations described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Series 2009 Bonds as substantially related to the Institution's and the Hospital's charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, Counsel to the Institution and the Hospital cannot give and has not given any opinion or assurance about the future activities of the Institution or the Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service. Failure of the Institution or the Hospital to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to the Institution's or Hospital's charitable purpose under Section 513(a) 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.

Although Bond Counsel is of the opinion that interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2009 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2009 Bonds. Prospective purchasers of the Series 2009 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2009 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the

courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, the Hospital or the Institution, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, the Hospital and the Institution have covenanted, however, to comply with the requirements of the Code.

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 regarding the tax-exempt status of the Series 2009 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Institution and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Institution legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2009 Bonds, and may cause the Authority, the Institution or the Beneficial Owners to incur significant expense.

#### **PART 11 - STATE 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 Resolution specifically provides that the Series 2009 Bonds shall not be a debt of the State nor shall the State be liable thereon.

#### **PART 12 - COVENANT BY THE STATE**

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

#### **PART 13 - 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 Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, 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 Michael G. Macdonald, Esq., its Executive Vice President and General Counsel, and by its Special Counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by their Counsel, Hawkins Delafield & Wood LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 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.

## **PART 14 - UNDERWRITING**

The Series 2009 Bonds are being purchased by J.P. Morgan Securities Inc. on behalf of itself and the other underwriters listed on the cover of this Official Statement (the “Underwriters”). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2009 Bonds from the Authority at a purchase price of \$363,067,255 and to make a public offering of the Series 2009 Bonds at not in excess of such public offering prices or yields stated on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all such Series 2009 Bonds if any are purchased.

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 (if applicable for this transaction), 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.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an underwriter of the Series 2009 Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

## **PART 15 - RATINGS**

The Series 2009 Bonds are rated “A-” by Standard & Poor’s Ratings Services and “A3” by Moody’s Investors Service, Inc. An explanation of the significance of each such rating should be obtained from the rating agency furnishing the same. There is no assurance that each such rating will prevail for any given period of time or that each such rating will not be changed or withdrawn by the applicable rating agency if, in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of each such rating may have an adverse effect on the market price of the Series 2009 Bonds.

## **PART 16 - CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the Institution has undertaken in a written agreement (the “Continuing Disclosure Agreement”) for the benefit of the Bondholders to provide to Digital Assurance Certification LLC (“DAC”), on behalf of the Authority as the Authority’s disclosure dissemination agent, on or before 120 days after the end of each fiscal year of the Institution, commencing with the fiscal year ending December 31, 2009, for filing by DAC with the Municipal Securities Rulemaking Board (“MSRB”) and its Electronic Municipal Market Access system for municipal securities disclosures on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the “Annual Information”), together with the Institution’s annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to the MSRB when they become available.

If, and only if, and to the extent that it receives the Annual Information and audited financial statements described above from the Institution, DAC has undertaken in a written agreement for the benefit of the Bondholders, on behalf of and as agent for the Institution, to file such information and financial statements, as promptly as practicable, but no later than three Business Days after receipt of the information by DAC from



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

The Annual Information will consist of the following: (a) operating data and financial information of the type included in this Official Statement in “PART 4 - THE INSTITUTION” under the headings “GENERAL INFORMATION,” “OPERATING INFORMATION” and “ANNUAL FINANCIAL STATEMENT INFORMATION” relating to: (1) *student enrollment and applicants*, similar to that set forth under the heading, “Degree Granting Educational Programs”; (2) *faculty*, similar to that set forth under the heading, “Faculty”; (3) *faculty practice associates plan*, similar to that set forth under the heading, “Clinical Programs; Faculty Practice Associates”; (4) *employee relations*, including material information about union contracts and, unless such information is included in the audited financial statements of the Institution, retirement plans; (5) *endowment and similar funds*, unless such information is included in the audited financial statements of the Institution; (6) *plant values*, unless such information is included in the audited financial statements of the Institution; and (7) *outstanding long-term indebtedness*, unless such information is included in the audited financial statements of the Institution; together with (b) a narrative explanation, if necessary to avoid misunderstanding and to 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 Notices include notices of any of the following events 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, for the benefit of the Holders of the Series 2009 Bonds, to provide to the MSRB, in a timely manner, notice of any failure by the Institution to provide the Annual Information and audited financial statements by the date required in the Institution’s undertaking described above.

The sole and exclusive remedy for breach or default under the agreement to provide continuing disclosure described above is an action to compel specific performance of the undertaking of DAC, the Institution and/or the Authority, and no person, including any Holder of the Series 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 shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2009 Bonds at the time Outstanding. A breach or default under the agreement shall not constitute an Event of Default under the Resolution, the Series 2009 Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The agreement, however, may be amended or modified without Bondholders' consent under certain circumstances set forth therein. Copies of the agreement when executed by the parties thereto upon the delivery of the Series 2009 Bonds will be on file at the principal office of the Authority.

#### **PART 17 - MISCELLANEOUS**

References in this Official Statement to the Act, the Resolution, the Series 2009 Resolution and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2009 Resolution and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2009 Resolution 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 Resolution and the Series 2009 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 statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the Institution and the Series 2009 Project was supplied by the Institution. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

The information regarding DTC and DTC's book-entry 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 Loan Agreement," "Appendix D - Summary of Certain Provisions of the Resolution" and "Appendix E - Form of Approving Opinion of Bond Counsel" have been prepared by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel.

"Appendix B - Consolidated Financial Statements of Mount Sinai School of Medicine of New York University for the Years Ended December 31, 2008 and 2007 and for the Years Ended December 31, 2007 and 2006 with Reports of Independent Auditors" contains the audited financial statements of the Institution for the years ended December 31, 2008 and 2007 and for the years ended December 31, 2007 and 2006 and the reports of the Institution's independent auditors, Ernst & Young LLP, on such financial statements.

The Institution has reviewed the parts of this Official Statement describing the Institution, the Series 2009 Project, the Series 2009 Mortgage, the Estimated Sources and Uses of Funds, the Principal, Sinking Fund Installments and Interest Requirements, Continuing Disclosure and Appendix B. It is a condition to the sale and delivery of the Series 2009 Bonds that the Institution certify as of the dates of sale and delivery of the Series 2009 Bonds that such parts do not contain any untrue statement of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

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

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

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

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

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## **APPENDIX A**

### **DEFINITIONS**

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**CERTAIN DEFINITIONS**

In addition to the other terms defined in this Official Statement, when used in the summaries of certain provisions of the Resolution, the Series 2009 Resolution and the Loan Agreement, the following terms have the meanings ascribed to them below.

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

*Additional Bonds* means any other Series of Bonds issued under the Resolution subsequent to the issuance of the Series 2009 Bonds.

*Additional Parity Indebtedness* means Indebtedness issued or incurred by the Institution that is secured by a pledge and grant of a security interest in the Pledged Revenues, on a parity with the Bonds.

*Arbitrage Rebate Fund* means the fund so designated and established by a Series Resolution pursuant to the Resolution.

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

*Authority Fee* means the fee payable to the Authority consisting of all of the Authority's internal costs and overhead expenses attributable to the issuance of the Bonds and the construction of the Project, as more particularly described in the 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 (5) days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

*Authorized Officer* means (i) in the case of the Authority, the Chairman, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the General Counsel, the Chief Information Officer and a Managing Director, 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 to perform any act or sign any document by or pursuant to a resolution of the Institution's Board of Trustees or its Executive Committee or the by-laws of the Institution; and (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Banking Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee.

*Bond or Bonds* means the Series 2009 Bonds and any other Series of Bonds of the Authority authorized by the Resolution and issued pursuant to a Series Resolution.

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

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

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

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

*Business Day* means any day which is not a Saturday, Sunday or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York; *provided, however*, that, with respect to Option Bonds, such term means any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America, the Trustee or the Liquidity Facility Provider for such Bonds are legally authorized to close in The City of New York.

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

*Construction Fund* means the fund so designated and established by a Series Resolution pursuant to the Resolution.

*Consultant* means a nationally recognized healthcare consultant selected by the Institution and acceptable to the Authority.

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

*Cost or Costs of Issuance* means the items of expense incurred in connection with the authorization, sale and issuance of a Bonds of a Series, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, fees and charges for insurance on such Bonds, commitment fees or similar charges relating to a Reserve Fund Facility, a Liquidity Facility or an Interest Rate Exchange Agreement, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

*Cost or Costs of the Project* means costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with a Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of a 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 a Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, testborings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of a 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 or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of a 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 a Project (including interest on moneys borrowed from parties other than the Institution), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of a Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Resolution or to the Loan Agreement, a Mortgage, a Liquidity Facility or a Remarketing Agreement.

*Debt Service* means the sum of scheduled principal payments and sinking fund payments with respect to Indebtedness, interest requirements (other than interest paid from capitalized interest funds) on all Indebtedness and any annual or ongoing fees on all Indebtedness, during the twelve-month period ending on the date of calculation.

*Debt Service Coverage Ratio* shall mean Funds Available for Debt Service divided by maximum annual aggregate Debt Service on all Outstanding Bonds and Additional Parity Indebtedness then outstanding.

*Debt Service Fund* means the fund so designated and established by a Series Resolution pursuant to the Resolution.

*Debt Service Reserve Fund* means a reserve fund for the payment of the principal and Sinking Fund Installments of and interest on a Series of Bonds so designated, created and established by the Authority by or pursuant to a Series Resolution.

*Debt Service Reserve Fund Requirement* means, as of any particular date of computation, which date of computation shall be subsequent to July 1 of each calendar year, an amount equal to the lesser of (i) the greatest amount required in the then current or any future calendar year to pay the sum of interest on the Series 2009 Bonds payable during such calendar year, and the principal and Sinking Fund Installments, if any, of the Series 2009 Bonds payable on July 1 of such calendar year, excluding interest accruing on the Series 2009 Bonds from the dated date of the Series 2009 Bonds to the January 1 or July 1 immediately preceding the first interest payment date, (ii) an amount equal to ten percent (10%) of the net proceeds of the sale of the Series 2009 Bonds, and (iii) an amount equal to one hundred twenty five percent (125%) of the average of the principal, whether at maturity or on mandatory redemption, and interest becoming due in any one calendar year on the Series 2009 Bonds.

*Debt to Capitalization Ratio* means as of any date of calculation, the ratio (stated as a percentage) consisting of a numerator equal to the amount of all Outstanding Bonds and Additional Parity Indebtedness and a denominator equal to (i) the amount of the numerator, plus (ii) unrestricted net assets. Unrestricted net assets shall be determined in accordance with GAAP.

*Defeasance Security* means any of the following: (a) Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations; (b) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and (c) an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government

Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the 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 such term shall not include (1) any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

*Derivative Agreement* means, without limitation, any agreement entered into in connection with the incurrence of Indebtedness or the anticipated incurrence of Indebtedness and which does not exceed the par amount of such Indebtedness and which includes (i) any contract known or referred to as or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Institution determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

*Derivative Agreement Counterparty* means with respect to a Derivative Agreement, the Person that is identified in such agreement as the counterparty to, or contracting party with, the Institution.

*Derivative Obligation* means the Institution's obligation under a Derivative Agreement to make scheduled or periodic payments to the Derivative Agreement Counterparty, but such term does not include any payment required to be made as a consequence of the termination of a Derivative Agreement.

*Exempt Obligation* means any of the following: (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

*Facility Provider* means the issuer of any Reserve Fund Facility, Insurance Policy or Liquidity Facility.

*Faculty Practice Plan Revenues* means all moneys, income, rents and revenues receivable by the Institution from the fees charged for professional services rendered to patients by members of the Institution's faculty who participate in the Institution's Faculty Practice Associates Plan or any successor or alternative arrangement thereto, and the right to receive the same and the proceeds thereof.

*Federal Agency Obligation* means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

*Funds Available for Debt Service* shall mean the Change in Unrestricted Net Asset before non-operating and/or other items of the Institution as reported in the most recent audited financial statements of the Institution net of all extraordinary items and other unusual, infrequent items plus depreciation expense amortization expense, and interest expense on Outstanding Bonds and Additional Parity Indebtedness, excluding all unrealized gains and losses, except to the extent such amounts are included in the School's annual spending rate, but including all realized investment income, and amounts required to be set aside for collateral posted in connection with the valuation of derivatives, but shall not include the non-cash termination value of any hedging, derivative interest rate exchange or similar contract or extraordinary gains or losses related thereto as defined under generally accepted accounting principles, gains or losses resulting from the extinguishment of indebtedness, gains or losses resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business, or unrealized gains or losses from the write-down, reappraisal or revaluation of assets.

*GAAP* means generally accepted accounting principals as in effect from time to time in the United States.

*Government Obligation* means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

*Indebtedness* means (i) all indebtedness of the Institution for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by the Institution, and (iii) all Guaranties, whether constituting Long-Term Debt or Short-Term Indebtedness.

*Institution* means Mount Sinai School of Medicine of New York University, a educational institution of higher education chartered under the laws of the State, or any successor thereto.

*Insurer* means, with respect to a Series of Bonds, the firm, association or corporation, including public bodies and governmental agencies, if any, acceptable to the Authority, which has issued an Insurance Policy in connection with such Series of Bonds, and the successor or assign of the obligations of such firm, association or corporation under such policy. There is no Insurer for the Series 2009 Bonds.

*Insurance Policy* means, with respect to a Series of Bonds, a financial guaranty insurance policy issued at the request of the Authority by an Insurer, if any, insuring the payment when regularly scheduled to be due of the principal and Sinking Fund Installments of and interest on such Series of Bonds, together with any insurance agreement.

*Intercreditor Agreement* means the agreement, if any, among the Authority, the Institution, the Trustee and any holder of Additional Parity Indebtedness, and any amendments thereto reasonably necessary to reflect the incurrence of Additional Parity Indebtedness and the rights of each creditor with respect thereto.

*Interest Rate Exchange Agreement* means an agreement entered into by the Authority or the Institution in connection with the issuance of or which relates to Bonds of one or more Series which (i) provides that during the term of such agreement the Authority or the Institution is to pay to the Counterparty an amount based on the interest accruing at a fixed rate per annum on an amount equal to a principal amount of such Bonds and that the Counterparty is to pay to the Authority or the Institution an amount based on the interest accruing on a principal amount equal to the same principal amount of such Bonds at a fixed rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement and (ii) in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on such Bonds from gross income for the purposes of federal income taxation.

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

*Liquidity Facility* means, with respect to a Series of Bonds, an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement issued or extended by 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 savings bank, 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 and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, 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, pursuant to which moneys are to be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms of the Resolution and of a Series Resolution authorizing such Bonds or a Bond Series Certificate relating to such Bonds.

*Liquidity Facility Provider* means the Facility Provider of a Liquidity Facility.

*Loan Agreement* means the Building Loan Agreement dated as of September 23, 2009, as the same may be amended, supplemented or otherwise modified as permitted by the Loan Agreement and by the Resolution, which is supplemental to the Loan Agreement, between the Authority and the Institution, dated as of June 27, 2007.

*Mortgage* means collectively, the mortgage in the form of a building loan mortgage, dated as of November 5, 2009, granted by the Institution to the Authority, and the mortgage in the form of a project loan mortgage, dated as of November 5, 2009.

*Mortgaged Property* means, the land owned by the Institution 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.

*Option Bond* means any Bond which by its terms may be or is required to be tendered by the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Series Resolution authorizing such Bonds or the Bond Series Certificate related to such Bonds.

*Outstanding*, when used in reference to Bonds of a Series, means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under any applicable Series Resolution except:

- (i) any Bond canceled by the Trustee at or before such date;
- (ii) any Bond deemed to have been paid in accordance with the Resolution;
- (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; and
- (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds.

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

*Permitted Collateral* means any of the following: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; (iii) commercial paper that (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 nationally recognized statistical rating service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and (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 Best's Insurance Guide or a nationally recognized statistical rating service in the highest rating category.

*Permitted Encumbrances* means when used in connection with the Project any of the following: (i) the lien of taxes and assessments which are not delinquent; (ii) the lien of taxes and assessments which are delinquent but the validity of which is being contested in good faith unless thereby the property or the interest of the Authority therein may be in danger of being lost or forfeited; (iii) minor defects and irregularities in the title to such property which do not in the aggregate materially impair the use of such property for the purposes for which it is or may reasonably be expected to be held; (iv) easements, exceptions or reservations for the purpose of pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is or may reasonably be expected to be held; (v) any Mortgage; (vi) security interests, liens and other encumbrances to secure the purchase price of any equipment or furnishings; (vii) Additional Parity Indebtedness or Additional Bonds; (viii) with respect to the pledge of the Pledged Revenues, the Intercreditor Agreement; and (ix) such other encumbrances, defects, and irregularities to which the prior written consent of the Authority have been obtained.

*Permitted Investments* means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the

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

*Pledged Revenues* means (i) the Faculty Practice Plan Revenues which are being pledged in connection with the issuance of the Bonds to secure the Institution's obligations under the Loan Agreement and (ii) any other moneys, income, rents, revenues or accounts, the rights to receive the same, and the proceeds thereof subsequently pledged to the Authority in connection with the issuance of a Series of Bonds.

*Prior Pledges* means, (i) when used in connection with the Faculty Practice Plan Revenues, the lien of the pledge thereof made to secure the Institution's obligations under (A) the loan agreement, dated as of January 26, 1994, by and between the Authority and the Institution relating to the Authority's Mount Sinai School of Medicine Insured Revenue Bonds, Series 1994A and 1994B and (B) the loan agreement, dated as of July 23, 2003, by and between the Authority and the Institution relating to the Authority's Mount Sinai School of Medicine Insured Revenue Bonds, Series 2003; and (ii) when used in connection with any other Pledged Revenues, any lien, charge or encumbrance thereon, pledge thereof or security interest therein existing on such Pledged Revenues on the date pledged by the Institution as Pledged Revenues.

*Project* means with respect to the Series 2009 Bonds, the Series 2009 Project, and with respect to any other Series of Bonds, each "dormitory" as defined in the Act, which may include more than one part, financed in whole or in part from the proceeds of the sale of a Series of Bonds, as more particularly described in a Loan Agreement or a Series Resolution. The Project may be amended from time to time in connection with the issuance of Additional Bonds.

*Provider Payments* means the amount, certified by a Facility Provider to the Trustee, payable to such Facility Provider on account of amounts advanced by it under a Reserve Fund Facility, Liquidity Facility or Insurance Policy including interest on amounts advanced and fees and charges with respect thereto.

*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 at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service of Outstanding Bonds of a Series; (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 at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical 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 Insurer of Outstanding Bonds of a Series; (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 at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical 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 Insurer of Outstanding Bonds of a Series; (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; or (v) a corporation whose obligations, including any investments of any moneys held under the Resolution purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

*Rating Service* means each of Fitch, Inc., Moody's Investors Service, Inc. and Standard & Poor's Rating Services, in each case, which has assigned a rating to Outstanding Bonds at the request of the Authority, or their respective successors and assigns.

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

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

*Refunding Bonds* means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

*Reserve Fund Facility* means a surety bond, insurance policy, letter of credit or other financial guaranty or instrument authorized by or pursuant to a Series Resolution establishing a Debt Service Reserve Fund to be delivered in lieu of or substitution of all or a portion of the moneys otherwise required to be held in such Debt Service Reserve Fund.

*Resolution* means the Mount Sinai School of Medicine of New York University Revenue Bond Resolution adopted by the Authority on June 27, 2007, as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof.

*Revenues* means, with respect to a Series of Bonds, all payments received or receivable by the Authority which pursuant to the applicable Loan Agreement or the Intercreditor Agreement are required to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Arbitrage Rebate Fund), and all amounts received as a consequence of the enforcement of such Loan Agreement, including but not limited to amounts derived from the foreclosure or sale of or other realization upon the Pledged Revenues for such Series of Bonds.

*Serial Bonds* means the Bonds so designated in a Series Resolution or a Bond Series Certificate.

*Series* means all of the Bonds authenticated and delivered on original issuance and pursuant hereto and to the Series Resolution authorizing such Bonds as a separate Series of Bonds, and any Bonds of such

Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

*Series Resolution* means with respect to the Series 2009 Bonds, the Series 2009 Resolution and with respect to any other Series of Bonds, a resolution of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution.

*Series 2009 Resolution* means the Dormitory Authority of State of New York Series 2009 Resolution Authorizing up to \$370,000,000 Mount Sinai School of Medicine of New York University Revenue Bonds, Series 2009, adopted by the Authority on September 23, 2009.

*Series 2009 Project* means the project in connection with which the Series 2009 Bonds are being issued.

*Sinking Fund Installment* means, with respect to a Series of Bonds, as of any date of calculation, when used with respect to any Bonds of such Series, other than Option Bonds or Variable Interest Rate Bonds, so long as any such Bonds are Outstanding, the amount of money required by the Resolution or by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto to be paid on a single future July 1 for the retirement of any Outstanding Bonds of said Series which mature after said future July 1, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future July 1 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment, and when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto to be paid on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Interest Rate Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment.

*State* means the State of New York.

*Supplemental Resolution* means any resolution of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms and provisions of the Resolution.

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

*Trustee* means the bank or trust company appointed as Trustee for a Series of Bonds pursuant to the Resolution and a Series 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 of the Resolution.



**CONSOLIDATED FINANCIAL STATEMENTS OF  
MOUNT SINAI SCHOOL OF MEDICINE  
OF NEW YORK UNIVERSITY  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
WITH REPORTS OF INDEPENDENT AUDITORS**

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CONSOLIDATED FINANCIAL STATEMENTS

Mount Sinai School of Medicine of New York University  
Years Ended December 31, 2008 and 2007  
With Report of Independent Auditors

Mount Sinai School of Medicine of New York University

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

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Ernst & Young LLP  
5 Times Square  
New York, New York 10036-6530  
Tel: 212 773 3000

## Report of Independent Auditors

Board of Trustees  
Mount Sinai School of Medicine  
of New York University

We have audited the accompanying consolidated statements of financial position of the Mount Sinai School of Medicine of New York University (the "School") as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School'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 School'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 School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Mount Sinai School of Medicine of New York University at December 31, 2008 and 2007, and the consolidated results of its operations and 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 Notes 1 and 11 to the accompanying consolidated financial statements, as of December 31, 2007, the School adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

*Ernst & Young LLP*

March 30, 2009

Mount Sinai School of Medicine of New York University

Consolidated Statements of Financial Position

|  | <b>December 31</b>    |                     |
|--|-----------------------|---------------------|
|  | <b>2008</b>           | <b>2007</b>         |
|  | <i>(In Thousands)</i> |                     |
| <b>Assets</b>  |                       |                     |
| Cash and cash equivalents  | \$ 23,234             | \$ 32,341           |
| Loans receivable:  |                       |                     |
| Employees, less allowances for uncollectibles of \$285 in 2008 and 2007  | 23,826                | 17,979              |
| Students   | 16,179                | 15,693              |
| Pledges receivable, net  | 172,192               | 129,389             |
| Patient accounts receivable, less allowances for uncollectibles of \$21,374 and \$11,854, in 2008 and 2007, respectively | 41,206                | 40,644              |
| Other assets   | 9,381                 | 18,210              |
| Due from New York City Health and Hospitals Corporation  | 5,091                 | 4,697               |
| Assets limited as to use under debt financing arrangements   | 56,796                | 99,606              |
| Investments, including permanently restricted investments of \$288,804 and \$270,214 in 2008 and 2007, respectively      | 478,105               | 667,388             |
| Property, plant and equipment – net (including net deferred financing charges)   | 520,489               | 453,270             |
| Total assets   | <u>\$ 1,346,499</u>   | <u>\$ 1,479,217</u> |
| <b>Liabilities and net assets</b>  |                       |                     |
| Accounts payable and accrued expenses  | \$ 43,598             | \$ 52,281           |
| Deferred revenue and refundable advances   | 41,658                | 54,996              |
| Due to related organizations, net  | 98,407                | 35,942              |
| Accrued salaries, wages and related liabilities  | 21,724                | 24,610              |
| Accrued interest payable   | 8,023                 | 6,945               |
| Federal loan capital advances  | 4,747                 | 4,747               |
| Employee relocation loan program   | 17,184                | 13,412              |
| Postretirement health benefit obligations  | 13,962                | 13,526              |
| Long-term debt   | 332,490               | 347,153             |
| Total liabilities  | <u>581,793</u>        | <u>553,612</u>      |
| Commitments and contingencies  |                       |                     |
| Net assets:  |                       |                     |
| Unrestricted   | 165,432               | 291,006             |
| Temporarily restricted   | 286,516               | 346,541             |
| Permanently restricted   | 312,758               | 288,058             |
| Total net assets   | <u>764,706</u>        | <u>925,605</u>      |
| Total liabilities and net assets   | <u>\$ 1,346,499</u>   | <u>\$ 1,479,217</u> |

See accompanying notes.

# Mount Sinai School of Medicine of New York University

## Consolidated Statement of Activities

Year Ended December 31, 2008

(In Thousands)

|  | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total             |
|--|-------------------|---------------------------|---------------------------|-------------------|
| Revenue, gains, support and reclassifications:   |                   |                           |                           |                   |
| Net patient care services  | \$ 402,565        | \$ —                      | \$ —                      | \$ 402,565        |
| Federal grants and contracts   | 253,319           | —                         | —                         | 253,319           |
| Private gifts, grants and contracts  | 79,344            | 55,863                    | 27,521                    | 162,728           |
| New York City Health and Hospitals Corporation   | 173,865           | —                         | —                         | 173,865           |
| The Mount Sinai Hospital CARTS transfer  | 74,824            | —                         | —                         | 74,824            |
| Return on long-term investments  | (76,346)          | (69,506)                  | —                         | (145,852)         |
| Royalty revenue  | 36,559            | —                         | —                         | 36,559            |
| Tuition and fees   | 20,409            | —                         | —                         | 20,409            |
| Other support  | 20,047            | —                         | —                         | 20,047            |
|  | <u>984,586</u>    | <u>(13,643)</u>           | <u>27,521</u>             | <u>998,464</u>    |
| Net assets released from restrictions  | 45,780            | (45,780)                  | —                         | —                 |
| Total revenue, gains, support and reclassifications  | <u>1,030,366</u>  | <u>(59,423)</u>           | <u>27,521</u>             | <u>998,464</u>    |
| Expenses:  |                   |                           |                           |                   |
| Program services:  |                   |                           |                           |                   |
| Patient care services  | 467,296           | —                         | —                         | 467,296           |
| Sponsored research   | 223,991           | —                         | —                         | 223,991           |
| Basic and clinical sciences  | 241,682           | —                         | —                         | 241,682           |
| Scholarships   | 2,072             | —                         | —                         | 2,072             |
| Total program services   | <u>935,041</u>    | <u>—</u>                  | <u>—</u>                  | <u>935,041</u>    |
| Support services (management and general):   |                   |                           |                           |                   |
| General administration and support services  | 201,069           | —                         | —                         | 201,069           |
| Total expenses   | <u>1,136,110</u>  | <u>—</u>                  | <u>—</u>                  | <u>1,136,110</u>  |
| (Decrease) increase in net assets before<br>disassociation of International Longevity Center<br>and investment return deficiency on permanently<br>restricted net assets | (105,744)         | (59,423)                  | 27,521                    | (137,646)         |
| Investment return deficiency on permanently<br>restricted net assets   | (11,461)          | —                         | —                         | (11,461)          |
| Decrease in net assets for the disassociation of<br>International Longevity Center   | (8,369)           | (602)                     | (2,821)                   | (11,792)          |
| (Decrease) increase in net assets  | <u>(125,574)</u>  | <u>(60,025)</u>           | <u>24,700</u>             | <u>(160,899)</u>  |
| Net assets at beginning of year  | 291,006           | 346,541                   | 288,058                   | 925,605           |
| Net assets at end of year  | <u>\$ 165,432</u> | <u>\$ 286,516</u>         | <u>\$ 312,758</u>         | <u>\$ 764,706</u> |

See accompanying notes.

# Mount Sinai School of Medicine of New York University

## Consolidated Statement of Activities

Year Ended December 31, 2007

*(In Thousands)*

|  | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>      |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Revenue, gains, support and reclassifications:                         |                     |                                   |                                   |                   |
| Net patient care services  | \$ 374,444          | \$ —                              | \$ —                              | \$ 374,444        |
| Federal grants and contracts   | 221,507             | —                                 | —                                 | 221,507           |
| Private gifts, grants and contracts                                    | 70,829              | 113,391                           | 1,153                             | 185,373           |
| New York City Health and Hospitals Corporation                         | 160,423             | —                                 | —                                 | 160,423           |
| The Mount Sinai Hospital CARTS transfer                                | 67,415              | —                                 | —                                 | 67,415            |
| Return on long-term investments  | 64,042              | 13,879                            | —                                 | 77,921            |
| Royalty revenue  | 24,632              | —                                 | —                                 | 24,632            |
| Tuition and fees   | 18,865              | —                                 | —                                 | 18,865            |
| Other support  | 22,091              | —                                 | —                                 | 22,091            |
|  | <u>1,024,248</u>    | <u>127,270</u>                    | <u>1,153</u>                      | <u>1,152,671</u>  |
| Net assets released from restrictions                                  | 32,726              | (32,726)                          | —                                 | —                 |
| Total revenue, gains, support and reclassifications                    | <u>1,056,974</u>    | <u>94,544</u>                     | <u>1,153</u>                      | <u>1,152,671</u>  |
| Expenses:  |                     |                                   |                                   |                   |
| Program services:  |                     |                                   |                                   |                   |
| Patient care services  | 437,992             | —                                 | —                                 | 437,992           |
| Sponsored research   | 191,477             | —                                 | —                                 | 191,477           |
| Basic and clinical sciences  | 216,380             | —                                 | —                                 | 216,380           |
| Scholarships   | 2,200               | —                                 | —                                 | 2,200             |
| Total program services   | <u>848,049</u>      | <u>—</u>                          | <u>—</u>                          | <u>848,049</u>    |
| Support services (management and general):                             |                     |                                   |                                   |                   |
| General administration and support services                            | 165,895             | —                                 | —                                 | 165,895           |
| Total expenses   | <u>1,013,944</u>    | <u>—</u>                          | <u>—</u>                          | <u>1,013,944</u>  |
| Increase in net assets before change in accounting principle           | 43,030              | 94,544                            | 1,153                             | 138,727           |
| Effect of change in accounting principle for other postretirement plan | (1,072)             | —                                 | —                                 | (1,072)           |
| Increase in net assets   | <u>41,958</u>       | <u>94,544</u>                     | <u>1,153</u>                      | <u>137,655</u>    |
| Net assets at beginning of year  | 249,048             | 251,997                           | 286,905                           | 787,950           |
| Net assets at end of year  | <u>\$ 291,006</u>   | <u>\$ 346,541</u>                 | <u>\$ 288,058</u>                 | <u>\$ 925,605</u> |

*See accompanying notes.*



# Mount Sinai School of Medicine of New York University

## Consolidated Statements of Cash Flows

|  | <b>Year Ended December 31</b> |                  |
|--|-------------------------------|------------------|
|  | <b>2008</b>                   | <b>2007</b>      |
|  | <i>(In Thousands)</i>         |                  |
| <b>Cash flows from operating activities</b>  |                               |                  |
| (Decrease) increase in net assets  | \$ (160,899)                  | \$ 137,655       |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: |                               |                  |
| Depreciation and amortization  | 41,012                        | 36,716           |
| Amortization of bond discount and premium, net   | (566)                         | (429)            |
| Contributions to permanently restricted net assets   | (24,700)                      | (1,153)          |
| Change in net unrealized gains and losses on investments   | 177,017                       | (54,391)         |
| Changes in operating assets and liabilities:   |                               |                  |
| Pledges receivable   | (42,803)                      | (42,525)         |
| Patient accounts receivable, net   | (562)                         | (18,563)         |
| Due to related organizations, net  | 62,465                        | 50,168           |
| Accounts payable and accrued expenses  | (8,683)                       | 10,474           |
| Accrued salaries, wages and related liabilities  | (2,886)                       | (942)            |
| Employee relocation loan program   | 3,772                         | 3,470            |
| Net change in other operating assets and liabilities   | (3,389)                       | 13,992           |
| Net cash provided by operating activities  | <u>39,778</u>                 | <u>134,472</u>   |
| <b>Cash flows from investing activities</b>  |                               |                  |
| Net increase in loans receivable   | (6,333)                       | (4,611)          |
| Investments in fixed assets and projects in process  | (108,231)                     | (131,843)        |
| Net decrease (increase) in investments   | 12,266                        | (30,947)         |
| Decrease (increase) in assets limited as to use under debt financing arrangements                        | 42,810                        | (66,109)         |
| Net cash used in investing activities  | <u>(59,488)</u>               | <u>(233,510)</u> |
| <b>Cash flows from financing activities</b>  |                               |                  |
| Contributions to permanently restricted net assets   | 24,700                        | 1,153            |
| Repayment of commercial paper notes  | –                             | (22,698)         |
| Proceeds from issuance of long-term debt   | –                             | 125,816          |
| Principal payments on long-term debt and capital lease obligations                                       | (14,097)                      | (11,435)         |
| Decrease in federal loan capital advances  | –                             | (26)             |
| Net cash provided by financing activities  | <u>10,603</u>                 | <u>92,810</u>    |
| Net decrease in cash and cash equivalents  | (9,107)                       | (6,228)          |
| Cash and cash equivalents at beginning of period   | <u>32,341</u>                 | <u>38,569</u>    |
| Cash and cash equivalents at end of period   | <u>\$ 23,234</u>              | <u>\$ 32,341</u> |
| <b>Supplemental disclosure of cash flow information</b>  |                               |                  |
| Cash paid during the year for interest   | <u>\$ 16,460</u>              | <u>\$ 13,537</u> |

*See accompanying notes.*

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements

December 31, 2008

### **1. Basis of Presentation and Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The Mount Sinai School of Medicine of New York University (the “School”) is a teaching and research institution that educates physicians, biomedical scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. It grants both MD and Ph.D degrees. The School has an academic affiliation arrangement with New York University. The School is closely affiliated with The Mount Sinai Hospital (the “Hospital”) and its affiliates, although the School is managed separately and is a separate legal entity. The School and the Hospital share a four-block area campus on the Upper East Side of Manhattan. The accompanying consolidated financial statements include the accounts of the School and Mount Sinai Children’s Center Foundation, Inc. (“CCF”), a not-for-profit organization formed in 1989 of which the School is the sole member. Additionally, through December 31, 2007, the consolidated financial statements include the accounts of the International Longevity Center-USA, Ltd. (“ILC”), a not-for-profit organization, of which the School was the sole member. Effective January 2008, the School and ILC modified their affiliation agreement. Under the amended agreement, ILC became an independent corporation without members, governed solely by its self-perpetuating Board of Directors. In 2008, the School recorded a reduction of net assets approximating \$11.8 million as a result of the modification and consequent disassociation.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material impact on the School’s financial position.

#### **Related Organizations**

Transactions between the School and its related organizations, relating principally to the sharing of certain facilities, equipment and personnel are accounted for on the basis of allocated cost. Amounts due to or from related organizations are currently receivable or payable and do not bear interest, except for amounts advanced by the Hospital to the School for certain capital expenditures (see Note 5). All transactions and balances with ILC and CCF have been eliminated in consolidation.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

Summarized financial information for CCF is as follows (in thousands):

|              | <b>December 31</b> |                 |
|--------------|--------------------|-----------------|
|              | <b>2008</b>        | <b>2007</b>     |
| Total assets | <u>\$ 5,911</u>    | <u>\$ 5,299</u> |
| Net assets   | <u>\$ 5,911</u>    | <u>\$ 5,299</u> |

|                        | <b>Year Ended December 31</b> |                 |
|------------------------|-------------------------------|-----------------|
|                        | <b>2008</b>                   | <b>2007</b>     |
| Total revenue          | <u>\$ 980</u>                 | <u>\$ 1,123</u> |
| Total expenses         | <u>368</u>                    | <u>256</u>      |
| Increase in net assets | <u>\$ 612</u>                 | <u>\$ 867</u>   |

**Cash Equivalents**

The School considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its long-term investment portfolio and assets limited as to use under debt financing arrangements, to be cash equivalents.

**Patient Accounts Receivable/Allowance for Uncollectibles**

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

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

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

The School grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients include:

|                             | December 31 |             |
|-----------------------------|-------------|-------------|
|                             | 2008        | 2007        |
| Medicare                    | 26%         | 25%         |
| Medicaid                    | 18          | 20          |
| Managed care and commercial | 51          | 49          |
| Other                       | 5           | 6           |
|                             | <u>100%</u> | <u>100%</u> |

Approximately 43% of the School's net patient care service revenue was from Medicare and Medicaid programs in 2008 and 2007.

#### Assets Limited As to Use Under Debt Financing Arrangements

Assets limited as to use under debt financing arrangements are invested in marketable securities and are carried at fair value (quoted market value). Income from assets limited as to use is recognized in the accompanying consolidated statement of activities with return on long-term investments.

#### Investments

The majority of the School's investments, with the exception of real estate-related amounts due from or invested in affiliate (see Note 6) and approximately \$13.5 million and \$19.7 million at December 31, 2008 and 2007, that are separately invested funds, are in a pooled investment portfolio maintained for the benefit of the Hospital, The Mount Sinai Medical Center, Inc. (the "Medical Center") and the School.

Investments consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value as determined based on independent published sources (quoted market prices).

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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 School holds a limited partnership interest or an interest in an investment management company. The School's ownership structure does not provide for control over the related investees and the School's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately \$61.8 million at December 31, 2008.

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

Alternative investments are stated in the accompanying consolidated statements of financial position at fair value, as estimated in an unquoted market. Fair value is determined by the School's management for each investment based upon net asset values derived from the application of the equity method of accounting and, effective January 1, 2008, with consideration given to other factors that might affect fair value determination in accordance with SFAS No. 157. Financial information used by the School 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 School's annual financial statement reporting.

There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

accompanying consolidated statements of financial position might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that estimates will change.

During 2007, the School's principal investment custodian, Custodial Trust Company, maintained a securities lending program in which the School participated. Collateral was held at all times in excess of the value of the securities on loan. Investment of this collateral was in accordance with specified guidelines. Interest earned on these transactions is included with investment income in the consolidated statements of activities. The fair value of securities on loan at December 31, 2007 was approximately \$19.5 million. During 2008, the School changed its principal investment custodian to JPMorgan Chase and elected not to participate in a securities lending program.

#### **Investment Income**

Investment income is allocated to investment pool participants using the market value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually and is based on total return. Realized gains and losses from the sale of securities are computed using the average cost method. The School also recognizes investment income (realized and unrealized) pertaining to investments held by the Medical Center on its behalf.

#### **Property, Plant and Equipment**

Property, plant and equipment, including leasehold improvements, are carried at cost; those acquired through contributions are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Annual provisions for depreciation and amortization are made based upon the straight-line method over the estimated useful life of the assets ranging from 5 to 50 years. Fixed assets are written off when they are fully depreciated and no longer in use. Depreciation expense for the years ended December 31, 2008 and 2007 was \$40.8 million and \$36.5 million, respectively.

The School has entered into long-term leases with the Hospital relating to the portion of the Hospital-owned Annenberg and Guggenheim buildings used by the School. Under the leases, the School makes payments for its share of the buildings' operating expenses.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

#### Deferred Financing Charges

Deferred financing charges, included within property, plant and equipment in the accompanying consolidated statements of financial position, represent costs incurred to obtain financing for construction and renovation projects at the School. Amortization of these costs is provided using the effective interest method over the term of the applicable indebtedness. See Note 8 for additional information relative to debt-related matters.

#### Asset Retirement Obligation

The School accounts for asset retirement obligations in accordance with the requirements of Financial Accounting Standards Board (“FASB”) Statement No. 143, *Accounting for Asset Retirement Obligations* (“SFAS 143”), and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (“FIN 47”). Under SFAS No. 143 and FIN 47, the School estimates and records a liability for amounts necessary for asset retirement obligations. The asset retirement obligation recorded at December 31, 2008 and 2007 totaled approximately \$1.5 million and \$3.2 million, respectively.

#### Change in Accounting

In September 2006, the FASB issued Statement 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 158”). The standard applies to all plan sponsors that offer defined benefit postretirement benefit plans. SFAS No. 158 requires an entity to recognize in its statement of financial position an asset, for a defined benefit postretirement plan’s overfunded status, or a liability, for a plan’s underfunded status; measure a defined benefit postretirement plan’s assets and obligations that determine funded status as of the end of the employer’s fiscal year; and recognize the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs. The School adopted the provisions of SFAS No. 158 at December 31, 2007 and the effect of adopting SFAS No. 158 on the School’s statement of financial position has been included in the accompanying consolidated financial statements (see Note 11).

#### Revenue Recognition

The School records grants and earned revenues on an accrual basis. In addition, the School records as revenue the following types of contributions, when they are received unconditionally,

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

at their fair value: cash, promises to give (pledges) and other assets. Conditional contributions, including grants for sponsored research, are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts and promises to give that are due in future years are discounted to present value.

Contributions are reported as either temporarily or permanently restricted if they are received with donor-imposed 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 accompanying consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions, including grants for sponsored research, whose restrictions and conditions are met within the same year as the contributions are received, are reflected in the activities of the unrestricted net asset class.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the School 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 School in perpetuity. Income earned therefrom is unrestricted or temporarily restricted based upon donors' stipulations.

#### **Tax Status**

The School, ILC and CCF are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The School, ILC and CCF are also exempt from New York State and City income taxes.

#### **New Accounting Policies**

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which 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 157 also expands disclosures about instruments measured at fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of



# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

the measurement date. SFAS 157 applies to financial instruments for which fair value accounting is already required or permitted through other accounting pronouncements; accordingly, SFAS 157 does not require any new fair value measurements. Adopting SFAS 157 did not have a material effect on the School's financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No.115* ("SFAS 159"), which, among other things provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. As a result of adopting SFAS 159, the School did not elect fair value accounting for any asset or liabilities not previously recorded at fair value. Accordingly, the adoption of SFAS 159 did not have any effect on the School's financial statements.

### **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

### **2. Faculty Practice Revenue**

Full-time faculty members may participate in the School's faculty practice plan. Plan participants are authorized to conduct a private practice and engage in professional consultation in accordance with established institutional guidelines. Professional service fee receipts are recorded and deposited in private practice funds established by the School for each individual participant or group practice when received by the School. Portions of these receipts are used to support School activities and to reimburse the School for indirect costs incurred in supporting plan activities. The remaining amounts, after direct plan expenses, provide participant salary supplements and support School departmental activities. The School participates in the Hospital's professional and general liability insurance programs.

A similar arrangement exists for School physicians at Elmhurst Hospital Center ("Elmhurst") and Queens Hospital Center ("Queens"). These receipts are used to support certain services previously funded under agreements with New York City Health and Hospitals Corporation ("HHC"), provide salary supplements for physicians and support the School's departmental activities at Elmhurst and Queens.

The School's faculty practice plan has agreements with third-party payors that provide for payments to the plan. Payment arrangements include prospectively determined rates, reimbursed

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**2. Faculty Practice Revenue (continued)**

costs, discounted charges, and fee-for-service. Net patient care service revenue and related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and other for services rendered.

The current Medicaid, Medicare and other third-party payor programs in which the School and its faculty participate are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusions from such programs. The School is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

**3. Pledges Receivable**

Pledges receivable, representing unconditional promises to give to the School, recorded net of a present value discount and valuation allowance, consist of the following (in thousands):

|   | <b>December 31</b> |                   |
|---|--------------------|-------------------|
|   | <b>2008</b>        | <b>2007</b>       |
| Temporarily restricted  | \$ 168,776         | \$ 139,053        |
| Permanently restricted  | 19,380             | 14,257            |
| Unconditional promises to give before discount to present value and valuation allowance | 188,156            | 153,310           |
| Less present value discount and valuation allowance                                     | (15,964)           | (23,921)          |
| Net pledges receivable  | <u>\$ 172,192</u>  | <u>\$ 129,389</u> |

Pledges receivable are due to be collected over the following periods (in thousands):

|                          | <b>December 31</b> |                   |
|--------------------------|--------------------|-------------------|
|                          | <b>2008</b>        | <b>2007</b>       |
| Within one year          | \$ 98,287          | \$ 19,513         |
| One to five years        | 54,227             | 110,401           |
| More than five years     | 35,642             | 23,396            |
| Total pledges receivable | <u>\$ 188,156</u>  | <u>\$ 153,310</u> |

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 4. Agreements with the New York City Health and Hospitals Corporation

Pursuant to various agreements with HHC, the School provides professional, medical and other services for the operations of Elmhurst and Queens. For certain services provided under the agreements, the School is paid on a fee-for-service basis and for other services the School is reimbursed for costs incurred, plus overhead, but not in excess of amounts specified in the agreements. Certain other costs are funded by the operations of faculty practice group arrangements at Elmhurst and Queens, which are independent of other School programs, under a letter of understanding with HHC.

The agreements with HHC do not permit the accrual of vacation and retirement benefits. The School would be liable for such benefits only upon termination of the agreements; however, the School's liability would be limited upon termination of the agreements to amounts due based on benefits policies in effect at that time. No liability for such benefits has been recorded by the School.

The School's arrangements with HHC are subject to final settlements based on future audits; however, the School anticipates that the effects of future final settlements will not be material.

### 5. Related Organizations

Amounts due (to) from the School's related organizations consisted of the following (in thousands):

|  | <b>December 31</b> |                    |
|--|--------------------|--------------------|
|  | <b>2008</b>        | <b>2007</b>        |
| The Mount Sinai Medical Center, Inc.         | \$ 1,229           | \$ 6,622           |
| MSMC Realty Corporation (see Notes 6 and 15) | (20,299)           | (20,299)           |
| The Mount Sinai Hospital                     | (79,337)           | (22,265)           |
| Due to related organizations, net            | <u>\$ (98,407)</u> | <u>\$ (35,942)</u> |

Transactions charged (at cost) by the Hospital to the School totaled approximately \$698.4 million and \$660.6 million during the years ended December 31, 2008 and 2007, respectively. These transactions include payroll and benefits, approximately 87% and 83% in 2008 and 2007, respectively, of the respective totals, related to various shared administrative services. Included in the benefits charges are certain employee health plan claims and premiums which are paid by the Hospital and subsequently charged to the School. Accordingly, the

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 5. Related Organizations (continued)

Hospital recognizes an actuarially determined liability for unreported health claims on behalf of the School. These claims are recorded as expenses in the School's consolidated statements of activities.

The School owed the Hospital approximately \$50.2 million and \$20.0 million at December 31, 2008 and 2007, respectively, primarily related to construction of the Center for Science and Medicine ("CSM"). The School intends to repay the advance upon obtaining financing for CSM.

Beginning July 1, 2002, the School implemented a budget model pursuant to which the Hospital pays the School's clinical departments for services rendered according to the CARTS budget model (C – clinical, A – administrative, R – research, T – teaching, S – strategic). These revenues are included in the accompanying consolidated statements of activities as The Mount Sinai Hospital CARTS transfer.

### 6. Investments

Total investments for the School are maintained as follows (in thousands):

|   | December 31       |                   |
|---|-------------------|-------------------|
|   | 2008              | 2007              |
| Pooled investments                                    | \$ 443,156        | \$ 626,266        |
| Non-pooled investments (marketable and nonmarketable) | 13,549            | 19,722            |
| Interest in MSMC Residential Realty LLC, net          | 21,400            | 21,400            |
|   | <u>\$ 478,105</u> | <u>\$ 667,388</u> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**6. Investments (continued)**

The following tables summarize the composition of the investment pool at carrying value, along with investment amounts that have been specifically allocated for financial reporting purposes to the pool participants (in thousands):

|                                    | December 31, 2008 |            |                             |                |            |
|------------------------------------|-------------------|------------|-----------------------------|----------------|------------|
|                                    | School            | Hospital   | Mount Sinai Auxiliary Board | Medical Center | Total      |
| Cash and cash equivalents          | \$ 3,096          | \$ 13,990  | \$ 9                        | \$ 1,017       | \$ 18,112  |
| Fixed income securities:           |                   |            |                             |                |            |
| Corporate and other                | –                 | 41,412     | 2,577                       | –              | 43,989     |
| U.S. Government agency obligations | –                 | 1,613      | 94                          | –              | 1,707      |
| Marketable equity securities       | –                 | 84,690     | –                           | –              | 84,690     |
| Alternative investments:           |                   |            |                             |                |            |
| Hedge funds                        | 374,819           | 202,470    | –                           | 14,119         | 591,408    |
| Private equity                     | 62,775            | –          | –                           | 3,556          | 66,331     |
|                                    | 440,690           | 344,175    | 2,680                       | 18,692         | 806,237    |
| Interpool settlement               | 2,466             | 187        | (153)                       | (2,500)        | –          |
| Total                              | \$ 443,156        | \$ 344,362 | \$ 2,527                    | \$ 16,192      | \$ 806,237 |

|                                    | December 31, 2007 |            |                             |                |             |
|------------------------------------|-------------------|------------|-----------------------------|----------------|-------------|
|                                    | School            | Hospital   | Mount Sinai Auxiliary Board | Medical Center | Total       |
| Cash and cash equivalents          | \$ 41,400         | \$ 18,773  | \$ –                        | \$ 4,719       | \$ 64,892   |
| Fixed income securities:           |                   |            |                             |                |             |
| Corporate and other                | –                 | 48,291     | 3,003                       | –              | 51,294      |
| U.S. Government agency obligations | –                 | 81         | –                           | –              | 81          |
| Marketable equity securities       | –                 | 150,174    | –                           | –              | 150,174     |
| Alternative investments:           |                   |            |                             |                |             |
| Hedge funds                        | 533,737           | 185,696    | –                           | 13,537         | 732,970     |
| Private equity                     | 53,725            | –          | –                           | 4,218          | 57,943      |
|                                    | 628,862           | 403,015    | 3,003                       | 22,474         | 1,057,354   |
| Interpool settlement               | (2,596)           | 3,128      | 356                         | (888)          | –           |
| Total                              | \$ 626,266        | \$ 406,143 | \$ 3,359                    | \$ 21,586      | \$1,057,354 |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**6. Investments (continued)**

Allocated investment income and change in net unrealized gains and losses on pooled investments, by entity, comprise the following for the year ended December 31, 2008:

|  | <b>Hospital</b>       | <b>School</b>      | <b>Auxiliary<br/>Board</b> | <b>Medical<br/>Center</b> | <b>Total</b>       |
|--|-----------------------|--------------------|----------------------------|---------------------------|--------------------|
|  | <i>(In thousands)</i> |                    |                            |                           |                    |
| Interest and dividend income                 | \$ 1,962              | \$ 3,015           | \$ 16                      | \$ 101                    | \$ 5,094           |
| Net realized gains                           | 5,111                 | 8,281              | 43                         | 274                       | 13,709             |
| Change in net unrealized gains<br>and losses | (112,208)             | (171,248)          | (899)                      | (5,769)                   | (290,124)          |
| <b>Total</b>                                 | <b>\$(105,135)</b>    | <b>\$(159,952)</b> | <b>\$ (840)</b>            | <b>\$(5,394)</b>          | <b>\$(271,321)</b> |

Investment returns that were allocated to the School based on agreements among the pool participants and donor stipulations comprise the following (in thousands):

|   | <b>Year Ended December 31</b> |                  |
|---|-------------------------------|------------------|
|   | <b>2008</b>                   | <b>2007</b>      |
| Interest and dividend income              | \$ 7,203                      | \$ 6,864         |
| Net realized gains                        | 8,555                         | 21,713           |
| Change in net unrealized gains and losses | (174,837)                     | 46,435           |
| <b>Total</b>                              | <b>\$(159,079)</b>            | <b>\$ 75,012</b> |

Total investment returns are comprised of the following (in thousands):

|   | <b>Year Ended December 31</b> |                  |
|---|-------------------------------|------------------|
|   | <b>2008</b>                   | <b>2007</b>      |
| Interest and dividend income              | \$ 8,969                      | \$ 9,773         |
| Net realized gains                        | 8,555                         | 21,713           |
| Change in net unrealized gains and losses | (174,837)                     | 46,435           |
| <b>Total</b>                              | <b>\$(157,313)</b>            | <b>\$ 77,921</b> |

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 6. Investments (continued)

During 2003, as part of a financing transaction with the Hospital and MSMC Realty Corporation (“Realty Corp.”), the School contributed to MSMC Residential Realty LLC (“MSMCRRC”), at net book value, property totaling approximately \$55.8 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring or disposing of real property for their benefit. MSMCRRC’s members are the Hospital, the School, Realty Corp. and MSMC Residential Realty Manager, Inc.

Property and equipment contributed by the Hospital, the School and Realty Corp. were used by MSMCRRC to secure \$125.0 million in financing from a bank which was subsequently increased to \$145.0 million as part of a refinancing in 2005. The total amount received by the School of approximately \$34.4 million (comprised of \$18.2 million used to repay the School’s commercial paper program and a \$16.2 million receivable after the initial financing), was based on the relative fair value of the property contributed, as compared to properties contributed by the Hospital and Realty Corp. that were part of the \$125.0 million financing.

Additionally, the School has an interest in the fair value of the net assets of MSMCRRC of approximately \$21.4 million, representing the excess of the carrying value of the property contributed over the amounts received.

During 2006, the School received the remaining balance of the \$16.2 million initially recorded as receivable and received additional amounts totaling \$7.6 million through December 31, 2007. At December 31, 2007, these additional amounts were settled with the School through funding provided by Realty Corp. As a result of the funding provided by Realty Corp., the School has recorded \$20.3 million due to Realty Corp. at December 31, 2007 (see Note 5).

Total assets and liabilities, at book value, of MSMCRRC are as follows (in thousands):

|                   | <b>December 31</b> |                    |
|-------------------|--------------------|--------------------|
|                   | <b>2008</b>        | <b>2007</b>        |
| Total assets      | \$ 126,937         | \$ 126,386         |
| Total liabilities | 149,055            | 149,189            |
| Net deficit       | <u>\$ (22,118)</u> | <u>\$ (22,803)</u> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**7. Property, Plant and Equipment**

A summary of property, plant and equipment is as follows (in thousands):

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2008</b>        | <b>2007</b>       |
| Land   | \$ 4,142           | \$ 8,282          |
| Buildings and improvements                     | 380,579            | 303,526           |
| Furniture, fixtures and equipment              | 168,068            | 146,541           |
| Leasehold interest and improvements            | 171,991            | 171,990           |
| Deferred financing charges, net                | 7,594              | 8,572             |
|  | <u>732,374</u>     | <u>638,911</u>    |
| Less accumulated depreciation and amortization | (334,256)          | (294,475)         |
|  | <u>398,118</u>     | <u>344,436</u>    |
| Capital projects in progress                   | 122,371            | 108,834           |
|  | <u>\$ 520,489</u>  | <u>\$ 453,270</u> |

The School has entered into lease agreements with the Hospital relating to portions of the School-owned Icahn Medical Institute and the Center for Advanced Medicine (“CAM”), which opened during 2008, which are used by the Hospital. The School has reflected the amount paid by the Hospital related to its leasehold interests (\$11.8 million and \$4.7 million for each building, respectively) as a reduction of its cost. Additionally, the Hospital pays the School for its share of operating expenses under the terms of the lease agreements as follows (in thousands):

|                              | <b>Year Ended</b>  |                 |
|------------------------------|--------------------|-----------------|
|                              | <b>December 31</b> |                 |
|                              | <b>2008</b>        | <b>2007</b>     |
| Icahn Medical Institute      | \$ 5,338           | \$ 5,338        |
| Center for Advanced Medicine | 2,671              | —               |
|                              | <u>\$ 8,009</u>    | <u>\$ 5,338</u> |

Future minimum rental payments due from the Hospital under the leases are approximately \$8.2 million in 2009, \$8.2 million in 2010, \$8.1 million in 2011, \$7.8 million in 2012, \$7.6 million in 2013 and \$101.6 million thereafter. Assets under capital leases approximate \$7.9 million at December 31, 2008 and 2007 and are included in furniture, fixtures and equipment (\$4.3 million and \$5.4 million, respectively, net of accumulated amortization).



Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**7. Property, Plant and Equipment (continued)**

The School capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. The costs are amortized over estimated useful lives ranging from five to seven years. At December 31, 2008 and 2007, total capitalized costs of \$19.3 million and \$14.0 million, respectively, net of accumulated amortization, are included in furniture, fixtures and equipment.

**8. Long-Term Debt and Related Assets**

At December 31, 2008 and 2007, the School had outstanding long-term debt used to finance a variety of projects, including a modernization and capital improvement program, the construction of the Icahn Medical Institute and the Center for Advanced Medicine. Outstanding long-term debt comprised the following (in thousands):

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2008</b>        | <b>2007</b>       |
| Dormitory Authority of the State of New York (the "Authority")<br>debt consisting of:  |                    |                   |
| • Bonds payable (including unamortized original issue premium of \$4,684); maturing through 2037 with interest rates varying from 4.00% to 5.00% per annum.) | <b>\$ 124,899</b>  | \$ 125,816        |
| • Bonds payable (including unamortized original issue premium of \$1,438); maturing through 2015 with interest rates varying from 3.25% to 5.25% per annum.  | <b>49,508</b>      | 55,605            |
| • Bonds payable (net of unamortized original issue discount of \$1,363); maturing through 2025 with interest rates varying from 5.00% to 5.15% per annum.    | <b>141,742</b>     | 141,604           |
| • Bonds payable, maturing through 2012 with interest rates of 5.15% to 5.70% per annum.  | <b>14,030</b>      | 20,220            |
| • Tax-exempt leasing program loans due in monthly installments of \$111, with interest rates ranging from 4.00% to 4.23% through June 2010.                  | <b>1,351</b>       | 2,600             |
| Other capital leases, monthly installments of \$8 through 2011   | <b>960</b>         | 1,308             |
|  | <b>\$ 332,490</b>  | <b>\$ 347,153</b> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**8. Long-Term Debt and Related Assets (continued)**

Long-term debt due to the Authority is collateralized by a pledge and assignment of certain gross revenues, as defined by the loan agreements, generated by the School's faculty practice associates plan, all funds and accounts authorized under the loan agreement, and the amounts deposited in the debt service reserve fund.

As of December 31, 2008, principal payments under long-term indebtedness and future minimum payments under capitalized leases for the next five fiscal years and thereafter are as follows (in thousands):

|            | <b>Long-Term<br/>Debt</b> | <b>Capitalized<br/>Leases</b> |
|------------|---------------------------|-------------------------------|
| 2009       | \$ 13,270                 | \$ 1,385                      |
| 2010       | 13,970                    | 765                           |
| 2011       | 14,600                    | 283                           |
| 2012       | 15,345                    | –                             |
| 2013       | 16,105                    | –                             |
| Thereafter | 252,130                   | –                             |
|            | <u>325,420</u>            | <u>2,433</u>                  |
| Interest   | –                         | (122)                         |
|            | <u>\$ 325,420</u>         | <u>\$ 2,311</u>               |

Interest incurred for all debt aggregated approximately \$13.3 million and \$12.6 million for the years ended December 31, 2008 and 2007, respectively. Capitalized interest of \$3.6 million and \$3.0 million was recorded for the years ended December 31, 2008 and 2007.

Assets limited as to use under debt financing arrangements (primarily U.S. Government obligations) consisted of (in thousands):

|                            | <b>December 31</b> |                  |
|----------------------------|--------------------|------------------|
|                            | <b>2008</b>        | <b>2007</b>      |
| Construction proceeds fund | \$ 10,634          | \$ 51,758        |
| Debt service reserve funds | 30,951             | 30,950           |
| Debt service funds         | 15,211             | 16,898           |
|                            | <u>\$ 56,796</u>   | <u>\$ 99,606</u> |

## Mount Sinai School of Medicine of New York University

### Notes to Consolidated Financial Statements (continued)

#### **9. Perkins Loan Program**

The School participates in the Perkins Loan Program (the “Program”) sponsored by the United States Department of Education (the “DOE”). The Program advances funds to the School which the School loans to students. The School is required to match a percentage of the advanced funds. The School selects student participants in the Program based on financial need and other eligibility requirements set by the Program. Principal and interest collected by the School are used to fund additional loans. Interest earned and expenses incurred by the School in conducting the Program are allocated between government advances and the School’s operations based on the proportion of contributions made by the School and the DOE since the inception of the Program at the School. The aggregate amount of the DOE’s net participation in the Program (net advances to the School) is reflected as a liability within federal loan capital advances in the accompanying consolidated statements of financial position.

#### **10. Employee Relocation Loan Program**

The School maintains an employee relocation loan program whereby the School participates in a portion of the financing of the primary residence mortgage of eligible faculty members. All taxes, insurance and repair and maintenance costs of the residence are the responsibility of the faculty members. If the faculty member’s employment is terminated before the mortgage is repaid, the faculty member may purchase the School’s share of the equity and assume the remainder of the School’s mortgage obligation on the property, or the residence will be sold in accordance with the employee relocation loan program agreement and the School will be entitled to a portion of the proceeds. The School’s participation in this program aggregated approximately \$17.2 million and \$13.4 million at December 31, 2008 and 2007, respectively.

#### **11. Other Postretirement Benefits**

In addition to the School’s pension plans (see Note 14), the School provides health care and life insurance benefits to its retired employees if they reach normal retirement age while still working for the School. The School accrues the obligation to provide postretirement health care and other welfare benefits during the years in which employees provide service. The School-sponsored defined benefit plan provides postretirement medical and life insurance benefits to full-time employees who have worked ten years and attained the age of 62 while in service with the School. The plan contains cost-sharing features such as deductibles and coinsurance.

In fiscal 2004, management curtailed the benefits available under the School’s postretirement health benefit plan. Employees who would be eligible for postretirement health benefits are only

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**11. Other Postretirement Benefits (continued)**

those persons who were 50 years of age or older with 10 years of service as of January 1, 2004 or employees with 20 years of service as of January 1, 2005.

The School follows the recognition and disclosure provisions of FASB Statement 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 158"). SFAS 158 requires the School to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as cost. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be recognized subsequently as a component of net periodic pension cost through amortization.

The following tables provide a reconciliation of the changes in the plan's benefit obligation and a statement of the funded status of the plan (in thousands):

|   | <b>December 31</b> |                    |
|---|--------------------|--------------------|
|   | <b>2008</b>        | <b>2007</b>        |
| <b>Reconciliation of the benefit obligation</b> |                    |                    |
| Obligation at January 1                         | \$ 13,526          | \$ 13,888          |
| Service cost                                    | 138                | 159                |
| Interest cost                                   | 842                | 776                |
| Actuarial loss (gain)                           | 190                | (1,108)            |
| Plan amendment                                  | -                  | 476                |
| Benefit payments                                | (734)              | (665)              |
| Obligation at December 31                       | <u>\$ 13,962</u>   | <u>\$ 13,526</u>   |
| <b>Funded status</b>                            |                    |                    |
| Funded status at December 31                    | <u>\$ (13,962)</u> | <u>\$ (13,526)</u> |
| Net amount recognized                           | <u>\$ (13,962)</u> | <u>\$ (13,526)</u> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**11. Other Postretirement Benefits (continued)**

The following table provides the components of the net periodic benefit cost for the plan (in thousands):

|   | <b>Year Ended<br/>December 31</b> |               |
|---|-----------------------------------|---------------|
|   | <b>2008</b>                       | <b>2007</b>   |
| Service cost                                  | \$ 138                            | \$ 159        |
| Interest cost on projected benefit obligation | 842                               | 776           |
| Amortization                                  | 70                                | —             |
| Net periodic benefit cost                     | <b>\$ 1,050</b>                   | <b>\$ 935</b> |

The weighted-average discount rate used in the measurement of the School's benefit obligation was 6.3% and 6.5% at December 31, 2008 and 2007, respectively. The weighted-average discount rate used in the measurement of net periodic benefit cost was 6.50% and 5.75% for the years ended December 31, 2008 and 2007, respectively.

For measurement purposes relative to 2008, an annual rate of increase in the per capita cost of covered healthcare benefits was assumed to be initially 9.8% grading down to an ultimate rate of 5.0% in 2013. A 5.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2008. The measurement date is December 31.

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

|   | <b>1%<br/>Increase</b> | <b>1%<br/>Decrease</b> |
|---|------------------------|------------------------|
|   | <i>(In Thousands)</i>  |                        |
| Effect on total of service and interest cost components of net periodic postretirement health care benefit cost | \$ 22                  | \$ (19)                |
| Effect on the health care component of the accumulated postretirement benefit obligation                        | 362                    | (323)                  |

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 11. Other Postretirement Benefits (continued)

#### Cash Flows

Contributions: The School expects to contribute \$1.1 million for the postretirement medical and life insurance plan in 2009.

Estimated future benefit payments: The School expects to pay the following postretirement benefit payments, which reflect future service, as appropriate (in thousands):

|              |          |
|--------------|----------|
| 2009         | \$ 1,106 |
| 2010         | 1,152    |
| 2011         | 1,177    |
| 2012         | 1,312    |
| 2013         | 1,321    |
| 2014 to 2018 | 6,437    |

### 12. Temporarily Restricted and Permanently Restricted Net Assets

The School follows the requirements of the Uniform Management of Institutional Funds Act (“UMIFA”) as they relate to its permanently restricted contributions. The School 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 School must hold in perpetuity. 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 School 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 School appropriately diversifies its assets to provide for capital preservation and inflation risk protection while maintaining market exposure.

The School’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

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**12. Temporarily Restricted and Permanently Restricted Net Assets (continued)**

endowment spend rate (5% for 2008) and the treatment of any investment returns in excess of the annual spending rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified appropriately.

The School 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 \$11.5 million as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no such deficiencies as of December 31, 2007.

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. The School's temporarily and permanently restricted net assets support the following activities (in thousands):

| <b>Category</b>                      | <b>December 31, 2008</b>      |                               |
|--------------------------------------|-------------------------------|-------------------------------|
|                                      | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> |
| Professorships                       | \$ 1,888                      | \$ 103,835                    |
| Faculty fellowships                  | 6,939                         | 16,132                        |
| Lectures and prizes                  | 2,657                         | 6,355                         |
| Scholarships and loans               | 28,051                        | 32,376                        |
| Research centers                     | —                             | 53,614                        |
| Research, instruction and operations | 246,981                       | 100,446                       |
|                                      | <u>\$ 286,516</u>             | <u>\$ 312,758</u>             |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**12. Temporarily Restricted and Permanently Restricted Net Assets (continued)**

| Category                             | December 31, 2007      |                        |
|--------------------------------------|------------------------|------------------------|
|                                      | Temporarily Restricted | Permanently Restricted |
| Professorships                       | \$ 18,110              | \$ 97,385              |
| Faculty fellowships                  | 16,912                 | 14,757                 |
| Lectures and prizes                  | 6,907                  | 6,109                  |
| Scholarships and loans               | 54,409                 | 32,093                 |
| Research centers                     | 7,214                  | 48,458                 |
| Research, instruction and operations | 242,989                | 89,256                 |
|                                      | <u>\$ 346,541</u>      | <u>\$ 288,058</u>      |

Net assets were released from restrictions in satisfaction of the following restrictions (in thousands):

|             | Year Ended December 31 |                  |
|-------------|------------------------|------------------|
|             | 2008                   | 2007             |
| Instruction | \$ 2,072               | \$ 2,200         |
| Research    | 43,708                 | 30,526           |
|             | <u>\$ 45,780</u>       | <u>\$ 32,726</u> |

**13. Sponsored Research**

Research grants and contracts generally provide for the recovery of direct and indirect costs. The School recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is recorded using facilities and administrative rates negotiated with the federal government and other sponsors. Certain School clinical research programs are conducted in Hospital facilities. Direct expenditures under federal research projects totaled approximately \$185.1 million and \$159.7 million for the years ended December 31, 2008 and 2007. The School's principal source of federal research funds is the U.S. Department of Health and Human Services. Research grants and contracts awarded but not yet recorded approximated \$186.1 million and \$181.4 million as of December 31, 2008 and 2007, respectively.



# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **14. Pension and Similar Plans**

Through participation in the Hospital's pension plan, the School provides pension and similar benefits to administrative service employees through several defined benefit multiemployer union plans and immediate vesting tax-sheltered annuity plans. Contributions to the defined benefit multiemployer union plans are made in accordance with contractual agreements under which contributions are generally based on salaries. Payments to the tax-sheltered annuity plans are generally based on percentages of annual salaries. It is the School's policy to fund accrued costs under these plans on a current basis. The School's pension expense under all existing plans for the years ended December 31, 2008 and 2007 aggregated approximately \$22.7 million and \$18.8 million, respectively.

Additionally, the Hospital and the School jointly offer a 457(b) plan to certain of their respective employees. Contributions are made solely by the employees through their payroll deductions. The contributions are maintained in individual participant accounts held by a custodian and remain an asset of the employer until the participant retires. A corresponding liability is also recorded for these amounts to be reduced upon the participant's retirement.

At December 31, 2008 and 2007, the School has included approximately \$10.6 million and \$11.8 million in investments and accrued salaries, wages and related liabilities in its consolidated statements of financial position related to the 457(b) plan.

### **15. Commitments and Contingencies**

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

In December 2001, Realty Corp. entered into a \$16 million loan agreement with the New York City Industrial Development Agency (\$14.0 million and \$14.3 million outstanding balance at December 31, 2008 and 2007, respectively), which is collateralized by a bank letter of credit that is guaranteed by the School and the Medical Center. In December 2007, Realty Corp. refinanced its \$7.8 million term loan and its \$8.2 million subordinated mortgage loan into one three-year \$11.0 million mortgage loan. The loan was secured by real estate owned by Realty Corp. and by a guarantee from the School and the Medical Center. The original two loans were also collateralized by \$8.2 million of marketable securities that were loaned to Realty Corp. from the School. This collateral was released by the financial institution as a part of the new financing agreement. In January 2007, these marketable securities were transferred back to the School.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**15. Commitments and Contingencies (continued)**

Under the terms of the debt agreements, the School is required to meet certain financial covenants. As of December 31, 2008, the School was not in compliance with these requirements. Management obtained a waiver from the bank waiving the compliance requirements for December 31, 2008. Effective January 1, 2009, the covenants were amended such that the School expects it will be in compliance prospectively.

Summarized financial information for Realty Corp. is as follows (in thousands):

|                   | <b>December 31</b> |                    |
|-------------------|--------------------|--------------------|
|                   | <b>2008</b>        | <b>2007</b>        |
| Total assets      | \$ 28,291          | \$ 29,402          |
| Total liabilities | (44,291)           | (45,402)           |
| Net deficit       | <u>\$ (16,000)</u> | <u>\$ (16,000)</u> |

**Operating Leases**

The School leases various equipment and facilities under operating leases expiring at various dates through 2011. Total rental expense charged to operations during the years ended December 31, 2008 and 2007 was approximately \$6.2 million and \$5.5 million.

Future minimum payments required under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2008 (in thousands):

|      |                 |
|------|-----------------|
| 2009 | \$ 2,295        |
| 2010 | 1,059           |
| 2011 | 529             |
| 2012 | 204             |
| 2013 | 16              |
|      | <u>\$ 4,103</u> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**16. Fair Value Measurements**

As described in Note 1, on January 1, 2008, the School adopted the methods of calculating fair value described 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, accordingly, SFAS No. 157 does not require any 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 School uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**16. Fair Value Measurements (continued)**

Financial assets carried at fair value by the School, 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 | \$ 26,330        | \$ —           | \$ —              | \$ 26,330         |
| Assets limited as to use  | 56,796           | —              | —                 | 56,796            |
| Hedge funds               | —                | —              | 374,819           | 374,819           |
| Private equity            | —                | —              | 62,775            | 62,775            |
| Other investments         | 2,744            | —              | 10,805            | 13,549            |
|                           | <u>\$ 85,870</u> | <u>\$ —</u>    | <u>\$ 448,399</u> | <u>\$ 534,269</u> |

The following is a description of the School'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. Level 3 assets consist primarily of alternative investments, the valuation for which is described in Note 1. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**16. Fair Value Measurements (continued)**

The following table is a rollforward of the statement of financial position amounts for financial instruments classified by the School in Level 3 of the valuation hierarchy defined above (in thousands):

|  | <b>Fair Value Measurements Using<br/>Significant Unobservable Inputs (Level 3)</b> |                              |                     |
|--|--|------------------------------|---------------------|
|  | <b>Alternative<br/>Investments</b>   | <b>Other<br/>Investments</b> | <b>Total</b>        |
| Fair value at January 1, 2008  | \$ 587,462   | \$ 11,496                    | \$ 598,958          |
| Total realized and unrealized gains or losses  | (160,949)  | (9,849)                      | (170,798)           |
| Purchases, sales, issuances and settlements, net   | 26,261   | 9,158                        | 35,419              |
| Additional unrealized loss due to fair value adjustment  | (15,180)   | –                            | (15,180)            |
| Fair value at December 31, 2008  | <u>\$ 437,594</u>  | <u>\$ 10,805</u>             | <u>\$ 448,399</u>   |
| Change in unrealized gains (losses) related to financial instruments held at December 31, 2008 | <u>\$ (165,727)</u>  | <u>\$ (9,849)</u>            | <u>\$ (175,576)</u> |

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

|                                  | <b>Fair<br/>Value</b> | <b>Carrying<br/>Value</b> |
|----------------------------------|-----------------------|---------------------------|
| Loans receivable                 | \$ 40,005             | \$ 40,005                 |
| Employee relocation loan program | 17,184                | 17,184                    |
| Long-term debt                   | 316,815               | 332,490                   |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**16. Fair Value Measurements (continued)**

The fair value of loans receivable and employee relocation loans approximate carrying value as the loans generally bear interest at market rates. The fair value of long-term debt is based on quoted market prices.

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

*Cash and cash equivalents:* The carrying amounts reported in the accompanying consolidated statements of financial position approximate fair value.

*Loans receivable:* These assets are reported at cost, which approximates fair value, as the loans generally bear interest at variable market rates.

*Assets limited as to use under debt financing arrangements:* These assets consist primarily of U.S. Government securities. Fair values are based on quoted market prices.

*Investments in alternative investments:* Fair values of alternative investments are based on historical cost, appraisals, or other estimates that require varying degrees of judgment, and reflect the School's share of realized and unrealized investment income and expenses of the respective alternative investments.

*Other investments:* The carrying amount reported in the accompanying consolidated statements of financial position approximates fair value.

*Employee relocation loan program:* The carrying amounts reported in the accompanying consolidated statement of financial position approximate fair value as the loans generally bear interest at variable market rates.

*Long-term debt:* Fair value of the School's long-term debt is based on discounted cash flow analyses, using current borrowing rates for similar types of debt.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**16. Fair Value Measurements (continued)**

The carrying values and fair values of the School's financial instruments are as follows at December 31, 2007 (in thousands):

|  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|-----------------------|
| Cash and cash equivalents                                  | \$ 73,741                 | \$ 73,741             |
| Loans receivable   | 33,672                    | 33,672                |
| Assets limited as to use under debt financing arrangements | 99,606                    | 99,606                |
| Investments in alternative investments                     | 587,462                   | 587,462               |
| Investments in other                                       | 19,722                    | 19,722                |
| Employee relocation loan program                           | 13,412                    | 13,412                |
| Long-term debt   | 347,153                   | 349,564               |

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CONSOLIDATED FINANCIAL STATEMENTS

Mount Sinai School of Medicine of New York University  
Years Ended December 31, 2007 and 2006  
With Report of Independent Auditors

Mount Sinai School of Medicine of New York University

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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## Report of Independent Auditors

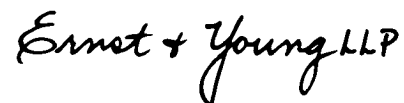
Board of Trustees  
Mount Sinai School of Medicine  
of New York University

We have audited the accompanying consolidated statements of financial position of the Mount Sinai School of Medicine of New York University (the School) as of December 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School'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 School'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 School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Mount Sinai School of Medicine of New York University at December 31, 2007 and 2006, and the consolidated results of its operations and changes in its net assets and its consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 11 to the accompanying consolidated financial statements, as of December 31, 2007, the School adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.



March 28, 2008

Mount Sinai School of Medicine of New York University

Consolidated Statements of Financial Position

|   | <b>December 31</b>    |                     |
|---|-----------------------|---------------------|
|   | <b>2007</b>           | <b>2006</b>         |
|   | <i>(In Thousands)</i> |                     |
| <b>Assets</b>   |                       |                     |
| Cash and cash equivalents   | \$ 27,149             | \$ 38,569           |
| Loans receivable:   |                       |                     |
| Employees, less allowances for uncollectibles of \$285 and \$277, in 2007 and 2006, respectively                        | 17,979                | 13,930              |
| Students  | 15,693                | 15,131              |
| Pledges receivable, net   | 129,389               | 86,864              |
| Patient accounts receivable, less allowances for uncollectibles of \$11,854 and \$6,415, in 2007 and 2006, respectively | 40,644                | 22,081              |
| Other assets  | 18,210                | 13,497              |
| Due from New York City Health and Hospitals Corporation   | 4,697                 | 6,869               |
| Due from related organizations, net   | —                     | 14,226              |
| Assets limited as to use under debt financing arrangements  | 99,606                | 33,497              |
| Investments, including permanently restricted investments of \$270,214 and \$255,773 in 2007 and 2006, respectively     | 672,580               | 582,050             |
| Property, plant and equipment – net   | 453,270               | 358,143             |
| Total assets  | <b>\$ 1,479,217</b>   | <b>\$ 1,184,857</b> |
| <b>Liabilities and net assets</b>   |                       |                     |
| Accounts payable and accrued expenses   | \$ 52,281             | \$ 41,807           |
| Deferred revenue and refundable advances  | 54,996                | 41,132              |
| Due to related organizations, net   | 35,942                | —                   |
| Accrued salaries, wages and related liabilities   | 24,610                | 25,552              |
| Accrued interest payable  | 6,945                 | 5,701               |
| Federal loan capital advances   | 4,747                 | 4,773               |
| Employee relocation loan program  | 13,412                | 9,942               |
| Postretirement health benefit obligations   | 13,526                | 12,101              |
| Long-term debt  | 347,153               | 255,899             |
| Total liabilities   | <b>553,612</b>        | <b>396,907</b>      |
| Commitments and contingencies   |                       |                     |
| Net assets:   |                       |                     |
| Unrestricted  | 291,006               | 249,048             |
| Temporarily restricted  | 346,541               | 251,997             |
| Permanently restricted  | 288,058               | 286,905             |
| Total net assets  | <b>925,605</b>        | <b>787,950</b>      |
| Total liabilities and net assets  | <b>\$ 1,479,217</b>   | <b>\$ 1,184,857</b> |

See accompanying notes.

Mount Sinai School of Medicine of New York University

Consolidated Statements of Activities

Year Ended December 31, 2007

(In Thousands)

|   | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total             |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Revenue, gains, support and reclassifications:  |                   |                           |                           |                   |
| Net patient care services   | \$ 374,444        | \$ —                      | \$ —                      | \$ 374,444        |
| Federal grants and contracts  | 221,507           | —                         | —                         | 221,507           |
| Private gifts, grants and contracts   | 70,829            | 113,391                   | 1,153                     | 185,373           |
| New York City Health and Hospitals Corporation  | 160,423           | —                         | —                         | 160,423           |
| The Mount Sinai Hospital CARTS transfer   | 67,415            | —                         | —                         | 67,415            |
| Return on long-term investments   | 64,042            | 13,879                    | —                         | 77,921            |
| Royalty revenue   | 24,632            | —                         | —                         | 24,632            |
| Tuition and fees  | 18,865            | —                         | —                         | 18,865            |
| Other support   | 22,091            | —                         | —                         | 22,091            |
|   | <u>1,024,248</u>  | <u>127,370</u>            | <u>1,153</u>              | <u>1,152,671</u>  |
| Net assets released from restrictions   | 32,726            | (32,726)                  | —                         | —                 |
| Total revenue, gains, support and reclassifications                                   | <u>1,056,974</u>  | <u>94,544</u>             | <u>1,153</u>              | <u>1,152,671</u>  |
| Expenses:   |                   |                           |                           |                   |
| Program services:   |                   |                           |                           |                   |
| Patient care services   | 437,992           | —                         | —                         | 437,992           |
| Sponsored research  | 191,477           | —                         | —                         | 191,477           |
| Basic and clinical sciences   | 216,380           | —                         | —                         | 216,380           |
| Scholarships  | 2,200             | —                         | —                         | 2,200             |
| Total program services  | <u>848,049</u>    | <u>—</u>                  | <u>—</u>                  | <u>848,049</u>    |
| Support services (management and general):  |                   |                           |                           |                   |
| General administration and support services   | 165,895           | —                         | —                         | 165,895           |
| Total expenses  | <u>1,013,944</u>  | <u>—</u>                  | <u>—</u>                  | <u>1,013,944</u>  |
| Increase in net assets before change in<br>accounting principle                       | 43,030            | 94,544                    | 1,153                     | 138,727           |
| Effect of change in accounting principle for<br>other postretirement plan – (Note 11) | (1,072)           | —                         | —                         | (1,072)           |
| Increase in net assets  | <u>41,958</u>     | <u>94,544</u>             | <u>1,153</u>              | <u>137,655</u>    |
| Net assets at beginning of year   | 249,048           | 251,997                   | 286,905                   | 787,950           |
| Net assets at end of year   | <u>\$ 291,006</u> | <u>\$ 346,541</u>         | <u>\$ 288,058</u>         | <u>\$ 925,605</u> |

See accompanying notes.

# Mount Sinai School of Medicine of New York University

## Consolidated Statements of Activities

Year Ended December 31, 2006

(In Thousands)

|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total      |
|---|--------------|---------------------------|---------------------------|------------|
| Revenue, gains, support and reclassifications:      |              |                           |                           |            |
| Net patient care services                           | \$ 348,127   | \$ —                      | \$ —                      | \$ 348,127 |
| Federal grants and contracts                        | 229,736      | —                         | —                         | 229,736    |
| Private gifts, grants and contracts                 | 72,346       | 37,125                    | 25,131                    | 134,602    |
| New York City Health and Hospitals Corporation      | 151,512      | —                         | —                         | 151,512    |
| The Mount Sinai Hospital CARTS transfer             | 60,705       | —                         | —                         | 60,705     |
| Return on long-term investments                     | 58,486       | 26,551                    | —                         | 85,037     |
| Royalty revenue                                     | 19,000       | —                         | —                         | 19,000     |
| Tuition and fees                                    | 18,330       | —                         | —                         | 18,330     |
| Other support                                       | 20,886       | —                         | —                         | 20,886     |
|   | 979,128      | 63,676                    | 25,131                    | 1,067,935  |
| Net assets released from restrictions               | 21,759       | (21,759)                  | —                         | —          |
| Total revenue, gains, support and reclassifications | 1,000,887    | 41,917                    | 25,131                    | 1,067,935  |
| Expenses:   |              |                           |                           |            |
| Program services:                                   |              |                           |                           |            |
| Patient care services                               | 416,846      | —                         | —                         | 416,846    |
| Sponsored research                                  | 191,655      | —                         | —                         | 191,655    |
| Basic and clinical sciences                         | 171,655      | —                         | —                         | 171,655    |
| Scholarships  | 1,882        | —                         | —                         | 1,882      |
| Total program services                              | 782,038      | —                         | —                         | 782,038    |
| Support services (management and general):          |              |                           |                           |            |
| General administration and support services         | 160,303      | —                         | —                         | 160,303    |
| Total expenses                                      | 942,341      | —                         | —                         | 942,341    |
| Increase in net assets                              | 58,546       | 41,917                    | 25,131                    | 125,594    |
| Net assets at beginning of year                     | 190,502      | 210,080                   | 261,774                   | 662,356    |
| Net assets at end of year                           | \$ 249,048   | \$ 251,997                | \$ 286,905                | \$ 787,950 |

See accompanying notes.

Mount Sinai School of Medicine of New York University

Consolidated Statement of Cash Flows

|   | <b>Year Ended December 31</b> |                  |
|---|-------------------------------|------------------|
|   | <b>2007</b>                   | <b>2006</b>      |
|   | <i>(In Thousands)</i>         |                  |
| <b>Cash flows from operating activities</b>   |                               |                  |
| Increase in net assets  | \$ 137,655                    | \$ 125,594       |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |                               |                  |
| Depreciation and amortization   | 36,716                        | 33,571           |
| Amortization of bond discount and premium, net  | (429)                         | (323)            |
| Contributions to permanently restricted net assets  | (1,153)                       | (25,131)         |
| Change in net unrealized gains and losses on investments                                      | (54,391)                      | (55,136)         |
| Changes in operating assets and liabilities:  |                               |                  |
| Pledges receivable  | (42,525)                      | (8,924)          |
| Patient accounts receivable, net  | (18,563)                      | (22,081)         |
| Due to/from related organizations, net  | 50,168                        | (6,147)          |
| Accounts payable and accrued expenses   | 10,474                        | 5,024            |
| Accrued salaries, wages and related liabilities   | (942)                         | 8,816            |
| Employee relocation loan program  | 3,470                         | (984)            |
| Net change in other operating assets and liabilities  | 13,992                        | 10,693           |
| Net cash provided by operating activities   | <u>134,472</u>                | <u>64,972</u>    |
| <b>Cash flows from investing activities</b>   |                               |                  |
| Net (increase) decrease in loans receivable   | (4,611)                       | 153              |
| Investments in fixed assets and projects in process   | (131,843)                     | (62,157)         |
| Net increase in investments   | (36,139)                      | (12,114)         |
| (Increase) decrease in assets limited as to use under debt financing arrangements             | (66,109)                      | 1,642            |
| Net cash used in investing activities   | <u>(238,702)</u>              | <u>(72,476)</u>  |
| <b>Cash flows from financing activities</b>   |                               |                  |
| Contributions to permanently restricted net assets  | 1,153                         | 25,131           |
| Repayment of commercial paper notes   | (22,698)                      | -                |
| Proceeds from issuance of long-term debt  | 125,816                       | -                |
| Principal payments on long-term debt and capital lease obligations                            | (11,435)                      | (11,743)         |
| Decrease in federal loan capital advances   | (26)                          | (130)            |
| Net cash provided by financing activities   | <u>92,810</u>                 | <u>13,258</u>    |
| Net (decrease) increase in cash and cash equivalents  | (11,420)                      | 5,754            |
| Cash and cash equivalents at beginning of period  | 38,569                        | 32,815           |
| Cash and cash equivalents at end of period  | <u>\$ 27,149</u>              | <u>\$ 38,569</u> |
| <b>Supplemental disclosure of cash flow information</b>                                       |                               |                  |
| Cash paid during the year for interest  | <u>\$ 13,537</u>              | <u>\$ 13,291</u> |

See accompanying notes.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements

December 31, 2007

### **1. Basis of Presentation and Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The Mount Sinai School of Medicine of New York University (the School) is a teaching and research institution that educates physicians, biomedical scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. It grants both MD and Ph.D degrees. The School has an academic affiliation arrangement with New York University. The School is closely affiliated with The Mount Sinai Hospital (the Hospital) and its affiliates, although the School is managed separately and is a separate legal entity. The School and the Hospital share a four-block area campus on the Upper East Side of Manhattan. The accompanying consolidated financial statements include only the accounts of the School, International Longevity Center-USA, Ltd. (ILC) formed in 1998 and Mount Sinai Children's Center Foundation, Inc. (CCF) formed in 1989. Both entities are not-for-profit organizations and the School is the sole member of each (See Note 17).

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material impact on the School's financial position.

#### **Related Organizations**

Transactions between the School and its related organizations, relating principally to the sharing of certain facilities, equipment and personnel are accounted for on the basis of allocated cost. Amounts due to or from related organizations are currently receivable or payable and do not bear interest (see Note 5). All transactions and balances with ILC and CCF have been eliminated in consolidation.



Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

Summarized financial information for CCF is as follows (in thousands):

|                        | <b>December 31,<br/>2007</b> |
|------------------------|------------------------------|
| Total assets           | \$ 5,299                     |
| Total liabilities      | —                            |
| Net assets             | <u>\$ 5,299</u>              |
| <br>                   |                              |
| Total revenue          | \$ 1,123                     |
| Total expenses         | 256                          |
| Increase in net assets | <u>\$ 867</u>                |

**Cash Equivalents**

The School considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its long-term investment portfolio and assets limited as to use under debt financing arrangements, to be cash equivalents.

**Patient Accounts Receivable/Allowance for Uncollectibles**

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

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

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

The School grants credit without collateral to its patients, most of whom are insured under third party agreements. The significant concentrations of accounts receivable for services to patients include:

|              | <b>December 31</b> |             |
|--------------|--------------------|-------------|
|              | <b>2007</b>        | <b>2006</b> |
| Medicare     | 25%                | 22%         |
| Medicaid     | 20                 | 20          |
| Managed Care | 44                 | 44          |
| Commercial   | 5                  | 6           |
| Other        | 6                  | 8           |
|              | <u>100%</u>        | <u>100%</u> |

Approximately 43% and 44% of the School's net patient care service revenue was from Medicare and Medicaid programs in 2007 and 2006, respectively.

**Assets Limited as to Use Under Debt Financing Arrangements**

Assets limited as to use under debt financing arrangements are invested in marketable securities and are carried at fair value (quoted market value). Income from assets limited as to use is recognized in the accompanying consolidated statement of activities with return on long-term investments.

**Investments**

The majority of the School's investments, with the exception of real estate-related amounts due from or invested in affiliate (see Note 6) and approximately \$19.7 million and \$16.5 million at December 31, 2007 and 2006, that are separately invested funds, are in a pooled investment portfolio maintained for the benefit of the Hospital, The Mount Sinai Medical Center, Inc. (the Medical Center) and the School.

*Marketable Securities and Alternative Investments:* Marketable securities are valued at fair value (quoted market value). Alternative investments (nontraditional, not-readily-marketable asset classes), some of which are structured such that the School holds limited partnership interests, are stated at fair value as estimated in an unquoted market.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Individual investment holdings of the School may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the School's holdings may be determined by the investment manager or general partner. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the School to securities lending, short sales of securities, and trading in futures and forward contracts, options and other derivative products. The financial statements of the investees are audited annually by independent auditors.

As of December 31, 2007 and 2006, under the terms of various agreements, the School has commitments to contribute approximately \$61.7 million and \$32.3 million in additional capital to alternative investees over the next two to five years.

The School's principal investment custodian, Custodial Trust Company, maintains a securities lending program in which the School participates. Collateral is held at all times in excess of the value of the securities on loan. Investment of this collateral is in accordance with specified guidelines. Interest earned on these transactions is included with investment income in the consolidated statements of activities. The fair value of securities on loan at December 31, 2007 and 2006 was approximately \$19.5 million and \$12.4 million, respectively.

*Other Investments:* The carrying amount reported in the accompanying consolidated statement of financial position approximates fair value.

### Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standard (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. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 will not have a material effect on the School's consolidated financial statements.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of 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 are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 will not have a material effect on the School's consolidated financial statements.

#### **Investment Income**

Investment income is allocated to investment pool participants using the market value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually and is based on total return. Realized gains and losses from the sale of securities are computed using the average cost method. The School also recognizes investment income (realized and unrealized) pertaining to investments held by the Medical Center on its behalf.

#### **Reclassifications**

Certain prior-year amounts have been reclassified to conform to the current year presentation.

#### **Property, Plant and Equipment**

Property, plant and equipment including leasehold improvements are carried at cost; those acquired through contributions are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Annual provisions for depreciation and amortization are made based upon the straight-line method over the estimated useful life of the assets ranging from 5 to 50 years. Fixed assets are written off when they are fully depreciated and no longer in use. Depreciation expense for the years ended December 31, 2007 and 2006 was \$36.5 million and \$33.5 million, respectively.

The School has entered into long-term leases with the Hospital relating to the portion of the Hospital-owned Annenberg and Guggenheim buildings used by the School. Under the leases, the School makes payments for its share of the buildings' operating expenses.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

#### **Deferred Financing Charges**

Deferred financing charges, included within property, plant and equipment in the accompanying consolidated statement of financial position, represent costs incurred to obtain financing for construction and renovation projects at the School. Amortization of these costs is provided using the effective interest method over the remaining term of the applicable indebtedness. See Note 8 for additional information relative to debt-related matters.

#### **Change in Accounting**

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. The standard applies to all plan sponsors that offer defined benefit postretirement benefit plans. SFAS 158 requires an entity to recognize in its statement of financial position an asset, for a defined benefit postretirement plan's overfunded status, or a liability, for a plan's underfunded status; measure a defined benefit postretirement plan's assets and obligations that determine funded status as of the end of the employer's fiscal year; and recognize the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs. The School adopted the provisions of SFAS No. 158 at December 31, 2007 and the effect of adopting SFAS No. 158 on the School's statement of financial position has been included in the accompanying consolidated financial statements (see Note 11).

#### **Asset Retirement Obligation**

The School accounts for asset retirement obligations in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, and *Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47)*. Under SFAS No. 143 and FIN 47, the School estimates amounts necessary for asset retirement obligations. The asset retirement obligation recorded at December 31, 2007 and 2006 totaled approximately \$3.2 million and \$2.3 million, respectively.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **1. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

#### **Revenue Recognition**

The School records grants and earned revenues on an accrual basis. In addition, the School records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges) and other assets. Conditional contributions, including grants for sponsored research, are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts and promises to give that are due in future years are discounted to present value.

Contributions are reported as either temporarily or permanently restricted if they are received with donor-imposed 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 accompanying consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions, including grants for sponsored research, whose restrictions and conditions are met within the same year as the contributions are received, are reflected in the activities of the unrestricted net asset class.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the School 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 School in perpetuity. Income earned therefrom is unrestricted or temporarily restricted based upon donors' stipulations.

#### **Tax Status**

The School, ILC and CCF are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The School, ILC and CCF are also exempt from New York State and City income taxes.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement approach for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 became effective for the School on January 1, 2007. There was no significant impact on the School's consolidated financial statements as a result of the adoption of FIN 48.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **2. Faculty Practice Revenue**

Full-time faculty members may participate in the School's faculty practice plan. Plan participants are authorized to conduct a private practice and engage in professional consultation in accordance with established institutional guidelines. Professional service fee receipts are recorded and deposited in private practice funds established by the School for each individual participant or group practice when received by the School. Portions of these receipts are used to support School activities and to reimburse the School for indirect costs incurred in supporting plan activities. The remaining amounts, after direct plan expenses, provide participant salary supplements and support School departmental activities. The School participates in the Hospital's professional and general liability insurance programs.

A similar arrangement exists for School physicians at Elmhurst Hospital Center (Elmhurst) and Queens Hospital Center (Queens). These receipts are used to support certain services previously funded under agreements with HHC, provide salary supplements for physicians and support the School's departmental activities at Elmhurst and Queens.

The School's faculty practice plan has agreements with third party payors that provide for payments to the plan. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and fee-for-service. Net patient care service revenue is reported at the estimated net realizable amounts from patients, third party payors, and other for services rendered.

The current Medicaid, Medicare and other third-party payor programs in which the School and its faculty participate are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusions from such programs. The School is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**3. Pledges Receivable**

Pledges receivable, representing unconditional promises to give to the School, recorded net of a present value discount and valuation allowance, consist of the following (in thousands):

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2007</b>        | <b>2006</b> |
| Temporarily restricted  | <b>\$ 139,053</b>  | \$ 79,701   |
| Permanently restricted  | <b>14,257</b>      | 32,051      |
| Unconditional promises to give before discount to present value and valuation allowance | <b>153,310</b>     | 111,752     |
| Less present value discount and valuation allowance                                     | <b>(23,921)</b>    | (24,888)    |
| Net pledges receivable  | <b>\$ 129,389</b>  | \$ 86,864   |

Pledges receivable are due to be collected over the following (in thousands):

|                          | <b>December 31</b> |             |
|--------------------------|--------------------|-------------|
|                          | <b>2007</b>        | <b>2006</b> |
| Within one year          | <b>\$ 19,513</b>   | \$ 15,610   |
| One to five years        | <b>110,401</b>     | 90,135      |
| More than five years     | <b>23,396</b>      | 6,007       |
| Total pledges receivable | <b>\$ 153,310</b>  | \$111,752   |

**4. Agreements with the New York City Health and Hospitals Corporation**

Pursuant to various agreements with HHC, the School provides professional, medical and other services for the operations of Elmhurst and Queens. For certain services provided under the agreements, the School is paid on a fee-for-service basis and for other services the School is reimbursed for costs incurred, plus overhead, but not in excess of amounts specified in the agreements. Certain other costs are funded by the operations of faculty practice group arrangements at Elmhurst and Queens, which are independent of other School programs, under a letter of understanding with HHC.



# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 4. Agreements with the New York City Health and Hospitals Corporation (continued)

The agreements with HHC do not permit the accrual of vacation and retirement benefits. The School would be liable for such benefits only upon termination of the agreements; however, the School's liability would be limited upon termination of the agreements to amounts due based on benefits policies in effect at that time. No liability for such benefits has been recorded by the School.

The School's arrangements with HHC are subject to final settlements based on future audits; however, the School anticipates that the effects of future final settlements will not be material.

### 5. Due (to) from Related Organizations

Amounts due (to) from the School's related organizations consisted of the following (in thousands):

|  | <b>December 31</b> |                  |
|--|--------------------|------------------|
|  | <b>2007</b>        | <b>2006</b>      |
| The Mount Sinai Medical Center, Inc.         | \$ 6,622           | \$ 6,741         |
| MSMC Realty Corporation (see Notes 6 and 15) | (20,299)           | 10,316           |
| The Mount Sinai Hospital                     | (22,265)           | (2,831)          |
| Due (to) from related organizations, net     | <u>\$ (35,942)</u> | <u>\$ 14,226</u> |

Transactions charged (at cost) by the Hospital to the School totaling approximately \$660.6 million and \$600.9 million during the years ended December 31, 2007 and 2006, respectively. These transactions include payroll and benefits, approximately 83% and 84% in 2007 and 2006, respectively, related to various shared administrative services. Included in the benefits charges are certain employee health plan claims and premiums which are paid by the Hospital and subsequently charged to the School. Accordingly, the Hospital recognizes an actuarially determined liability for unreported health claims on behalf of the School. These claims are recorded as expenses in the School's consolidated statements of activities.

During 2007, the Hospital advanced the School approximately \$20 million, primarily related to construction of the Center for Science and Medicine (CSM). The School intends to repay the capital advance upon obtaining financing for CSM.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**5. Due (to) from Related Organizations (continued)**

Beginning July 1, 2002, the School implemented a budget model pursuant to which the Hospital pays the School's clinical departments for services rendered according to the CARTS budget model (C – clinical, A – administrative, R – research, T – teaching, S – strategic). These revenues are included in the accompanying consolidated statements of activities as The Mount Sinai Hospital CARTS Transfer.

**6. Investments**

Total investments for the School are maintained as follows (in thousands):

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2007</b>        | <b>2006</b>       |
| Pooled investments                           | \$ 631,458         | \$ 556,889        |
| Non-pooled investments                       | 19,722             | 16,453            |
| Interest in MSMC Residential Realty LLC, net | 21,400             | 8,708             |
|  | <u>\$ 672,580</u>  | <u>\$ 582,050</u> |

At December 31, 2006 the interest in MSMC Residential Realty LLC is reduced by \$12.7 million for amounts owed to MSMCRRC by the School.

The following tables summarize the composition of the investment pool at carrying value, along with investment amounts that have been specifically allocated for financial reporting purposes to the pool participants (in thousands):

|                                    | <b>December 31, 2007</b> |                   |  |                           |                     |
|------------------------------------|--------------------------|-------------------|--|---------------------------|---------------------|
|                                    | <b>School</b>            | <b>Hospital</b>   | <b>Mount<br/>Sinai<br/>Auxiliary<br/>Board</b> | <b>Medical<br/>Center</b> | <b>Total</b>        |
| Cash and cash equivalents          | \$ 46,592                | \$ 18,773         | \$ –   | \$ 4,719                  | \$ 70,084           |
| Fixed income securities:           |                          |                   |  |                           |                     |
| Corporate and other                | –                        | 48,291            | 3,003  | –                         | 51,294              |
| U.S. Government agency obligations | –                        | 81                | –  | –                         | 81                  |
| Marketable equity securities       | –                        | 150,174           | –  | –                         | 150,174             |
| Alternative investments:           |                          |                   |  |                           |                     |
| Hedge funds                        | 218,456                  | 95,725            | –  | –                         | 314,181             |
| Private equity                     | 38,397                   | –                 | –  | 4,218                     | 42,615              |
| Other alternative investments      | 330,609                  | 89,971            | –  | 13,537                    | 434,117             |
|                                    | <u>634,054</u>           | <u>403,015</u>    | <u>3,003</u>                                   | <u>22,474</u>             | <u>1,062,546</u>    |
| Interpool settlement               | (2,596)                  | 3,128             | 356  | (888)                     | –                   |
| Total                              | <u>\$ 631,458</u>        | <u>\$ 406,143</u> | <u>\$ 3,359</u>                                | <u>\$ 21,586</u>          | <u>\$ 1,062,546</u> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**6. Investments (continued)**

|                                    | December 31, 2006 |            |                                |                             |                | Total      |
|------------------------------------|-------------------|------------|--------------------------------|-----------------------------|----------------|------------|
|                                    | School            | Hospital   | Mount Sinai Realty Corporation | Mount Sinai Auxiliary Board | Medical Center |            |
| Cash and cash equivalents          | \$ 43,080         | \$ 3,874   | \$ 190                         | \$ –                        | \$ 2,128       | \$ 49,272  |
| Fixed income securities:           |                   |            |                                |                             |                |            |
| Corporate and other                | 7,745             | 19,034     | –                              | 1,995                       | –              | 28,774     |
| U.S. Government agency obligations | 2,438             | 6,065      | 10,146                         | 627                         | –              | 19,276     |
| Marketable equity securities       | –                 | 114,796    | –                              | –                           | –              | 114,796    |
| Alternative investments:           |                   |            |                                |                             |                |            |
| Hedge funds                        | 205,663           | 70,562     | –                              | –                           | –              | 276,225    |
| Private equity                     | 24,790            | –          | –                              | –                           | 3,875          | 28,665     |
| Other alternative investments      | 274,046           | 81,610     | –                              | –                           | 14,519         | 370,175    |
|                                    | 557,762           | 295,941    | 10,336                         | 2,662                       | 20,522         | 887,183    |
| Interpool settlement               | (873)             | (851)      | –                              | 542                         | 1,182          | –          |
| Total                              | \$ 556,889        | \$ 295,090 | \$ 10,336                      | \$ 3,164                    | \$ 21,704      | \$ 887,183 |

Investments recorded by the School consist of the following (in thousands):

|   | December 31 |                |            |                |
|---|-------------|----------------|------------|----------------|
|   | 2007        |                | 2006       |                |
|   | Cost        | Carrying Value | Cost       | Carrying Value |
| Cash and cash equivalents, including interpool settlement net payables of \$2,596 and \$873, in 2007 and 2006, respectively | \$ 43,996   | \$ 43,996      | \$ 43,080  | \$ 43,080      |
| Corporate and other fixed income  | –           | –              | 7,750      | 7,745          |
| U.S. Government agency obligations  | –           | –              | 1,560      | 1,565          |
| Alternative investments:  |             |                |            |                |
| Hedge funds   | 73,136      | 218,456        | 93,135     | 205,663        |
| Private equity  | 28,755      | 38,397         | 7,201      | 24,790         |
| Other alternative investments   | 159,744     | 330,609        | 112,751    | 274,046        |
|   | 305,631     | 631,458        | 265,477    | 556,889        |
| Other investments   | 41,122      | 41,122         | 23,112     | 25,161         |
| Total   | \$ 346,753  | \$ 672,580     | \$ 288,589 | \$ 582,050     |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**6. Investments (continued)**

Investment returns that were allocated to the School based on agreements among the pool participants and donor stipulations comprise the following (in thousands):

|   | <b>Year Ended December 31</b> |                  |
|---|-------------------------------|------------------|
|   | <b>2007</b>                   | <b>2006</b>      |
| Interest and dividend income              | \$ 5,725                      | \$ 6,634         |
| Net realized gains                        | 21,713                        | 22,640           |
| Change in net unrealized gains and losses | 47,574                        | 55,136           |
| Total                                     | <u>\$ 75,012</u>              | <u>\$ 84,410</u> |

Total investment returns are comprised of the following (in thousands):

|   | <b>Year Ended December 31</b> |                  |
|---|-------------------------------|------------------|
|   | <b>2007</b>                   | <b>2006</b>      |
| Interest and dividend income              | \$ 8,634                      | \$ 7,261         |
| Net realized gains                        | 21,713                        | 22,640           |
| Change in net unrealized gains and losses | 47,574                        | 55,136           |
| Total                                     | <u>\$ 77,921</u>              | <u>\$ 85,037</u> |

During 2003, as part of a financing transaction with the Hospital and MSMC Realty Corporation (Realty Corp.), the School contributed to MSMC Residential Realty LLC (MSMCRRC), at net book value, property totaling approximately \$55.8 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring or disposing of real property for their benefit. MSMCRRC's members are the Hospital, the School, Realty Corp. and MSMC Residential Realty Manager, Inc.

Property and equipment contributed by the Hospital, the School and Realty Corp. were utilized by MSMCRRC to secure \$125.0 million in financing from a bank which was subsequently increased to \$145.0 million as part of a refinancing during 2005. The total amount received by the School of approximately \$34.4 million (comprised of \$18.2 million used to pay down the School's commercial paper program and a \$16.2 million receivable after the initial financing), was based on the relative fair value of the property contributed, as compared to properties contributed by the Hospital and Realty Corp. that were part of the \$125.0 million financing.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 6. Investments (continued)

Additionally, the School has an interest in the fair value of the net assets of MSMCRRC of approximately \$21.4 million, representing the excess of the carrying value of the property contributed over the amounts received.

During 2006, the School received the remaining balance of the \$16.2 million initially recorded as receivable, and received additional amounts totaling \$7.6 million and \$12.7 million through December 31, 2007 and 2006, respectively.

At December 31, 2007, these additional amounts were settled with the School through funding provided by Realty Corp. As a result of the funding provided by Realty Corp., the School has recorded \$20.3 million due to Realty Corp. at December 31, 2007 (See Note 5).

Total assets and liabilities, at book value, of MSMCRRC are as follows (in thousands):

|                   | <b>December 31</b> |                    |
|-------------------|--------------------|--------------------|
|                   | <b>2007</b>        | <b>2006</b>        |
| Total assets      | \$ 126,386         | \$ 130,419         |
| Total liabilities | 149,189            | 155,667            |
| Net deficit       | <u>\$ (22,803)</u> | <u>\$ (25,248)</u> |

### 7. Property, Plant and Equipment

A summary of property, plant and equipment is as follows (in thousands):

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2007</b>        | <b>2006</b>       |
| Land   | \$ 8,282           | \$ 8,282          |
| Buildings and improvements                     | 303,526            | 258,966           |
| Furniture, fixtures and equipment              | 146,541            | 139,581           |
| Leasehold interest and improvements            | 171,990            | 171,990           |
| Deferred financing charges, net                | 8,572              | 5,643             |
|  | <u>638,911</u>     | <u>584,462</u>    |
| Less accumulated depreciation and amortization | <u>(294,475)</u>   | <u>(283,031)</u>  |
|  | <u>344,436</u>     | <u>301,431</u>    |
| Capital projects in progress                   | 108,834            | 56,712            |
|  | <u>\$ 453,270</u>  | <u>\$ 358,143</u> |

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **7. Property, Plant and Equipment**

The School has entered into a lease agreement with the Hospital relating to a portion of the School-owned Icahn Medical Institute that is used by the Hospital. The School has reflected the amount paid by the Hospital related to its leasehold interest (\$11.8 million) as a reduction of buildings. Additionally, the Hospital pays the School for its share of operating expenses under the terms of the lease agreement (approximately \$5.3 million and \$5.5 million for the years ended December 31, 2007 and 2006, respectively).

The School has also entered into a lease agreement with the Hospital relating to a portion of the Center for Advanced Medicine (CAM) that will be used by the Hospital when it is opened during 2008. The School has reflected the amount paid by the Hospital related to its leasehold interest (\$4.7 million) as reductions of property plant and equipment (\$3.7 million) and assets whose use is limited (\$1.0 million, representing the Hospital's proportionate share of amounts remaining in the construction fund). Additionally, the Hospital will pay the School for its share of operating expenses under the terms of the lease agreement.

Future minimum rental payments due from the Hospital under the leases are approximately \$7.6 million in 2008, \$8.2 million in 2009, \$8.2 million in 2010, \$8.1 million in 2011, \$7.8 million in 2012 and \$121.4 million thereafter. Assets under capital leases approximate \$7.9 million and \$5.6 million (\$5.4 million and \$4.7 million net of accumulated amortization) at December 31, 2007 and 2006, respectively, and are included in furniture, fixtures and equipment.

The School capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. At December 31, 2007 and 2006, total capitalized costs of \$15.8 million and \$10.0 million are included in furniture, fixtures and equipment.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**8. Long-Term Debt and Related Assets**

At December 31, 2007 and 2006, the School had outstanding long-term debt used to finance a variety of projects, including a modernization and capital improvement program, the construction of the Icahn Medical Institute and the Center for Advanced Medicine. Outstanding long-term debt comprised the following (in thousands):

|   | <b>December 31</b> |                   |
|---|--------------------|-------------------|
|   | <b>2007</b>        | <b>2006</b>       |
| Dormitory Authority of the State of New York (the Authority) consisting of:   |                    |                   |
| – Bonds payable (including unamortized original issue premium of \$4,996); maturing through 2037 with interest rates varying from 4.00% to 5.00% per annum.   | <b>\$ 125,816</b>  | \$ –              |
| – Bonds payable (including unamortized original issue premium of \$1,830); maturing through 2015 with interest rates varying from 3.25% to 5.25% per annum.   | <b>55,605</b>      | 61,467            |
| – Bonds payable (net of unamortized original issue discount of \$1,501); maturing through 2025 with interest rates varying from 5.00% to 5.15% per annum.   | <b>141,604</b>     | 141,464           |
| – Bonds payable, maturing through 2012 with interest rates of 5.15% to 5.70% per annum.   | <b>20,220</b>      | 26,060            |
| – Tax-exempt commercial paper notes (Notes) with variable interest rates (2.30% to 2.87% at December 31, 2006) payable at maturity, not to exceed 12.0% per annum. The Notes were to mature 270 days after their respective dates of delivery and were to be resold upon maturity through the final maturity date of July 1, 2020. The Notes provided up to \$25,600 for capital expenditures. The loan agreement required the School to maintain an irrevocable letter of credit with a stated amount of \$26,800. The Notes were secured by a mortgage on certain real property and certain revenue of the School. The Notes were repaid in full in 2007. | –                  | 22,698            |
| – Authority tax-exempt leasing program loans due in monthly installments of \$111, with interest rates ranging from 4.00% to 4.23% through June 2010.   | <b>2,600</b>       | 3,799             |
| – Other capital leases, monthly installments of \$8 through September 2008  | <b>1,308</b>       | 411               |
|   | <b>\$ 347,153</b>  | <b>\$ 255,899</b> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**8. Long-Term Debt and Related Assets (continued)**

In 2007, the Authority issued the Series 2007 bonds on behalf of the School with a face amount of \$120.8 million and a premium of \$5.1 million. The bonds are insured and carry rates of 4% to 5%, and were used to retire the tax-exempt commercial paper notes, and to finance certain renovation projects of the School, the largest of which is the Center for Advanced Medicine (formerly the 102<sup>nd</sup> Street Parking Garage). Proceeds from the bond issuance, in addition to amounts contributed from the School and Hospital, net of the retired commercial paper and debt service reserve requirements and other uses, were deposited into a construction fund which will be reimbursed to the School as Authority-approved construction expenditures are incurred.

In connection with the issuance of the tax-exempt commercial paper notes, the School had entered into an agreement with a bank, pursuant to which the bank has issued a direct pay letter of credit to provide funds for the payment of the interest on and principal of the tax-exempt commercial notes as they mature from time to time. At December 31, 2006, the letter of credit totaled \$26.8 million. During 2007, the letter of credit was terminated in connection with the retirement of the tax-exempt commercial.

Long-term debt due to the Authority is collateralized by a pledge and assignment of certain gross revenues, as defined by the loan agreements, generated by the School's faculty practice associates plan, all funds and accounts authorized under the loan agreement, and the amounts deposited in the Debt Service Reserve Fund.

As of December 31, 2007, principal payments under long-term indebtedness and future minimum payments under capitalized leases for the next five fiscal years and thereafter are as follows (in thousands):

|            | <b>Long-Term<br/>Debt</b> | <b>Capitalized<br/>Leases</b> |
|------------|---------------------------|-------------------------------|
| 2008       | \$ 12,500                 | \$ 1,749                      |
| 2009       | 13,270                    | 1,384                         |
| 2010       | 13,970                    | 764                           |
| 2011       | 14,600                    | 282                           |
| 2012       | 15,345                    |                               |
| Thereafter | 268,235                   | —                             |
|            | <u>337,920</u>            | <u>4,179</u>                  |
| Interest   | —                         | (271)                         |
|            | <u>\$ 337,920</u>         | <u>\$ 3,908</u>               |



# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### 8. Long-Term Debt and Related Assets (continued)

Interest incurred for all debt aggregated approximately \$12.6 million and \$11.6 million for the years ended December 31, 2007 and 2006, respectively. Capitalized interest of \$3.0 million and \$2.0 million was recorded for the years ended December 31, 2007 and 2006.

Assets limited as to use under debt financing arrangements (primarily U.S. Government obligations) consisted of (in thousands):

|                            | <b>December 31</b> |                  |
|----------------------------|--------------------|------------------|
|                            | <b>2007</b>        | <b>2006</b>      |
| Construction proceeds fund | \$ 51,758          | \$ 102           |
| Debt service reserve funds | 30,950             | 21,730           |
| Debt service funds         | 16,898             | 11,665           |
|                            | <b>\$ 99,606</b>   | <b>\$ 33,497</b> |

### 9. Perkins Loan Program

The School participates in the Perkins Loan Program (the Program) sponsored by the United States Department of Education (the DOE). The Program advances funds to the School which the School loans to students. The School is required to match a percentage of the advanced funds. The School selects student participants in the Program based on financial need and other eligibility requirements set by the Program. Principal and interest collected by the School are used to fund additional loans. Interest earned and expenses incurred by the School in conducting the Program are allocated between government advances and the School's operations based on the proportion of contributions made by the School and the DOE since the inception of the Program at the School. The aggregate amount of the DOE's net participation in the Program (net advances to the School) is reflected as a liability within federal loan capital advances in the accompanying consolidated statements of financial position.

### 10. Employee Relocation Loan Program

The School maintains an employee relocation loan program whereby the School participates in a portion of the financing of the primary residence mortgage of eligible faculty members. All taxes, insurance and repair and maintenance costs of the residence are the responsibility of the faculty members. If the faculty member's employment is terminated before the mortgage is repaid, the faculty member may purchase the School's share of the equity and assume the remainder of the School's mortgage obligation on the property, or the residence will be sold in accordance with the employee relocation loan program agreement and the School will be entitled to a portion of the proceeds. The School's participation in this program aggregated approximately \$13.4 million and \$9.9 million at December 31, 2007 and 2006, respectively.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **11. Other Postretirement Benefits**

In addition to the School's pension plans (see Note 14), the School provides health care and life insurance benefits to its retired employees if they reach normal retirement age while still working for the School. The School accrues the obligation to provide postretirement health care and other welfare benefits during the years in which employees provide service. The School-sponsored defined benefit plan provides postretirement medical and life insurance benefits to full-time employees who have worked ten years and attained the age of 62 while in service with the School. The plan contains cost-sharing features such as deductibles and coinsurance.

In fiscal 2004, management curtailed the benefits available under the School's postretirement health benefit plan. Employees who would be eligible for postretirement health benefits are only those persons who were 50 years of age or older with 10 years of service as of January 1, 2004 or employees with 20 years of service as of January 1, 2005.

On December 31, 2007, the School adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 required the School to recognize the funded status of its postretirement benefit plan in the December 31, 2007 accompanying consolidated statement of financial position, with a corresponding adjustment to unrestricted net assets. SFAS No. 158 does not change the amount of net periodic benefit cost recognized or address various measurement issues associated with postretirement benefit plan accounting. Such issues are being reconsidered by the FASB. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses which were previously netted against postretirement benefit plans funded status in the School's consolidated statement of financial position pursuant to the provisions of SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. These amounts will be subsequently recognized as net periodic postretirement benefit cost pursuant to historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods are 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 158.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**11. Other Postretirement Benefits (continued)**

The incremental effects of adopting the provisions of SFAS 158 on the accompanying consolidated statement of financial position at December 31, 2007, are presented in the following table. The adoption of SFAS 158 had no effect on any prior period presented, and it will not affect the School's operating results in future periods.

|                                     | <b>Prior to<br/>Adopting<br/>SFAS 158</b> | <b>Effect of<br/>Adopting<br/>SFAS 158</b> | <b>As Reported at<br/>December 31<br/>2007</b> |
|-------------------------------------|---|--|--|
| Benefit liability                   | \$ 12,454                                 | \$ 1,072                                   | \$ 13,526                                      |
| Decrease in unrestricted net assets | —   | 1,072                                      | 1,072  |

The following tables provide a reconciliation of the changes in the plan's benefit obligation and a statement of the funded status of the plan (in thousands):

|   | <b>December 31</b> |                    |
|---|--------------------|--------------------|
|   | <b>2007</b>        | <b>2006</b>        |
| <b>Reconciliation of the benefit obligation</b> |                    |                    |
| Obligation at January 1                         | \$ 13,888          | \$ 13,848          |
| Service cost                                    | 159                | 175                |
| Interest cost                                   | 776                | 735                |
| Actuarial gain                                  | (1,108)            | (299)              |
| Plan amendment                                  | 476                |                    |
| Benefit payments                                | (665)              | (571)              |
| Obligation at December 31                       | <u>\$ 13,526</u>   | <u>\$ 13,888</u>   |
| <b>Funded status</b>                            |                    |                    |
| Funded status at December 31                    | \$ (13,526)        | \$ (13,888)        |
| Unrecognized prior service cost                 | —                  | (100)              |
| Unrecognized loss                               | —                  | 1,887              |
| Net amount recognized                           | <u>\$ (13,526)</u> | <u>\$ (12,101)</u> |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**11. Other Postretirement Benefits (continued)**

The following table provides the components of the net periodic benefit cost for the plan (in thousands):

|   | <b>December 31</b> |                 |
|---|--------------------|-----------------|
|   | <b>2007</b>        | <b>2006</b>     |
| Service cost                                  | \$ 159             | \$ 175          |
| Interest cost on projected benefit obligation | 776                | 735             |
| Amortization                                  | –                  | 118             |
| Net periodic benefit cost                     | <b>\$ 935</b>      | <b>\$ 1,028</b> |

The weighted-average discount rate used in the measurement of the School's benefit obligation was 6.5% and 5.75% at December 31, 2007 and 2006, respectively. The weighted-average discount rate used in the measurement of net periodic benefit cost was 5.75% and 5.50% at December 31, 2007 and 2006, respectively.

For measurement purposes relative to 2007, an annual rate of increase in the per capita cost of covered healthcare benefits was assumed to be initially 9.8% grading down to an ultimate rate of 5.0% in 2013. A 5.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2007. The measurement date is December 31.

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

|   | <b>1%<br/>Increase</b> | <b>1%<br/>Decrease</b> |
|---|------------------------|------------------------|
|   | <i>(In Thousands)</i>  |                        |
| Effect on total of service and interest cost components of net periodic postretirement health care benefit cost | \$ 11                  | \$ (10)                |
| Effect on the health care component of the accumulated postretirement benefit obligation                        | 196                    | (175)                  |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**11. Other Postretirement Benefits (continued)**

**Cash Flows**

Contributions: The School expects to contribute \$1.0 million for the postretirement medical and life insurance plans for the year ended 2008.

Estimated future benefit payments: The School expects to pay the following postretirement benefit payments, which reflect future service, as appropriate (in thousands):

|              |          |
|--------------|----------|
| 2008         | \$ 1,019 |
| 2009         | 1,088    |
| 2010         | 1,125    |
| 2011         | 1,159    |
| 2012         | 1,176    |
| 2013 to 2017 | 6,035    |

**12. Temporarily Restricted and Permanently Restricted Net Assets**

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. The School's temporarily and permanently restricted net assets support the following activities (in thousands):

| Category                             | December 31, 2007         |                           |
|--------------------------------------|---------------------------|---------------------------|
|                                      | Temporarily<br>Restricted | Permanently<br>Restricted |
| Professorships                       | \$ 18,110                 | \$ 97,385                 |
| Faculty fellowships                  | 16,912                    | 14,757                    |
| Lectures and prizes                  | 6,907                     | 6,109                     |
| Scholarships and loans               | 54,409                    | 32,093                    |
| Research centers                     | 7,214                     | 48,458                    |
| Research, instruction and operations | 242,989                   | 89,256                    |
|                                      | \$ 346,541                | \$ 288,058                |

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**12. Temporarily Restricted and Permanently Restricted Net Assets (continued)**

| Category                             | December 31, 2006      |                        |
|--------------------------------------|------------------------|------------------------|
|                                      | Temporarily Restricted | Permanently Restricted |
| Professorships                       | \$ 14,393              | \$ 91,022              |
| Faculty fellowships                  | 14,645                 | 14,934                 |
| Lectures and prizes                  | 5,977                  | 5,771                  |
| Scholarships and loans               | 42,178                 | 30,207                 |
| Research centers                     | 5,838                  | 47,965                 |
| Research, instruction and operations | 168,966                | 97,006                 |
|                                      | <u>\$ 251,997</u>      | <u>\$ 286,905</u>      |

Net assets were released from restrictions in satisfaction of the following restrictions (in thousands):

|             | Year Ended December 31 |                  |
|-------------|------------------------|------------------|
|             | 2007                   | 2006             |
| Instruction | \$ 2,200               | \$ 1,882         |
| Research    | 30,526                 | 19,877           |
|             | <u>\$ 32,726</u>       | <u>\$ 21,759</u> |

**13. Sponsored Research**

Research grants and contracts normally provide for the recovery of direct and indirect costs. The School recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is recorded using facilities and administrative rates negotiated with the federal government and other sponsors. Certain School clinical research programs are conducted in Hospital facilities. Direct expenditures under federal research projects totaled approximately \$159.7 million and \$161.7 million for the years ended December 31, 2007 and 2006. The School's principal source of federal research funds is the U.S. Department of Health and Human Services. Research grants and contracts awarded but not yet recorded approximated \$181.4 million and \$168.9 million as of December 31, 2007 and 2006, respectively.

# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **14. Pension and Similar Plans**

Through participation in the Hospital's pension plan, the School provides pension and similar benefits to administrative service employees through several defined benefit multi-employer union plans and immediate vesting tax-sheltered annuity plans. Contributions to the defined benefit multi-employer union plans are made in accordance with contractual agreements under which contributions are generally based on salaries. Payments to the tax-sheltered annuity plans are generally based on percentages of annual salaries. It is the School's policy to fund accrued costs under these plans on a current basis. The School's pension expense under all existing plans for the years ended December 31, 2007 and 2006 aggregated approximately \$18.8 million and \$17.9 million, respectively.

Additionally, the Hospital and the School jointly offer a 457(b) plan to certain of their respective employees. Contributions are made solely by the employees through their payroll deductions. The contributions are maintained in individual participant accounts held by a custodian and remain an asset of the employer until the participant retires. A corresponding liability is also recorded for these amounts to be reduced upon the participant's retirement.

At December 31, 2007 and 2006, the School has included approximately \$11.8 million and \$7.8 million in investments and accrued salaries, wages and related liabilities in its consolidated statements of financial position related to the 457(b) plan.

### **15. Commitments and Contingencies**

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

In December 2001, Realty Corp. entered into a \$16 million loan agreement with the New York City Industrial Development Agency (\$14.3 and \$14.7 million outstanding balance at December 31, 2007 and 2006, respectively), which is collateralized by a bank letter of credit that is guaranteed by the School and the Medical Center. In December 2007, Realty Corp. refinanced its \$7.8 million term loan and its \$8.2 million subordinated mortgage loan into one three-year \$11.0 million mortgage loan. The loan was secured by real estate owned by Realty Corp. and by a guarantee from the School and the Medical Center. The original two loans were also collateralized by \$8.2 million of marketable securities that were loaned to Realty Corp. from the School. This collateral was released by the financial institution as a part of the new refinancing agreement. In January 2007, these marketable securities were transferred back to the School.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**15. Commitments and Contingencies (continued)**

Summarized financial information for Realty Corp. is as follows (in thousands):

|                   | <b>December 31</b> |                    |
|-------------------|--------------------|--------------------|
|                   | <b>2007</b>        | <b>2006</b>        |
| Total assets      | \$ 29,402          | \$ 30,490          |
| Total liabilities | 45,402             | 46,490             |
| Net deficit       | <u>\$ (16,000)</u> | <u>\$ (16,000)</u> |

**Operating Leases**

The School leases various equipment and facilities under operating leases expiring at various dates through 2011. Total rental expense charged to operations during the years ended December 31, 2007 and 2006 was approximately \$5.5 million and \$5.6 million.

Future minimum payments required under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2007 (in thousands):

|      |                 |
|------|-----------------|
| 2008 | \$ 1,981        |
| 2009 | 1,068           |
| 2010 | 712             |
| 2011 | 161             |
| 2012 | 50              |
|      | <u>\$ 3,972</u> |



# Mount Sinai School of Medicine of New York University

## Notes to Consolidated Financial Statements (continued)

### **16. Fair Values of Financial Instruments**

The following methods and assumptions were used by the School in estimating its fair value disclosures for financial instruments:

*Cash and cash equivalents:* The carrying amounts reported in the accompanying consolidated statements of financial position approximate fair value.

*Loans receivable:* These assets are reported at cost, which approximates fair value, as the loans generally bear interest at variable market rates.

*Assets limited as to use under debt financing arrangements:* These assets consist primarily of U.S. Government securities. Fair values are based on quoted market prices.

*Investments in fixed income securities:* Fair values are based on quoted market prices.

*Investments in alternative investments:* Fair values of alternative investments are based on historical cost, appraisals, or other estimates that require varying degrees of judgment, and reflects the School's share of realized and unrealized investment income and expenses of the respective alternative investments.

*Other investments:* The carrying amount reported in the accompanying consolidated statements of financial position approximates fair value.

*Employee relocation loan program:* The carrying amounts reported in the accompanying consolidated statement of financial position approximate fair value as the loans generally bear interest at variable market rates.

*Long-term debt:* Fair value of the School's long-term debt is based on discounted cash flow analyses, using current borrowing rates for similar types of debt.

Mount Sinai School of Medicine of New York University

Notes to Consolidated Financial Statements (continued)

**16. Fair Values of Financial Instruments (continued)**

The carrying values and fair values of the School's financial instruments are as follows at December 31, 2007 (in thousands):

|  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|-----------------------|
| Cash and cash equivalents                                  | \$ 27,149                 | \$ 27,149             |
| Loans receivable   | 33,672                    | 33,672                |
| Assets limited as to use under debt financing arrangements | 99,606                    | 99,606                |
| Investments in fixed income securities                     | 43,996                    | 43,996                |
| Investments in alternative investments                     | 587,462                   | 587,462               |
| Investments in other                                       | 41,122                    | 41,122                |
| Employee relocation loan program                           | 13,412                    | 13,412                |
| Long-term debt   | 347,153                   | 349,564               |

The carrying values and fair values of the School's financial instruments are as follows at December 31, 2006 (in thousands):

|  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|-----------------------|
| Cash and cash equivalents                                  | \$ 38,569                 | \$ 38,569             |
| Loans receivable   | 29,061                    | 29,061                |
| Assets limited as to use under debt financing arrangements | 33,497                    | 33,497                |
| Investments in fixed income securities                     | 52,390                    | 52,390                |
| Investments in alternative investments                     | 504,499                   | 504,499               |
| Investments in other                                       | 25,161                    | 25,161                |
| Employee relocation loan program                           | 9,942                     | 9,942                 |
| Long-term debt   | 255,899                   | 261,299               |

**17. Subsequent Event**

Effective January 2008, the School and ILC modified their affiliation agreement. Under the Amended and Restated Affiliation Agreement filed with the State of New York, ILC became an independent corporation without members, governed solely by its self-perpetuating Board of Directors. In 2008, the School recorded a reduction of net assets approximating \$11.8 million as a result of the modification.

**APPENDIX C**

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

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

The following is a summary of certain provisions of the Loan Agreement pertaining to the Series 2009 Bonds and the Project. This summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of its provisions. Defined terms used in this Appendix have the meanings ascribed to them in Appendix A.

**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 (and the Insurance Policy) by the Institution shall have been made or provision made for the payment thereof; provided, however, that certain liabilities and the obligations of the Institution under the Loan Agreement 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 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 45)*

**Construction of the Project**

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

The Authority's obligation to make each disbursement of proceeds of the Series 2009 Bonds under the Loan Agreement is subject to the condition that the title insurance company that has issued a title insurance policy insuring the validity of the lien of the Mortgage (the "Title Company") shall have continued its title search to the date of such disbursement and shall have certified to the Authority that such continuation discloses that, as of the date of such disbursement, there are no liens, security interests, encumbrances or other exceptions to title then affecting the Building Loan Mortgaged Property, except for Permitted Liens. If requested by the Authority, the Title Company shall also have advised the Authority that a search of the public records of the county in which any Mortgaged Property is located discloses as of such date no conditional sales contracts, chattel mortgages, leases of personalty, financing statements or title retention agreements filed or recorded against the Institution or the Project, except for Permitted Liens.

*(Section 5)*

**Amendment of the Project; Additional Bonds**

The Institution, with the prior written consent of the Authority, which consent will not be unreasonably withheld, may amend the Project by agreements supplementing the Loan Agreement, to decrease, increase or otherwise modify the scope thereof. The Institution shall provide such moneys as in the reasonable judgment of the Authority may be required for the cost of completing the Project in excess of the

moneys in the Construction Fund established for such Project, whether such moneys are required as a result of an increase in the scope of the Project or otherwise.

The Authority, upon the request of the Institution, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing the Project in excess of the moneys in the applicable Construction Fund.

*(Section 6)*

### **Financial Obligations**

Except to the extent that moneys are available therefor under the Resolution or the Series Resolution or under the Loan Agreement, including, without limitation, moneys in the Debt Service Fund, and interest accrued but unpaid on investments held in the Debt Service Fund, but excluding moneys in the Debt Service Reserve Fund held for the benefit of the Bonds, the Institution agrees to pay or cause to be paid, so long as the Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it:

(a) On or before the date of delivery of the Bonds, the Authority Fee as set forth in the Loan Agreement;

(b) On or before the date of delivery of the Bonds, such amount, if any, as is required, in addition to the proceeds of such Bonds available therefor, to pay the Costs of Issuance of the Bonds, and other costs in connection with the issuance of the Bonds;

(c) With respect to the Bonds the interest rate on which is paid semi-annually, on the tenth (10th) day of each month commencing on the tenth (10th) day of the seventh (7th) month immediately preceding the date on which interest on the Bonds becomes due, one-sixth (1/6) of the interest coming due on the Bonds on the immediately succeeding interest payment date on the Bonds so that on a date one month prior to the succeeding interest payment date sufficient amounts are on deposit to pay interest on the Bonds next coming due; provided, however, that, if with respect to the Bonds there are more or less than six (6) such payment dates prior to the first interest payment on such Bonds, on each payment date prior to such interest payment date the Institution shall pay with respect to such Bonds an amount equal to the interest coming due on such Bonds on such interest payment date multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates prior to the first interest payment date on such Bonds;

(d) On the tenth (10th) day of each month commencing on the tenth (10th) day of June which is thirteen (13) months prior to the July 1 on which the principal or a Sinking Fund Installment of Bonds becomes due, one-twelfth (1/12) of the principal and Sinking Fund Installment on the Bonds coming due on such July 1 so that on a date one month prior to the succeeding principal payment date sufficient amounts are on deposit to pay principal on the Bonds next coming due; provided, however, that, if with respect to a Series of Bonds there are less than twelve (12) such payment dates prior to the July 1 on which principal or Sinking Fund Installments come due on Bonds of a Series, on each payment date prior to such July 1 the Institution shall pay with respect to such Bonds an amount equal to the principal and Sinking Fund Installments of such Bonds coming due on such July 1 multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates prior to such July 1;

(e) Unless otherwise agreed to by the Authority, at least forty-five (45) days prior to any date on which the Redemption Price or purchase price of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price of such Bonds;

(f) On December 10 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with the Bonds, and on June 10 of each Bond Year the balance of the

Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee with respect to the Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to the Bonds multiplied by a fraction, the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it pursuant to the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of the Project, (iv) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement or of the Mortgage or of the Resolution in accordance with the terms thereof, (v) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution, and (vi) to restore a Debt Service Reserve Fund to its Debt Service Reserve Fund Requirement;

(h) Promptly upon demand by the Authority (a copy of which shall be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to the Loan Agreement; and

(i) 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 Series 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.

Subject to the provisions of the Loan Agreement and of the Resolution or the Series Resolution, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (d) above on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through any Sinking Fund Installments during the next succeeding Bond Year, either (i) the Institution delivers to the Trustee for cancellation one or more Bonds and maturity to be so redeemed or (ii) the Trustee, at the direction of the Authority, has purchased one or more Bonds and maturity to be so redeemed from amounts on deposit in the Debt Service Fund in accordance with the Resolution during such Bond Year. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority shall direct and the Institution shall agree pursuant to the Loan Agreement, to make the payments required by this Section as follows: (i) the payments required by paragraphs (c), (e), (f) and (i) of this Section directly to the Trustee for deposit and application in accordance with the Resolution; (ii) the payments required by paragraph (b) of this Section directly to the Trustee for deposit in the Construction Fund or other fund established under the Resolution, as directed by the Authority; (iii) the payments required by paragraph (j) of this subdivision directly to the Trustee for deposit in the Arbitrage Rebate Fund, and (iv) the payments required by paragraphs (a), (g) and (h) (other than pursuant to clause (vi) thereof) of this Section to or upon the written order of the Authority.

Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in this paragraph), all moneys paid by the Institution to the Trustee pursuant to the Loan Agreement or otherwise held by the Trustee shall be applied in reduction of the Institution's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have

been paid or deemed to have been paid in accordance with the applicable provisions of the Resolution. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of Bonds.

The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement shall be absolute and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Trustee or any Holder of Bonds for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete the Project or the completion thereof with defects, failure of the Institution to occupy or use the Project, any declaration or finding that the Bonds are or the Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part contained in the Loan Agreement or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project beyond the extent of moneys in the Construction Fund established for such Project available therefor.

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

The Authority, for the convenience of the Institution, shall furnish to the Institution statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided by the Loan Agreement. The Institution shall notify the Authority as to the amount and date of each payment made to the Trustee by the Institution.

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

The Institution, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in the Debt Service Fund and applied in accordance with the Resolution or held by the Trustee for the payment of Bonds in accordance with the Resolution. Upon any voluntary payment by the Institution or any payment made pursuant to the Loan Agreement, the Authority agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with the provisions of the Resolution with respect to such Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with the Resolution, the Authority shall agree, in accordance with the instructions of the Institution, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with the Resolution.

*(Section 9)*



## **Reserve Funds**

The Institution agrees that it will at all times maintain on deposit in the Debt Service Reserve Fund, if any, an amount at least equal to the Debt Service Reserve Fund Requirement, provided that the Institution shall be required to deliver moneys, Government Obligations or Exempt Obligations to the Trustee for deposit in the Debt Service Reserve Fund as a result of a deficiency in such fund only after the notice required by the Series Resolution is given.

The Institution may deliver to the Trustee a Reserve Fund Facility for all or any part of the Debt Service Reserve Fund Requirement in accordance with and to the extent permitted by the Series Resolution. Whenever a Reserve Fund Facility has been delivered to the Trustee and the Institution is required to restore the Debt Service Reserve Fund Requirement, it shall reimburse directly, or pay to the Authority an amount sufficient to reimburse, the Facility Provider in order to cause such Reserve Fund Facility to be restored to its full amount and shall then deliver additional moneys or Government Obligations or Exempt Obligations necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

The delivery to the Trustee of Government Obligations and Exempt Obligations and other moneys from time to time made by the Institution pursuant to the Loan Agreement shall constitute a pledge thereof, and shall create a security interest therein, for the benefit of the Authority to secure performance of the Institution's obligations under the Loan Agreement and for the benefit of the Trustee to secure the performance of the obligations of the Authority under the Resolution and the Series Resolution. The Institution authorizes the Authority pursuant to the Resolution and the Series Resolution to pledge such Government Obligations and Exempt Obligations and other moneys to secure payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Bonds, whether at maturity, upon acceleration or otherwise, and the fees and expenses of the Trustee, and to make provision for and give directions with respect to the custody, reinvestment and disposition thereof in any manner not inconsistent with the terms of the Loan Agreement and of the Resolution and the Series Resolution.

All Government Obligations and Exempt Obligations and other moneys deposited with the Trustee pursuant to the Loan Agreement, other than United States Treasury Certificates of Indebtedness State and Local Government Series ("SLGS") (subject to provisions for registration thereof), and the principal thereof and the interest, dividends or other income payable with respect thereto shall be payable to bearer or to the registered owner. All such Government Obligations and Exempt Obligations and other moneys in registered form shall be registered in the name of the Trustee (in its fiduciary capacity) or its nominee. Record ownership of all such Government Obligations and Exempt Obligations and other moneys shall be transferred promptly following their delivery to the Trustee into the name of the Trustee (in its fiduciary capacity) or its nominee. The Institution hereby appoints the Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

The Institution under the Loan Agreement agrees that upon each delivery to the Trustee of Government Obligations, Exempt Obligations or other moneys, whether initially or upon later delivery or substitution, the Institution shall deliver to the Authority and the Trustee a certificate of an Authorized Officer of the Institution to the effect that the Institution warrants and represents that the Government Obligations, Exempt Obligations or other moneys delivered by the Institution (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition thereof as contemplated by the Loan Agreement, by the Resolution and the Series Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Institution duly had and taken.

Prior to the initial delivery of Government Obligations and Exempt Obligations to the Trustee pursuant to the Loan Agreement, and upon any later delivery or substitution, the Institution will, at its cost and expense, provide to the Authority and the Trustee a written opinion of counsel satisfactory to the Authority to

the effect that the Institution has full corporate power and authority to pledge such Government Obligations and Exempt Obligations as security in accordance herewith, such Government Obligations and Exempt Obligations have been duly delivered by the Institution to the Trustee, such delivery creates a valid and binding pledge and security interest therein in accordance with the terms of the Loan Agreement and of the Resolution and the Series Resolution, and nothing has come to the attention of such counsel that would lead it to believe that the Government Obligations and Exempt Obligations delivered by the Institution are not free and clear of all liens, pledges, encumbrances and security interests or are subject to any statutory, contractual or other restriction which would invalidate or render unenforceable the pledge and security interest therein, or the application or disposition thereof, contemplated by the Loan Agreement or by the Resolution or the Series Resolution. In lieu of providing a written opinion of counsel to the Institution as required by the Loan Agreement after every substitution of Government Obligations or Exempt Obligations, the Institution may provide such written opinion of counsel after the first substitution provided that it shall furnish to the Authority and the Trustee, once in every calendar quarter (in the first week of each January, April, July and October) thereafter in which a substitution is made, a further written opinion of counsel to the Institution to the effect that all Government Obligations or Exempt Obligation deposited into any fund or account established under the Resolution or the Series Resolution, to and including the date of such opinion of counsel, comply with the requirements of this paragraph.

*(Section 10)*

### **Security Interest in Pledged Revenues**

As security for the payment of all liabilities and the performance of all obligations of the Institution pursuant to the Loan Agreement, the Institution does continuously pledge, grant a security interest in, and assign to the Authority the Pledged Revenues, together with the Institution's right to receive and collect the Pledged Revenues and the proceeds of the Pledged Revenues. This pledge, grant of a security interest in and assignment of the Pledged Revenues shall be subordinate only to the Prior Pledges, and shall be in a parity with Additional Parity Indebtedness.

The Institution represents and warrants that no part of the Pledged Revenues or any right to receive or collect the same or the proceeds thereof is subject to any lien, pledge, security interest or assignment, other than the Prior Pledges, and that the Pledged Revenues assigned pursuant to the Loan Agreement are legally available to provide security for the Institution's performance under the Loan Agreement. The Institution agrees that it shall not hereafter create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Pledged Revenues which is prior or equal to the pledge made by this Section, except that the Institution shall be permitted to create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Pledged Revenues that is on a parity with the interest granted by this Section to secure (i) Additional Bonds, (ii) Additional Parity Indebtedness, (iii) Derivative Obligations or (iv) with the prior written consent of the Authority, any other obligation of the Institution.

*(Section 11)*

### **Collection of Pledged Revenues**

Commencing on the date on which the Bonds are first issued and delivered and continuing until no Bonds are Outstanding, the Institution shall deliver to the Trustee for deposit in accordance with the Resolution all Pledged Revenues (other than the amounts subject to the Prior Pledges) within ten (10) days following the Institution's receipt thereof unless and until there is on deposit in the Debt Service Fund an amount at least equal to the sum of (i) the interest coming due on or prior to the earlier of the next succeeding January 1 or July 1, plus one percent (1%) per annum, (ii) the principal and Sinking Fund Installments of Outstanding Bonds payable on and prior to the next succeeding July 1, and (iii) the Redemption Price or purchase price of Outstanding Bonds theretofore called for redemption or contracted to be purchased and

accrued interest thereon to the date of redemption or purchase. In the event that, pursuant to the Loan Agreement, the Authority notifies the Institution that account debtors are to make payments directly to the Authority or to the Trustee, such payments shall be made directly to the Authority or the Trustee notwithstanding anything contained in this subdivision, but the Institution shall continue to deliver to the Trustee for deposit in accordance with the Resolution any payments received by the Institution with respect to the Pledged Revenues (other than such amounts as are subject to the Prior Pledges).

Notwithstanding anything to the contrary in the preceding paragraph, in the event that, on or prior to the date on which a payment is to be made pursuant to the Loan Agreement on account of the principal, Sinking Fund Installments or Redemption Price of or interest on Outstanding Bonds, the Institution has made such payment from its general funds or from any other money legally available to it for such purpose, the Institution shall not be required, solely by virtue of the preceding paragraph, to deliver Pledged Revenues to the Trustee.

Any Pledged Revenues collected by the Institution that are not required to be paid to the Trustee pursuant to the Loan Agreement shall be free and clear of the security interest granted by the Loan Agreement and may be disposed of by the Institution for any of its corporate purposes provided that no Event of Default (as defined in the Loan Agreement) nor any event which but for the passage of time or the receipt of notice or both would be an Event of Default has occurred and is continuing.

*(Section 12)*

#### **Mortgage; Lien on Fixtures, Furnishings and Equipment**

At or before the delivery by the Authority of the Bonds, the Institution shall execute and deliver to the Authority the Mortgage, in recordable form, mortgaging the Mortgaged Property acceptable to the Authority, which Mortgage shall constitute a first lien on the Mortgaged Property, subject only to the Permitted Encumbrances.

Prior to any assignment of the Mortgage to the Trustee, the Authority, however, without the consent of the Trustee or the Holders of Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of the Mortgage and of any security interest in fixtures, furnishings or equipment located in or on or used in connection with the Mortgaged Property and the property subject to the Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as the Authority may reasonably require. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit in the Debt Service Fund an amount not to exceed the principal amount of the Bonds Outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. Notwithstanding the foregoing, the Institution may remove equipment, furniture or fixtures in the Mortgaged Property provided that, if the equipment, furniture or fixtures so removed is of any material value, the Institution shall substitute equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

*(Section 13)*

#### **Warranty of Title; Utilities and Access**

The Institution warrants and represents to the Authority that (i) it has good and marketable title to the Project and all Mortgaged Property, free and clear of liens and encumbrances, except Permitted Encumbrances, so as to permit it to have quiet enjoyment and use thereof for purposes of the Loan Agreement and the Institution's programs and (ii) the Institution has such rights of way, easements or other rights in land as maybe reasonably necessary for ingress and egress to and from the Project and the Mortgaged Property for proper operation and utilization of the Project and the Mortgaged Property and for utilities required to serve

such Project and such Mortgaged Property, together with such rights of way, easements or other rights in, to and over land as may be necessary for construction by the Institution of the Project.

The Institution covenants that title to the Project and the Mortgaged Property shall be kept free from any encumbrances, liens or commitments of any kind, other than Permitted Encumbrances and such other encumbrances approved in writing by the Authority.

The Institution agrees to provide or reimburse the Authority for providing at the sole option of the Authority (i) a title insurance policy in form and substance and by insurer(s), all acceptable to the Authority, in the amount of the Bonds issued or such other amount as is acceptable to the Authority, insuring the Mortgage to be a valid lien on the Mortgaged Property of a priority acceptable to the Authority, free and clear of all liens and encumbrances except Permitted Encumbrances and (ii) a current survey or surveys, including a metes and bounds description, of such Mortgaged Property, certified to the Authority and the issuer of the title insurance policy and showing any easements to which the Mortgaged Property is subject.

The Institution shall warrant, represent and covenant that (i) the Project and the Mortgaged Property is and will be serviced by all necessary utilities (including, to the extent applicable, without limitation, electricity, gas, water, sewer, steam, heating, air-conditioning and ventilation) and (ii) to the extent applicable, has and will have its own separate and independent means of access, apart from any other property owned by the Institution or others; provided, however, that such access may be through common roads or walks owned by the Institution used also for other parcels owned by the Institution.

The Authority shall exclude from the lien of the Mortgage any inventory, equipment or other collateral financed by a purchase money equipment lender or an equipment lessor of the Institution (each, an "Equipment Lender") (such excluded inventory, equipment or other collateral, the "Excluded Collateral"). In addition, the Authority shall execute and deliver, at the request of an Equipment Lender, a commercially reasonable consent, waiver and agreement providing for (i) a waiver by the Authority of its rights, if any, to such Excluded Collateral and (ii) the respective rights of the Authority and the Equipment Lender regarding the timing and removal of any Excluded Collateral in which such Equipment Lender has a secured interest so long as such consent, waiver and agreement expressly excludes any claim by the Equipment Lender to any right, title or interest in or to any of the other inventory, equipment or other collateral encumbered by the Mortgage.

*(Section 14)*

#### **Consent to Pledge and Assignment by the Authority**

The Institution shall consent to and authorize the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive any or all of the payments required to be made directly to the Trustee pursuant to the Loan Agreement, any or all security interests granted by the Institution under the Loan Agreement, including without limitation the security interest in the Pledged Revenues given by the Institution pursuant to the Loan Agreement, the Mortgage, any security interest in the fixtures, furnishings and equipment located on the Mortgaged Property and all funds and accounts established by the Resolution and pledged under the Resolution, in each case to secure any payment or the performance of any obligation of the Institution under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Institution shall further agree that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by this paragraph, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Institution's obligation to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan

Agreement. Any realization upon any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination of the Loan Agreement or the obligations of the Institution under the Loan Agreement.

*(Section 15)*

### **Covenants**

The Institution further covenants that it shall maintain Faculty Practice Plan Revenues in an amount at least equal to maximum aggregate Debt Service payable in any current or future calendar year on Outstanding Bonds and Additional Parity Indebtedness.

*(Section 16)*

### **Tax-Exempt Status of the Institution**

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 that effect; (iii) such letter or other notification has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (vi) it is exempt from federal income taxes under Section 501(a) of the Code, except for payment of unrelated business income tax. 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 educational 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 a manner, or for any trade or business unrelated to the educational purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds from federal gross income pursuant to Section 103 of the Code.

*(Section 17)*

### **Use and Possession of the Project**

The Institution shall agree that, unless in the opinion of Bond Counsel the Project may be occupied or used other than as required by this paragraph, at least ninety-five percent (95%) of the Project shall be used by the Institution or leased by the Institution to another organization described in Section 501(c)(3) of the Code or a governmental entity only for activities of the Institution, such other organization or governmental entity that will not adversely affect the classification of the Bonds as “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code, subject to and consistent with the requirements of the Loan Agreement. Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Institution shall have sole and exclusive control and possession of and responsibility for (i) the Project and the Mortgaged Property, (ii) the operation of the Project and the 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 the Mortgaged Property. For purposes of the preceding sentence, the term Project shall include “issuance costs” (within the meaning of Section 147(g) of the Code) financed by the Series 2009 Bonds and such issuance costs shall be treated as a portion of the Project that is not used as required by the preceding sentence for ninety-five percent (95%) of the Project.

*(Section 21)*

## **Restrictions on Religious Use**

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

*(Section 22)*

## **Sale of the Project or Mortgaged Property**

The Institution will not transfer, sell or convey any interest in the Project or the Mortgaged Property or any part thereof or interest therein, including development rights, without the prior approval of the Authority, unless (a) in the opinion of Bond Counsel, the same will not adversely affect the exclusion of interest on any Bond from gross income for federal income tax purposes and (b) the Institution pays to the Trustee either for deposit into the Debt Service Fund, or, pursuant to certain provisions of the Resolution, to be set aside or to purchase Defeasance Securities in accordance with the direction of the Authority, an amount as set forth in the Loan Agreement.

Notwithstanding the foregoing, the Institution may remove equipment, furniture or fixtures that is part of the Project or the Mortgaged Property and was financed with the proceeds of Bonds provided that, if the equipment, furniture or fixtures removed is of any material value, the Institution shall substitute for such equipment, furniture or fixtures additional equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

*(Section 23)*

## **Covenant as to Insurance**

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

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

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

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

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

(d) at all times, statutory disability benefits;

(e) at all times, commercial general liability insurance protecting the Authority and the Institution against loss or losses from liabilities arising from bodily injury of persons or damage to the property of others caused by accident or occurrence, with limits of not less than \$1,000,000 per accident or occurrence on account of injury to persons or property damage with \$2,000,000 policy aggregate, excluding liability imposed upon the Authority or the Institution by any applicable workers' compensation law;

(f) commencing with the date on which construction of the Project or any part thereof is completed or first occupied, or any equipment, machinery, fixture or personal property covered by comprehensive boiler and machinery coverage is accepted, whichever occurs earlier, insurance providing comprehensive boiler and machinery coverage in an amount considered adequate by the Authority, which insurance may include deductible provisions approved by the Authority; and

(g) each other form of insurance which the Institution is required by law to provide and such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority.

Any insurance procured and maintained by the Authority or the Institution pursuant to this Section, including any blanket insurance policy, may include deductible provisions reasonably satisfactory to the

Authority and the Institution. In determining whether or not any insurance required by this Section is reasonably obtainable or if the deductible on any such insurance is a reasonable deductible, the Authority may rely solely and exclusively upon the advice and judgment of any insurance consultant chosen by the Institution and approved by the Authority, and any such decision by the Authority, based upon such advice and judgment, shall be conclusive.

No provision of this Section shall be construed to prohibit the Institution from self-insuring against any risk at the recommendation of any insurance consultant chosen by the Institution and approved by the Authority; provided, however, that self-insurance plans shall not cover property, plant and equipment. The Institution shall also cause an annual evaluation of such self-insurance plans to be performed by an independent insurance consultant. The Institution shall provide adequate funding of such self-insurance if and to the extent recommended by such insurance consultant and approved by the Authority.

*(Section 25)*

### **Defaults and Remedies**

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

(a) the Institution shall default in the timely payment of any amount payable pursuant to the Loan Agreement or the payment of any other amounts required to be delivered or paid by or on behalf of the Institution in accordance herewith, the Series Resolution or with the Resolution, and such default continues for a period in excess of seven (7) days; or

(b) the Institution defaults in the due and punctual performance of any other covenant contained in the Loan Agreement and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Institution by the Authority or the Trustee or, if such default is not capable of being cured within thirty (30) days, the Institution fails to commence within said thirty (30) days to cure the same and to diligently prosecute the cure thereof; or

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

(d) The Institution shall (A) be generally not paying its debts as they become due, (B) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (C) make a general assignment for the benefit of its general creditors, (D) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (E) be adjudicated insolvent or be liquidated or (F) take corporate action for the purpose of any of the foregoing; or

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

(f) the charter of the Institution shall be suspended or revoked; or



(g) a petition to dissolve the Institution shall be filed by the Institution with the Board of Regents of the College of the State of New York, the legislature of the State or other governmental authority having jurisdiction over the Institution; or

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

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

(j) an order of a court having jurisdiction shall be entered directing or providing for the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order shall remain undismissed or unstayed for the earlier of (A) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (B) an aggregate of thirty (30) days from the date such order shall have been entered; or

(k) a final judgment for the payment of money, at least one million dollars (\$1,000,000) of which is not covered by insurance or reserves set aside by the Institution, which in the judgment of the Authority will adversely affect the rights of the Holders of the Bonds shall be rendered against the Institution and at any time after forty-five (45) days from the entry thereof, (A) such judgment shall not have been discharged or paid, or (B) the Institution shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within forty-five (45) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal; or

(l) the occurrence and continuance of an event of default under the Mortgage; or

(m) the payment of any Additional Parity Indebtedness of the Institution is accelerated.

Subject to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

(a) declare all sums payable by the Institution under the Loan Agreement immediately due and payable;

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

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

(d) maintain an action against the Institution under the Loan Agreement to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of any Mortgage;

(e) realize upon any pledge of or security interest in the Pledged Revenues and the rights to receive the same, all to the extent provided in the Loan Agreement, and in a manner consistent with the rights of the holders of Additional Parity Indebtedness, by any one or more of the following actions: (A) enter the Institution and examine and make copies of the financial books and records of the Institution relating to the Pledged Revenues and, to the extent of the assigned Pledged Revenues, take possession of all checks or other

orders for payment of money and moneys in the possession of the Institution representing Pledged Revenues or proceeds thereof; (B) notify any account debtors obligated on any Pledged Revenues to make payment directly to the Authority or to the Trustee, as the Authority may direct, and of the amount to be so paid; provided, however, that (1) the Authority may, in its discretion, immediately collect the entire amount of interest, principal, or Sinking Fund Installments, if any, coming due on Outstanding Bonds on the next interest payment date therefor, subject to the Prior Pledges and the Intercreditor Agreement, and may continue to do so commencing on each such interest payment date to the extent of amounts due on Outstanding Bonds on the next interest payment date therefor, with respect to the Pledged Revenues, until such amounts are fully collected, (2) written notice of such notification shall be mailed to the Institution five (5) days prior to mailing or otherwise making such notification to account debtors and (3) until the Institution shall receive such notice it shall have full authority and responsibility to enforce and collect Pledged Revenues owing from its account debtors; (C) following the above mentioned notification to account debtors, collect, compromise, settle, compound or extend amounts payable as Pledged Revenues which are in the form of accounts receivable or contract rights from the Institution's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Institution whether or not the full amount of any such account receivable or contract right owing shall be paid to the Authority; (D) require the Institution to deposit all moneys, checks or other orders for the payment of money which represent Pledged Revenues in an amount equal to the Pledged Revenues assigned under the Loan Agreement within five (5) business days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the Authority; provided, however, that (1) the moneys in such fund or account shall be applied by the Authority to the payment of any of the obligations of the Institution under the Loan Agreement, including the fees and expenses of the Authority, (2) the Authority in its sole discretion may authorize the Institution to make withdrawals from such fund or account for its corporate purposes and (3) the requirement to make such deposits shall cease and the balance of such fund or account shall be paid to the Institution when all Events of Default under the Loan Agreement by the Institution have been cured; (E) forbid the Institution to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Pledged Revenues, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (F) endorse in the name of the Institution any checks or other orders for the payment of money representing any unpaid assigned Pledged Revenues or the proceeds thereof;

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

attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Institution for the purpose of exercising the rights granted to the Authority by this paragraph (f) during the term of the Loan Agreement;

(g) permit, direct or request the Trustee to liquidate all or any portion of the assets of a Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds, or any other obligation or liability of the Institution or the Authority arising under the Loan Agreement, or from the Resolution and relating to the Bonds;

(h) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement or under the Mortgage or by law, and any other action or proceeding permitted by the terms of the Loan Agreement or by law; or

(i) the failure of the Institution to maintain a Debt Service Coverage Ratio of at least 1.0:1.0.

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

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

Upon certain Events of Default pursuant to the Loan Agreement, including an Event of Default relating to the payment of principal and interest on the Series 2009 Bonds, the Authority shall assign the Mortgage to the Trustee as provided in the Series Resolution.

*(Section 31)*

### **Arbitrage; Tax Exemption**

Each of the Institution and the Authority agree that it shall take no action, nor shall it approve the Trustee's taking any action or making any investment or use of the proceeds of the Bonds, which would cause the 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. Unless otherwise advised by Bond Counsel, 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 the Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority.

*(Section 36)*

### **Additional Parity Indebtedness**

The Institution further covenants that it shall not incur any Additional Parity Indebtedness after the execution and delivery of the Loan Agreement unless the chief financial officer of the Institution shall provide a certificate to the Authority (i) that the Faculty Practice Plan Revenues for the immediately preceding fiscal year of the Institution for which audited financial statements are available were at least equal to maximum aggregate Debt Service on all Outstanding Bonds and Additional Parity Indebtedness, calculated after giving

effect to the incurrence of the Additional Parity Indebtedness then to be incurred; (ii) the Debt Service Coverage Ratio for the most recent fiscal year for which audited financial statements are available was at least 1.20 after taking into account the Additional Parity Indebtedness then proposed to be issued; and (iii) that the Additional Parity Indebtedness then proposed to be issued would not cause the Debt to Capitalization Ratio to exceed 85%.

In conjunction with the incurrence by the Institution of Additional Parity Indebtedness, the Institution will execute and will take all reasonable action to cause each holder (or its fiduciary) of such Additional Parity Indebtedness to execute the Intercreditor Agreement, or an amendment thereto, reflecting the incurrence of such Additional Parity Indebtedness. The Authority will execute the Intercreditor Agreement or amendments thereto (which are reasonably acceptable to the Authority), to reflect the incurrence of Additional Parity Indebtedness permitted by the Loan Agreement in order to reflect the rights of each creditor with respect thereto.

*(Section 37)*

### **Disclaimer of Personal Liability**

No recourse shall be had against or liability incurred by any member, director, trustee, officer, official, counsel, consultant, employee or agent of the Authority or of the Institution or any person executing the Loan Agreement for any covenants and provisions thereof or for any claims based thereon.

*(Section 41)*

### **Additional Terms and Conditions**

(a) The Institution covenants that it shall maintain a Debt Service Coverage Ratio of at least 1:10:1.0 in each fiscal year. If as of the last day of the Institution's fiscal year the Debt Service Coverage Ratio is less than 1:10:1.0, the Institution shall, unless waived by the Authority, promptly employ a Consultant acceptable to the Authority. Copies of the recommendations of the Consultant shall be filed with the Authority no later than ninety (90) days following the date of engagement.

(b) In connection with the incurrence of Alternative Parity Indebtedness, the Institution may pledge as additional security any of its real or personal property so long as the value of such property so pledged does not exceed 20% of property, plant and equipment; provided, however, this provision shall not be deemed to permit the encumbrance of real or personal property of the Institution if the encumbrance of such property would otherwise violate any provisions of the Loan Agreement or any other agreement between the Institution and the Authority then in effect.

(c) The Institution agrees that it will not dispose of its cash assets other than in the ordinary course of business or by investing in marketable or liquid securities if such disposition would reduce the Institution's cash assets by more than 20% from the cash assets as of the most recent audited financial statements. The Institution further covenants that it will not dispose of real or personal property other than in the ordinary course of business or as otherwise permitted by the Loan Agreement in an amount that would cause the Debt Service Coverage Ratio to decline by more than 20% on a pro forma basis as a result of such disposition.

*(Schedule D)*

**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

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**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

The following is a summary of certain provisions of the Resolution and the Series 2009 Resolution pertaining to the Series 2009 Bonds and the Project. Such summary does not purport to be complete and reference is made to the Resolution and the Series 2009 Resolution for full and complete statements of each of its provisions. Defined terms used in this Appendix shall have the meanings ascribed to them in Appendix A. Unless otherwise indicated, references to section numbers refer to sections in the Resolution or, where so specified the Series 2009 Resolution.

**Resolution and Bonds Constitute a Contract**

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its Mount Sinai School of Medicine of New York University Revenue Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the respective Series Resolution authorizing such Series of Bonds. With respect to each Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of a Series authorized to be issued under the Resolution and under a Series Resolution by those who shall hold or own the same from time to time, the Resolution and such Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of a Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of such Bonds of such Series, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such Series over any other Bonds of such Series except as expressly provided or permitted by the Resolution or by a Series Resolution.

*(Section 1.03)*

**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, except as provided in the Resolution, entitled to a charge, lien or right prior or equal to the charge or lien created by the Resolution and pursuant to a Series Resolution, or prior or equal to the rights of the Authority and Holders of Bonds.

*(Section 2.05)*

**Pledge of Revenues**

The proceeds from the sale of a Series of Bonds, the Revenues, the Authority's security interest in the Pledged Revenues and, except as otherwise provided in the Resolution, all funds and accounts established by the Resolution, other than the Arbitrage Rebate Fund, shall, subject to the adoption of a Series Resolution, be pledged and assigned to the Trustee as security for the payment of the principal and Redemption Price of and interest on such Series of Bonds all in accordance with the provisions of the Resolution and any Series Resolution. The pledge of the Revenues and the assignment of the Authority's security interest in the Pledged Revenues shall also be for the benefit of the applicable Facility Provider as security for the payment of any amounts payable to such Facility Provider under the Resolution; provided, however, that such pledge and assignment shall, in all respects, be subject and subordinate to the rights and interest therein of the

Bondholders of such Series of Bonds. The pledge made by the Resolution, shall relate only to the Bonds of a Series authorized by such Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds, except that the Authority's security interest in Pledged Revenues shall secure on a parity all Series of Bonds and Additional Parity Indebtedness and secure any obligation of the Institution to a Derivative Agreement Counterparty . The pledge made by the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of a Series of Bonds, the Revenues, the Authority's security interest in the Pledged Revenues and all funds and accounts established by the Resolution and by a Series Resolution which are pledged by the 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 Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Revenues, the Authority's security interest in the Pledged Revenues and the funds and accounts established by the Resolution and pursuant to a Series Resolution and which are pledged by the Resolution as provided in the Resolution, which pledge shall constitute a first lien thereon, subject only to the applicable Prior Pledges.

*(Section 5.01)*

#### **Establishment of Funds and Accounts**

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

Construction Fund;

Debt Service Fund; and

Arbitrage Rebate Fund.

Accounts and subaccounts within each of the foregoing funds may from time to time be established in accordance with a Series Resolution, a Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund, account or subaccount created and pledged by the Resolution or by a Series Resolution or required thereby to be created shall be held in trust for the benefit of the Holders of Bonds of a Series, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution.

*(Section 5.02)*

#### **Application of Bond Proceeds and Allocation Thereof**

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

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

*(Section 5.03)*



## **Application of Moneys in the Construction Fund**

As soon as practicable after the delivery of a Series of Bonds, the Trustee shall deposit in the Construction Fund the amount required to be deposited therein pursuant to the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series. In addition, the Authority shall pay over to the Trustee and the Trustee shall deposit in the Construction Fund any moneys paid to the Authority pursuant to the Resolution. The Trustee shall also deposit in the Construction Fund all amounts paid to it by the Institution which by the terms of the Loan Agreement are required to be deposited therein.

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

Payments for Costs of Issuance shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification, and the respective amounts of each such payment. Payments for Costs of each Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority, substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Institution naming the Project in connection with which payment is to be made and describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project, except that payments to pay interest on Bonds of a Series shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Construction Fund to the Debt Service Fund.

Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or the Institution with respect to a Project shall be deposited in the Construction Fund and, if necessary, such fund may be re-established for such purpose.

A Project shall be deemed to be complete upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Institution, which certificate shall be delivered as soon as practicable after the date of completion of such Project, or upon delivery to the Institution and the Trustee of a certificate signed by an Authorized Officer of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy or use, and, in the case of a certificate of an Authorized Officer of the Institution, shall specify the date of completion.

Upon receipt by the Trustee of a certificate relating to the completion of a Project, the moneys, if any, then remaining in the Construction Fund relating to such Project, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of Issuance and Costs of the Project in connection with such Project which are then unpaid, shall be paid or applied by the Trustee as follows and in the following order of priority:

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

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

Third: To the Debt Service Fund, to be applied in accordance with the provisions of the section entitled “*Debt Service Fund*” hereof, any balance remaining.

*(Section 5.04)*

### **Deposit of Revenues and Allocation Thereof**

The Revenues and any other moneys, which, by any of the provisions of the Loan Agreement, are required to be paid to the Trustee, shall upon receipt thereof be deposited or paid, pro rata, by the Trustee in the following order of priority:

First: To the Debt Service Fund (i) in the case of Revenues received during the period from the beginning of each Bond Year until December 31 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds of a Series payable on or prior to the next succeeding January 1, (b) the Sinking Fund Installments of Outstanding Option Bonds of a Series payable on or prior to the next succeeding January 1 and (c) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the provisions of the section entitled “*Debt Service Fund*” hereof, plus accrued interest thereon to the date of purchase or redemption; and (ii) in the case of Revenues received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on and the principal and Sinking Fund Installments of Outstanding Bonds payable on and prior to the next succeeding July 1, and (b) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the provisions of the section entitled “*Debt Service Fund*” hereof, plus accrued interest thereon to the date of purchase or redemption;

Second: To reimburse each Facility Provider for Provider Payments which are then unpaid the respective Provider Payments then unpaid to each Facility Provider and to replenish each Debt Service Reserve Fund to its respective Debt Service Reserve Fund Requirement, pro rata, in proportion to the amount the respective Provider Payments then unpaid to each Facility Provider and the amount of the deficiency in each Debt Service Reserve Fund bears to the aggregate amount of Provider Payments then unpaid and deficiencies in the respective Debt Service Reserve Funds;

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

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

The Trustee shall, promptly after making the above required payments, notify the Authority and the Institution of any balance of Revenues remaining on the immediately succeeding July 1. After making the above required payments, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Construction Fund or the Debt Service Fund, or paid to the Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created by the Resolution.

*(Section 5.05)*

## **Debt Service Fund**

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

- (i) the interest due and payable on all Outstanding Bonds of a Series on such interest payment date;
- (ii) the principal amount due and payable on all Outstanding Bonds of a Series on such interest payment date; and
- (iii) the Sinking Fund Installments, if any, due and payable on all Outstanding Bonds of a Series on such interest payment date.

The amounts paid out pursuant to this Section shall be irrevocably pledged to and applied to such payments.

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

Moneys in the Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Outstanding Bonds of a Series payable on and prior to the next succeeding July 1, the interest on Outstanding Bonds of a Series payable on and prior to the earlier of the next succeeding January 1 or July 1, and the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of Outstanding Bonds of a Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Debt Service Fund, such moneys shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Bonds of a Series, at the Redemption Prices specified in the Series Resolution authorizing the issuance of the Bonds to be redeemed or the Bond Series Certificate relating to such Bonds.

*(Section 5.06)*

## **Debt Service Reserve Fund**

1. (a) The Trustee shall deposit to the credit of the Debt Service Reserve Fund such proceeds of the sale of the Series 2009 Bonds, if any, as shall be prescribed in the Series 2009 Resolution, and any moneys, Government Obligations and Exempt Obligations as are delivered to the Trustee by the Institution for the purposes of the Debt Service Reserve Fund.

(b) In lieu of or in substitution for moneys, Government Obligations or Exempt Obligations otherwise required to be deposited in the Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Fund Requirement; provided that any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State (i) the claims paying ability of which is rated the highest rating accorded by a nationally recognized insurance rating agency or (ii) obligations insured by a surety bond or an insurance policy issued by such company or association are rated at the time such surety bond or insurance policy is delivered, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in the highest rating category by Moody’s and S&P or, if Outstanding Series 2009 Bonds are not rated by Moody’s and S&P by whichever of said rating services that then rates Outstanding Series 2009 Bonds; provided, further, that any such letter of credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, in at least the second highest rating category by Moody’s and S&P or, if Outstanding Series 2009 Bonds are not rated by Moody’s and S&P by whichever of said rating services that then rates Outstanding Series 2009 Bonds; and provided further that the written consent from the Insurer to the delivery of such Reserve Fund Facility shall have been obtained.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of the Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to the Insurer to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms and (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority and the Insurer.

Each Reserve Fund Facility shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without drawing upon such letter of credit or obtaining payment under such surety bond or insurance policy.

For the purposes of this section and the section entitled “*Application of Bond Proceeds and Allocation Thereof*” hereof, in computing the amount on deposit in a Debt Service Reserve Fund, a letter of credit, a surety bond or an insurance policy shall be valued at the amount available to be drawn or payable thereunder on the date of computation.

2. Moneys held for the credit of the Debt Service Reserve Fund shall be withdrawn by the Trustee and applied to the payment of interest, principal and Sinking Fund Installments at the times and in the amounts required to comply with the provisions of clauses (i), (ii) and (iii) of the Section the entitled “Debt Service Fund” provided that no payment under a Reserve Fund Facility shall be sought unless and until moneys are not available in the Debt Service Reserve Fund and the amount required to be withdrawn from the Debt Service Reserve Fund pursuant to this subdivision cannot be withdrawn therefrom without obtaining payment under such Reserve Fund Facility; provided further, that, if more than one Reserve Fund Facility is held for the credit of the Debt Service Reserve Fund at the time moneys are to be withdrawn therefrom the Trustee shall obtain payment under each such Reserve Fund Facility *pro rata* based upon the respective amounts then available to be paid thereunder.

With respect to any demand for payment under any Reserve Fund Facility deposited in the Debt Service Reserve Fund, the Trustee shall make such demand for payment in accordance with the terms of such Reserve Fund Facility at the earliest time provided therein to assure the availability of moneys on the interest payment date for which such moneys are required.

3. Moneys and investments held for the credit of the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement shall be withdrawn by the Trustee and deposited, upon direction of the Authority, in the Arbitrage Rebate Fund, the Debt Service Fund and the Construction Fund or applied to the redemption of the Series 2009 Bonds in accordance with such direction.

4. If, upon a valuation, the value of all moneys, Government Obligations, Exempt Obligations and Reserve Fund Facilities held for the credit of the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority, each Facility Provider and the Institution of such deficiency. The Institution shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys, Government Obligations or Exempt Obligations the value of which is sufficient to increase the amount in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

*(Section 5.02 of the Series 2009 Resolution)*

#### **Application of Debt Service Reserve Fund**

In the event that on the fourth Business Day preceding any interest payment date the amount in the Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Series 2009 Bonds, for the payment of principal of such Outstanding Series 2009 Bonds, for the payment of Sinking Fund Installments of such Outstanding Series 2009 Bonds due and payable on such interest payment date or for the payment of the Redemption Price of such Outstanding Series 2009 Bonds theretofore to be called for redemption, plus accrued interest thereon to the date of redemption, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit to the Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments. The Trustee shall notify the Authority and the Institution of a withdrawal from the Debt Service Reserve Fund.

*(Section 5.03 of the Series 2009 Resolution)*

#### **Arbitrage Rebate Fund**

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

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be deposited to any fund or account established under the Resolution in accordance with the written direction of such Authorized Officer.

The Authority shall periodically determine the amount which may be required by the Code to be rebated to the Department of the Treasury of the United States of America with respect to a Series of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee under the Resolution and deposit to the Arbitrage Rebate Fund such amount as the Authority shall have determined to be

necessary in order to enable it to comply with its obligation to rebate moneys to the Department of the Treasury of the United States of America with respect to such Series of Bonds and (ii) if and to the extent required by the Code, pay out of the 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 5.07)*

### **Application of Moneys in Certain Funds for Retirement of Bonds**

Notwithstanding any other provisions of the Resolution, if at any time (i) the amounts held in the Debt Service Fund and each Debt Service Reserve Fund, if applicable, are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of a Series and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, (ii) the amounts held in the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Series secured thereby and the interest accrued and unpaid and to accrue on such Bonds to the next date on which such Bonds may be redeemed or (iii) in either case, to make provision pursuant to the second paragraph of the section entitled “*Defeasance*” hereof for the payment of such Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall so notify the Authority and the Institution. Upon receipt of such notice, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds of a Series, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by a Series Resolution, or (ii) give the Trustee irrevocable instructions in accordance with the second paragraph of the section entitled “*Defeasance*” hereof and make provision for the payment of such Outstanding Bonds at the maturity or redemption dates thereof in accordance with such instruction.

*(Section 5.08)*

### **Computation of Assets of Certain Funds**

The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of the Institution, but not more frequently than once a calendar month, and (iv) at such other times as maybe necessary in connection with a withdrawal and deposit made pursuant to subdivision 3 of Section entitled “*Debt Service Reserve Fund*” of the Series 2009 Resolution or pursuant to the sections entitled “*Deposit of Revenues and Allocation Thereof*”, “*Debt Service Fund*”, “*Arbitrage Rebate Fund*” or “*Application of Moneys in Certain Funds for Retirement of Bonds*” of the Series 2009 Resolution, shall compute the value of the assets in the Debt Service Reserve Fund, in the case of the requirement under (i) above, on the last day of each such month, in the case of a request pursuant to (ii) or (iii) above, at the date of such request, or, in the case of a withdrawal and deposit, at the date of such withdrawal and deposit, and notify the Authority and the Institution as to the results of such computation and the amount by which the value of the assets in the Debt Service Reserve Fund exceeds or is less than the Debt Service Reserve Fund Requirement.

*(Section 5.04 of the Series 2009 Resolution)*

### **Security for Deposits**

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of a series of Bonds, for the benefit of the Authority and the Holders of a Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them pursuant to the sections entitled “*Debt Service Fund*” or

“*Defeasance*” hereof and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on such Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

*(Section 6.01)*

### **Investment of Funds and Accounts Held by the Trustee**

Moneys held under the Resolution by the Trustee, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, 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 available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes hereof; provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

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

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

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

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

*(Section 6.02)*

## **Powers as to Bonds 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 any such Bonds, the Revenues, the Authority's security interest in the Pledged Revenues and all funds and accounts established by the Resolution and pursuant to any Series Resolution which are, or may be pledged by the Resolution, in the manner and to the extent provided in the Resolution and therein. The Authority further covenants that the proceeds from the sale of each applicable Series of Bonds, the Revenues, the Authority's security interest in the Pledged Revenues and all funds and accounts established by the Resolution and pursuant to a Series Resolution which are or may be pledged by the Resolution are and shall be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge created by the Resolution and pursuant to the applicable Series Resolution (other than (i) Permitted Encumbrances, (ii) Additional Parity Indebtedness, (iii) obligations under a Derivative Agreement and (iv) as otherwise permitted with the prior written consent of the Authority and the Insurer), and that all corporate action on the part of the Authority to that end has been duly and validly taken. The Authority further covenants that each Series of Bonds and the provisions of the Resolution and of each Series Resolution are and shall be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution and of each Series Resolution. The Authority further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, the Authority's security interest in the Pledged Revenues and all funds and accounts established by the Resolution and pursuant to a Series Resolution, which are pledged by the Resolution and by such Series Resolution and all of the rights of the Holders of Bonds of any Series under the Resolution and any Series Resolution against all claims and demands of all persons whomsoever.

*(Section 7.03)*

## **Creation of Liens**

Except as permitted by the Resolution or by a Series Resolution, the Authority shall not create, cause to be created or suffer or permit the creation of any lien or charge prior or equal to that of the Bonds of a Series on the proceeds from the sale of such Bonds, the Revenues pledged for such Series of Bonds, the Pledged Revenues, the Prior Pledges or the funds and accounts established by the Resolution or by a Series Resolution which are pledged by the Resolution (other than (i) Permitted Encumbrances, (ii) Additional Parity Indebtedness, (iii) obligations under a Derivative Agreement and (iv) as otherwise permitted with the prior written consent of the Authority and the Insurer); 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 by the Resolution.

*(Section 7.06)*

## **Amendment of Loan Agreement**

(a) The Loan Agreement may, without the consent of the Holders of Bonds of a Series, be amended, changed, modified or supplemented for any one or more purposes:

(i) to add an additional covenant or agreement for the purpose of further securing the payment of the Institution's obligations under the Loan Agreement that is not contrary to or inconsistent with the covenants and agreements of the Institution contained in the Loan Agreement;

(ii) to prescribe further limitations and restrictions upon the Institution's right to incur, issue, assume or guaranty indebtedness that are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;



(iii) to surrender any right, power or privilege reserved to or conferred upon the Institution, if surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Institution contained in the Loan Agreement; **provided, however**, that if the same would adversely affect the rights of a Facility Provider, no amendment, change, modification, termination or waiver shall become effective until consented to in writing by the Facility Provider affected thereby;

(iv) to make changes necessary or appropriate in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping of a Project, to amend the description of a Project or to add an additional Project to Schedule C of the Loan Agreement;

(v) to amend Schedule A or Schedule B of the Loan Agreement to establish, amend or modify the Authority Fee or the Annual Administrative Fee payable by the Institution in connection with the Bonds of a Series;

(vi) subject to paragraph (b) below, to make changes necessary or appropriate in connection with the issuance of any additional Series of Bonds pursuant to the terms of the Resolution and the applicable Series Resolution; or

(vii) with the prior written consent of the Trustee and the Insurers of a majority in principal amount of Outstanding Bonds of a Series, to cure any ambiguity, or to correct or supplement any provisions contained in the Loan Agreement which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement or to amend, modify or waive any other provision of the Loan Agreement provided that the same does not adversely affect the interests of the Bondholders of such Series of Bonds or any Insurers in any material respect.

In determining whether the interests of a Bondholder are adversely affected by an amendment, change, supplement or modification, such determination shall be made as if there were no Insurance Policy with respect to such Bonds.

(b) Notwithstanding the provisions of paragraph (a) of this Section, the Loan Agreement may not be amended, changed, modified or terminated, nor may any provision thereof be waived, without the consent of the Holders of Outstanding Bonds of a Series as hereinafter provided, if such amendment, change, modification, termination or waiver (i) reduces the amount payable by the Institution under the Loan Agreement on any date or delays the date on which payment is to be made, (ii) modifies the events which constitute Events of Default under the Loan Agreement, (iii) diminishes, limits or conditions the rights or remedies of the Authority under the Loan Agreement upon the occurrence of an Event of Default under the Loan Agreement, or (iv) adversely affects the rights of the Bondholders of such Series of Bonds in any material respect.

(c) No such amendment, change, modification, termination or waiver shall take effect unless the prior written consent of (a) the Holders of at least a majority in principal amount of the Bonds of a Series then Outstanding, or (b) in case less than all of a Series of Bonds then Outstanding are affected by the amendment, change, modification, termination or waiver, the Holders of not less than a majority in principal amount of the Bonds of such Series so affected and then Outstanding; **provided, however**, that if such amendment, change, modification, termination or waiver will, by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section.

(d) No amendment, change, modification or termination of the Loan Agreement, or waiver of a provision thereof shall be made other than pursuant to a written instrument signed by the parties thereto. No such amendment, change, modification or waiver shall become effective unless there has been delivered to the Trustee an opinion of Bond Counsel to the effect that the same is not inconsistent with the Resolution and will

not adversely affect the exclusion of interest on a Bond from gross income for purposes of federal income taxation. A copy of each such amendment, change, modification, termination or waiver shall be filed with the Trustee and a copy thereof shall be sent to each Insurer.

(e) For the purposes of this Section, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase, may consent to an amendment, change, modification, alteration or termination permitted by this Section in the manner provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; **provided, however**, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the amendment, change, modification, alteration or termination and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series.

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

Prior to making any such determination, the Trustee shall be entitled to receive and rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders or Insurers of Bonds of a Series then Outstanding in any material respect. Such opinion shall be conclusive evidence that the Bonds of any particular Series or maturity would not be adversely affected in any material respect by any such amendment, change, modification or alteration of the Loan Agreement.

*(Section 7.11)*

#### **Modification and Amendment Without Consent**

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

(a) 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;

(b) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of a 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;

(c) To prescribe further limitations and restrictions upon the issuance of Bonds of a 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;

(d) 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;

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

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

(g) To provide rights and privileges of an Insurer in addition to those set forth in the Resolution;  
or

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

In determining whether the interests of a Bondholder are adversely affected by an amendment, change, supplement or modification, such determination shall be made as if there were no Insurance Policy with respect to such Bonds.

*(Section 9.01)*

#### **Supplemental Resolutions Effective With Consent**

The provisions of the Resolution or of a 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 applicable Insurer and Holders of a Series of Bonds in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority. The Trustee shall transmit a copy of such Supplemental Resolution to the Institution upon its becoming effective.

*(Section 9.02)*

#### **Powers of Amendment**

Any modification or amendment of the Resolution or of any Series Resolution that modifies or amends the rights and obligations of the Authority and of the Holders of a Series of Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as hereinafter provided in the section entitled "*Consent of Bondholders*" hereof, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding of such Series at the time such consent is given, (ii) in case less than all of a Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of such Series so affected and Outstanding at the time such consent is given, or (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of a Series, maturity and interest rate entitled to such Sinking Fund Installment, Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as the Bonds of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment

shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of a Series or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds of a Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment hereof if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of a particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds of such Series. Prior to making any such determination, the Trustee shall be entitled to receive and rely on an opinion of counsel, including an opinion of Bond Counsel, with respect to whether the Bonds of a particular Series or maturity would be affected by any modification or amendment of the Resolution. Such opinion shall be conclusive evidence that the Bonds of any particular Series or maturity would not be adversely affected by any such modification or amendment of the Resolution. The Trustee shall transmit a copy of such Supplemental Resolution to the Institution upon its becoming effective.

In determining whether the interests of a Bondholder are adversely affected by an amendment, change, supplement or modification, such determination shall be made as if there were no Insurance Policy with respect to such Bonds.

*(Section 10.01)*

### **Consent of Bondholders**

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the section entitled "Powers of Amendment" hereof to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Holders of a Series of Bonds affected thereby for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed by the Authority to such Bondholders (but failure to mail such copy and request to any particular Bondholder shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consent of the Holders of the percentages of Outstanding Bonds of a Series specified in the section entitled "*Powers of Amendment*" and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions hereof, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds of a Series with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive proof that the consents have been given by the Holders of the Bonds of a Series described in the certificate or certificates of the Trustee. Any consent given by the Holder of a Bond of a Series shall be binding upon such Bondholder giving such consent and, anything in the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (whether or not such subsequent Insurer or Holder thereof has notice thereof), unless such consent is revoked in writing by such Bondholder giving such consent or a subsequent Holder of such Bond by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the Trustee a written statement that the

Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds of each Series and will be effective as provided in this Section, shall be given to such Bondholders by the Trustee at the direction of the Authority by mailing such notice to such Bondholders and, at the discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of such Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section provided). The Authority shall file with the Trustee proof of the mailing of such notice, and, if the same shall have been published, of the publication thereof. A transcript, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent, the Insurer and the Holders of such Series of Bonds upon the filing with the Trustee of proof of the mailing of such notice or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such notice is published, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the Authority, the Trustee and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

For the purposes of the Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase, may consent to a modification or amendment permitted by and in the manner provided by the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; **provided, however**, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series.

*(Section 10.02)*

### **Events of Default**

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

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

(b) With respect to a 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

(c) With respect to a Series of Bonds, the Authority shall default in the due and punctual performance of any covenants contained in the Series Resolution authorizing the issuance thereof to the effect that the Authority shall comply with the provisions of the Code applicable to such Bonds necessary to maintain the exclusion of interest therein from gross income under Section 103 of the Code and shall not take any action which would adversely affect the exclusion of interest on such Bonds from gross income under Section 103 of

the Code and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) With respect to a Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds of such Series or in a 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 same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series, or if such default is not capable of being cured within thirty (30) days, if the Authority fails to commence within said thirty (30) days and diligently prosecute the cure thereof; or

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

*(Section 11.02)*

### **Acceleration of Maturity**

Upon the happening and continuance of any event of default specified in the section entitled “*Event of Default*” hereof, other than an event of default specified in paragraph (c) of the section entitled “*Event of Default*” hereof, then and in every such case the Trustee upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series shall, by notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of such Series, to be due and payable unless one or more Insurers shall have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Outstanding Bonds due upon such declaration. At the expiration of thirty (30) days after notice of such declaration has been given, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in a Series Resolution or in the Bonds of a Series to the contrary notwithstanding. At any time after the principal of the Bonds of a Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of such Series of Bonds not then due by their terms and then Outstanding, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds of such Series (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under a Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this Section) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in such Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this Section) shall have been remedied to the reasonable satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

*(Section 11.03)*

## **Enforcement of Remedies**

Upon the happening and continuance of any event of default specified in the section entitled “*Events of Default*” hereof, then and in every such case, the Trustee may proceed, and upon the written request of the applicable Insurer (if such Insurer is not in default under the Insurance Policy issued by it) or of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series with the written consent of the applicable Insurer (if such Insurer is not in default under the Insurance Policy issued by it) or, in the case of a happening and continuance of an event of default specified in paragraph (c) of the section entitled “*Events of Default*” hereof, upon the written request of the Holders of not less than a majority principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed (subject to the provisions of the Resolution) to protect and enforce its rights and the rights of the Bondholders under the Resolution or of such Insurer or under the applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under any Series Resolution or in aid or execution of any power in the Resolution or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

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

*(Section 11.04)*

## **Bondholders’ Direction of Proceedings**

Anything in the Resolution to the contrary notwithstanding, the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series, with the consent of the Insurer or, in the case of an event of default specified in paragraph (c) of the section entitled “*Events of Default*” hereof, the Holders of a majority in principal amount of the Outstanding Bonds of a Series affected thereby with the consent of the Insurer, shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under a Series Resolution, provided, such direction shall not be otherwise than in accordance with law and the provisions of the Resolution and of such Series Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*(Section 11.07)*

## **Limitation of Rights of Individual Bondholders**

Neither a Holder of any of the Bonds of a Series nor the Insurer for any such Series of Bonds 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 for any other remedy under the Resolution unless such Holder or Insurer (if such Insurer is not in default under the Insurance Policy issued by it) previously shall have given to the Trustee written notice

of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series or, in the case of an event of default specified in paragraph (c) of the section entitled “*Events of Default*” hereof, the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted hereby or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity shall be declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts under the Resolution or for any other remedy under the Resolution and in equity or at law. It is understood and intended that no one or more Insurers or Holders of the Bonds of a Series secured by the Resolution and by a Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security hereof 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 a Series shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

*(Section 11.08)*

### **Defeasance**

If the Authority shall pay or cause to be paid to the Holders of Bonds of a Series the principal or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the applicable Series Resolution and Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted to such Series of Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other Securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series shall be paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each such Facility Provider; third, to the Authority the amount certified by an Authorized Officer of 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. Such Securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the immediately preceding paragraph. All Outstanding Bonds of a Series or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this Section if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either



moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will, as verified by the report of a firm of independent certified public accountants, provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of a Series on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds. The Authority shall give written notice to the Trustee of its selection of the Series and maturity the payment of which is to be made in accordance with this Section. The Trustee shall select which Bonds of such Series, Sub-Series and maturity payment of which shall be made in accordance with this Section in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds; **provided, however**, that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on said Bonds on and prior to such redemption date or maturity date hereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of 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 Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or a Paying Agent in trust for the payment and discharge of any of the Bonds of a Series or the interest thereon which remain unclaimed for one (1) year after the date when all of the Bonds of such Series have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when all of the Bonds of such Series become due and payable, or one (1) year after the date when the principal or Redemption Price of or interest on the Bonds for which said moneys is held was due and payable, shall, at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds shall look only to the Authority for the payment of such Bonds; **provided, however**, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after the

date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

No principal or Sinking Fund Installment of or installment of interest on a Bond of a Series shall be considered to have been paid, and the obligation of the Authority for the payment thereof shall continue, notwithstanding that an Insurer pursuant to an Insurance Policy issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

*(Section 12.01)*

**APPENDIX E**

**FORM OF APPROVING OPINION OF BOND COUNSEL**

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**FORM OF APPROVING OPINION OF BOND COUNSEL**

November 5, 2009

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

Re: Dormitory Authority of the State of New York Mount Sinai School  
of Medicine of New York University Revenue Bonds, Series 2009

Ladies and Gentlemen:

We have acted as bond counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with the issuance of \$369,915,000 aggregate principal amount of its Mount Sinai School of Medicine of New York University Revenue Bonds, Series 2009 (the "Bonds"), issued pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), and the Authority's Mount Sinai School of Medicine of New York University Revenue Bond Resolution, adopted on June 27, 2007 (the "Resolution"), as amended and supplemented by the Series 2009 Resolution Authorizing Up To \$370,000,000 Mount Sinai School of Medicine of New York University Revenue Bonds, Series 2009 (the "Series 2009 Resolution") adopted on September 23, 2009. The Resolution, together with the Series 2009 Resolution, are herein collectively referred to as the "Resolutions." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

The Authority has entered into a Building Loan Agreement with the Mount Sinai School of Medicine of New York University (the "Institution" or the "School"), dated as of September 23, 2009, which is supplemental to the Loan Agreement dated as of June 27, 2007 (collectively, the "Loan Agreement"), providing, among other things, for a loan to the Institution for the purposes permitted thereby and by the Resolutions. Pursuant to the Loan Agreement, the Institution is required to make payments sufficient to pay the principal, sinking fund installments, if any, and redemption price of and interest on the Bonds as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the owners of the Bonds.

The Bonds are to mature on the dates and in the years and amounts and interest on the Bonds is payable at the rates and in the amounts set forth in the Bond Series Certificate executed and delivered pursuant to the Resolutions concurrently with the issuance of the Bonds.

The Bonds are to be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions and the Bond Series Certificate.

In such connection, we have reviewed the Resolutions, the Loan Agreement, the Tax Certificate and Agreement dated as of the date hereof (the "Tax Certificate"), among the Authority, the Institution and The Mount Sinai Hospital (the "Hospital"), opinions of counsel to the Authority and the Institution, certificates of the Authority, the Trustee, the Institution and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Michael G. Macdonald, Esq., Vice President and General Counsel of the Institution, regarding, among other matters, the current qualification of the Institution and the Hospital as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Institution or the Hospital within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Institution or the Hospital to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Institution or the Hospital within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolutions, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any real property or personal property described in or subject to the lien of the Resolutions or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated October 22, 2009 (the “Official Statement”) or other offering material relating to the Bonds and express no opinion with respect thereto herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority has been duly created and is validly existing as a body corporate and politic constituting a public benefit corporation of the State of New York.
2. The Bonds have been duly and validly authorized to be issued and constitute the valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, will be payable solely from the sources provided therefor in the Resolutions, and will be entitled to the benefit of the Resolutions and the Act.
3. The Resolutions are in full force and effect, have been duly adopted by, and constitute the valid and binding obligations of, the Authority. The Resolutions create a valid pledge, to secure the payment

of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Resolutions, except the Arbitrage Rebate Fund, subject to the provisions of the Resolutions permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolutions.

4. The Loan Agreement has been duly executed and delivered by the Authority and, assuming due execution and delivery thereof by the Institution, constitutes a valid and binding agreement of the Authority in accordance with its terms.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Interest on the Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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