

Fitch: "A-"
Moody's: "A3"
S&P: "A-"

(See "PART 18 - RATINGS" herein)

NEW ISSUE



\$48,930,000

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK
NORTH SHORE - LONG ISLAND JEWISH OBLIGATED GROUP
REVENUE REFUNDING BONDS, SERIES 2012A**

Dated: Date of Delivery

Due: May 1, as shown herein

Payment and Security: The North Shore-Long Island Jewish Obligated Group Revenue Refunding Bonds, Series 2012A (the "Series 2012A Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable from and secured by a pledge of certain payments to be made under a Loan Agreement (the "2012A Loan Agreement"), dated as of February 29, 2012, between the Authority and North Shore-Long Island Jewish Health Care, Inc. ("NSLJ HCI") for the benefit of certain members of the Obligated Group (as defined below), the hereinafter defined Series 2012A Obligation, and the funds and accounts (except the Arbitrage Rebate Fund) authorized by the North Shore Health System Obligated Group Revenue Bond Resolution, adopted by the Authority on June 24, 1998, as amended by Supplemental Resolutions adopted on July 23, 2003 and August 10, 2011 (the "General Resolution" or the "Resolution"), and established under the Authority's Series 2012A Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Refunding Bonds, Series 2012A adopted on February 29, 2012 (the "Series 2012A Resolution").

Payment of the principal of and interest on the Series 2012A Bonds when due, and payment to the Authority by NSLJ HCI of amounts due as set forth in the 2012A Loan Agreement, are secured by payments made pursuant to an Obligation dated as of April 1, 2012 with respect to the Series 2012A Bonds (the "Series 2012A Obligation") issued pursuant to the Master Trust Indenture, dated as of July 1, 1998, as supplemented, amended and restated (the "Master Trust Indenture"), and constitutes the joint and several general obligation of all the Members of the Obligated Group (as hereinafter defined). The Members of the Obligated Group are: Long Island Jewish Medical Center, North Shore University Hospital, Glen Cove Hospital, Plainview Hospital, Forest Hills Hospital, North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation, Franklin Hospital, Huntington Hospital Association d/b/a Huntington Hospital, Lenox Hill Hospital, Southside Hospital, Staten Island University Hospital and NSLJ HCI (collectively, the "Members of the Obligated Group" or "Obligated Group Members" or "Obligated Group" or, individually, a "Member"). No affiliate of the North Shore - Long Island Jewish Health System (the "Health System"), other than the Members of the Obligated Group, will be obligated for amounts due under the Series 2012A Obligation. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS."

NSLJ HCI's obligations under the 2012A Loan Agreement are general obligations of NSLJ HCI, and the Obligated Group's obligation under the Series 2012A Obligation is a general obligation of each Member of the Obligated Group secured by a mortgage on certain property which includes the core hospital facilities of each Member other than NSLJ HCI (each, a "Mortgage"). The 2012A Loan Agreement requires NSLJ HCI to pay, in addition to the fees and expenses of the Authority and The Bank of New York Mellon, New York, New York, the Trustee and Paying Agent (the "Trustee"), amounts sufficient to pay the principal, Sinking Fund Installments or Redemption Price of, and interest on, the Series 2012A Bonds, as such payments shall become due.

The Series 2012A Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.

Investment in the Series 2012A Bonds involves certain risks, including, but not limited to, those set forth in "PART 8 - RISK FACTORS AND REGULATORY PROVISIONS WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP" herein.

Description: The Series 2012A Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2012A Bonds is payable at the rates set forth on the inside front cover hereof commencing on November 1, 2012 and thereafter on each November 1 and May 1 by check mailed by the Trustee.

The Series 2012A 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 2012A Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2012A Bonds, payments of the principal and Redemption Price of, and interest on, such Series 2012A 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 2012A BONDS -Book-Entry Only System" herein.

Redemption or Purchase: The Series 2012A Bonds are subject to redemption prior to maturity as more fully described herein.

Tax Exemption: 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 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2012A 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). 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 2012A Bonds. See "PART 12 - TAX MATTERS" herein.

The Series 2012A Bonds are offered when, as, and if issued and received by the Underwriters. The offer of the Series 2012A Bonds may be subject to prior sale, or withdrawn or modified at any time without notice. The offer of the Series 2012A Bonds is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, and to certain other conditions. Certain legal matters will be passed upon for NSLJ HCI and the Obligated Group by their counsel, Hawkins Delafield & Wood LLP, New York, New York, by their disclosure counsel, Ropes & Gray LLP, Boston, Massachusetts, and by their special real estate counsel, Kelley Drye & Warren LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glosky and Popeo, P.C., New York, New York. The Authority expects to deliver the Series 2012A Bonds in definitive form in New York, New York, on or about May 3, 2012.

Citigroup

Morgan Stanley

Dated: April 12, 2012

\$48,930,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
NORTH SHORE - LONG ISLAND JEWISH OBLIGATED GROUP
REVENUE REFUNDING BONDS, SERIES 2012A

Due May 1	Amount	Interest Rate	Yield	CUSIP*
2015	\$1,300,000	3.00%	1.130%	649906UQ5
2015	5,950,000	5.00	1.130	649906UZ5
2016	3,000,000	4.00	1.440	649906UR3
2016	3,875,000	5.00	1.440	649906VG6
2017	1,150,000	4.00	1.720	649906US1
2017	6,055,000	5.00	1.720	649906VA9
2018	1,035,000	4.00	2.040	649906UT9
2018	6,150,000	5.00	2.040	649906VB7
2019	940,000	4.00	2.270	649906UU6
2019	6,600,000	5.00	2.270	649906VC5
2020	475,000	4.00	2.520	649906UV4
2020	7,645,000	5.00	2.520	649906VD3
2021	225,000	4.00	2.750	649906UW2
2021	1,285,000	5.00	2.750	649906VE1
2022	120,000	4.00	2.940	649906UX0
2022	1,465,000	5.00	2.940	649906VF8
2023	1,660,000	4.00	3.100	649906UY8

* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2012A Bonds and neither the Authority, NSLIJ HCI, the Obligated Group Members, the Underwriters nor the Trustee makes any representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012A 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 2012A Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Obligated Group Members, NSLIJ HCI or the Underwriters to give any information or to make any representations with respect to the Series 2012A 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 Obligated Group Members 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 2012A 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 Obligated Group Members and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority or of the Underwriters.

The Obligated Group Members have reviewed the parts of this Official Statement describing the Obligated Group and the Health System under the headings "INTRODUCTION," "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS," "THE SERIES 2012A BONDS," "THE PLAN OF REFUNDING," "ANNUAL DEBT SERVICE REQUIREMENTS," "ESTIMATED SOURCES AND USES OF FUNDS," "THE OBLIGATED GROUP," "RISK FACTORS AND REGULATORY PROVISIONS WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP" and "CONTINUING DISCLOSURE." The Obligated Group Members will certify as of the date hereof and of delivery of the Series 2012A Bonds that such parts do not contain any untrue statement 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. NSLIJ HCI has also reviewed Appendix B – "Audited Consolidated Financial Statements of North Shore-Long Island Jewish Health System, Inc. for the Years Ended December 31, 2011 and 2010 with Report of Independent Auditors." NSLIJ HCI will certify as of the date hereof and of delivery of the Series 2012A Bonds that such Appendices do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. None of the Obligated Group Members makes any representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture, and the Series 2012A Obligation (as each such term is defined in this Official Statement) do not purport to be complete. Investors should refer to the Act, the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture, and the Series 2012A Obligation for full and complete details of their provisions. Copies of the Act, the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture, and the Series 2012A Obligation 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, the Obligated Group Members or the Health System have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2012A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2012A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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.

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DORMITORY AUTHORITY - STATE OF NEW YORK - 515 BROADWAY, ALBANY, N.Y. 12207
PAUL T. WILLIAMS, JR. - PRESIDENT **ALFONSO L. CARNEY, JR., ESQ. - CHAIR**

OFFICIAL STATEMENT RELATING TO

\$48,930,000

DORMITORY AUTHORITY OF THE STATE OF NEW YORK NORTH SHORE - LONG ISLAND JEWISH OBLIGATED GROUP REVENUE REFUNDING BONDS, SERIES 2012A

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement is to provide information in connection with the initial offering of \$48,930,000 aggregate principal amount of North Shore - Long Island Jewish Obligated Group Revenue Refunding Bonds, Series 2012A (the "Series 2012A Bonds").

The following is a brief description of certain information concerning the Series 2012A Bonds, the Authority, North Shore University Hospital ("NSUH"), Long Island Jewish Medical Center ("LIJMC"), Glen Cove Hospital ("GCH"), Plainview Hospital ("PVH"), Forest Hills Hospital ("FHH"), the North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation ("CECR"), Franklin Hospital ("FRH"), Southside Hospital ("SH"), Huntington Hospital Association d/b/a Huntington Hospital ("HH"), Staten Island University Hospital ("SIUH"), Lenox Hill Hospital ("LHH") and North Shore - Long Island Jewish Health Care, Inc. ("NSLIJ HCI"), which together comprise the members of the Obligated Group (hereinafter, the "Members of the Obligated Group"). A more complete description of such information and additional information that may affect a decision to invest in the Series 2012A Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in the Resolution (as defined herein), the 2012A Loan Agreement (as defined herein) and in this Official Statement are defined in Appendix A – "CERTAIN DEFINITIONS" hereto and certain terms used in the Master Trust Indenture (as defined herein) and in this Official Statement are defined in Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE — MASTER TRUST INDENTURE — Certain Definitions."

Purpose of the Issue

The Authority shall issue its Series 2012A Bonds, the proceeds of which will be loaned to NSLIJ HCI and used to (i) refund a portion of the Authority's outstanding North Shore Health System Obligated Group Revenue Bonds, Series 1998 (the "Series 1998 Bonds") which consist of (A) North Shore University Hospital Revenue Bonds, Series 1998, (B) North Shore University Hospital at Glen Cove Revenue Bonds, Series 1998, (C) North Shore University Hospital at Plainview Revenue Bonds, Series 1998, (D) North Shore University Hospital at Forest Hills Revenue Bonds, Series 1998, and (E) North Shore University Hospital Center for Extended Care and Rehabilitation Revenue Bonds, Series 1998 and

(ii) pay costs of issuance incurred in connection with the issuance of the Series 2012A Bonds. See “PART 4 - THE PLAN OF REFUNDING” and “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.”

Authorization of Issuance

The Series 2012A Bonds will be issued, pursuant to the Act, the Authority’s North Shore Health System Obligated Group Revenue Bond Resolution, adopted by the Authority on June 24, 1998, as amended by Supplemental Resolutions adopted on July 23, 2003 and August 10, 2011 (the “General Resolution” or the “Resolution”) and the Series 2012A Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Refunding Bonds, Series 2012A adopted by the Authority on February 29, 2012 (the “Series 2012A Resolution” and, together with the General Resolution, the “Resolutions”).

Each Series of Bonds which has been or may be issued pursuant to the Resolutions, including the Series 2012A Bonds, are and will be separately secured by (i) the funds and accounts established pursuant to each Series Resolution, (ii) the Loan Agreement or Loan Agreements executed or to be executed by and between the Authority and a Member of the Obligated Group, and (iii) the Obligations (as defined herein) issued or to be issued by the Obligated Group under the Master Trust Indenture (as defined herein). The Series 2012A Bonds and all other Series of Bonds issued pursuant to the Resolutions are referred to as the “Bonds.” Although each Series of Bonds is separately secured by the funds and accounts under its respective Series Resolution, the Obligation securing each Series or subseries of Bonds or issued in connection with each Series of Bonds or subseries of Bonds is a joint and several obligation of the Members of the Obligated Group. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS.”

The Series 2012A Bonds

The Series 2012A Bonds will be dated the date of their delivery, and will bear interest from such date (payable on November 1, 2012 and on each May 1 and November 1 thereafter until maturity or the earlier redemption thereof) at the rates, and will mature in the amounts and at the times, set forth on the inside cover page of this Official Statement. See “PART 3 - THE SERIES 2012A BONDS - Description of the Series 2012A Bonds.”

The Authority

The Authority is a public benefit corporation of the State of New York, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational and not-for-profit institutions. See “PART 9 - THE AUTHORITY.”

Members of the Obligated Group

The Members of the Obligated Group are LIJMC, NSUH, GCH, PVH, FHH, CECR, FRH, HH, LHH, SH, SIUH, and NSLIJ HCI (the “Obligated Group”). The Obligated Group Representative is NSLIJ HCI. The Members of the Obligated Group currently have 5,467 licensed beds and are each a part of the North Shore - Long Island Jewish Health System (the “Health System”), which is an integrated healthcare delivery system comprised of certain hospitals, other healthcare providers and related entities.

Each Member of the Obligated Group is a New York not-for-profit corporation that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code, and each Member has been established as an operator of a hospital or a long-term care facility pursuant to Article 28 of the Public Health Law of the State of New York (“PHL”).

The Members of the Obligated Group represented 96.0% of the total consolidated operating revenue and 97.1% of the consolidated total assets of the Health System for the year ended December 31, 2011.

The Health System is an integrated health care delivery system comprised of fourteen hospitals, two long-term care facilities, three certified home healthcare agencies, one long-term home health agency, five trauma centers, a hospice network, many outpatient centers, The Feinstein Institute for Medical Research, the largest emergency services department on Long Island, and certain other related entities. The Health System provides administrative and management services for its affiliated hospitals. See “PART 7 – THE OBLIGATED GROUP” for a more complete description of the Health System and the Members of the Obligated Group.

The ultimate parent of the Health System is North Shore-Long Island Jewish Health System, Inc., a New York not-for-profit corporation (“NSLIJ”). As such, NSLIJ is the ultimate parent of each Member of the Obligated Group, and of each other entity within the Health System. NSLIJ IS NOT A MEMBER OF THE OBLIGATED GROUP AND, THEREFORE, HAS NO OBLIGATION TO PAY THE SERIES 2012A OBLIGATION OR THE SERIES 2012A BONDS.

NSLIJ HCI serves as the Obligated Group Representative on behalf of itself and the other Members of the Obligated Group. NSLIJ is the sole corporate member of NSLIJ HCI and NSLIJ HCI is the sole corporate member of each other Member of the Obligated Group. See “PART 7 – THE OBLIGATED GROUP - History of and Other Information Concerning North Shore-LIJ Health System”.

Appendix B contains the audited Consolidated Financial Statements of the Health System for the Years Ended December 31, 2011 and 2010.

Payment of the Series 2012A Bonds

The Series 2012A Bonds are special obligations of the Authority payable solely from the Revenues pledged to secure such Bonds. The Revenues consist of certain payments to be made by NSLIJ HCI under the 2012A Loan Agreement and payments to be made by the Members of the Obligated Group under an Obligation relating to the Series 2012A Bonds (the “Series 2012A Obligation”). The Revenues are pledged and assigned to the Trustee to secure the Series 2012A Bonds.

The Series 2012A Obligation will be issued pursuant to the Master Trust Indenture dated as of July 1, 1998, as supplemented, amended and restated by and among the Members of the Obligated Group and the Master Trustee, including as supplemented by the Supplemental Indenture for Obligation No. 40, dated as of April 1, 2012 (the “Series 2012 Supplemental Indenture”) by and among the Members of the Obligated Group and the Master Trustee. The Master Trust Indenture as so supplemented is hereinafter referred to as the “Master Trust Indenture.” See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS.”

Security for the Series 2012A Bonds

The Series 2012A Bonds are secured by the pledge and assignment made by the Authority, pursuant to the Resolutions, to the Trustee of the Revenues pledged to such Bonds and the funds and accounts authorized by the Resolutions and established under the Series 2012A Resolution (with the exception of the Arbitrage Rebate Fund). Payments when due on the Series 2012A Bonds and payments when due of NSLIJ HCI to the Authority under the 2012A Loan Agreement, will be secured by payments due on the Series 2012A Obligation.

The Series 2012A Obligation is a joint and several general obligation of each Member of the Obligated Group that (with the exception of NSLIJ HCI) will be secured by mortgages on certain property

which includes the core hospital facilities of each Member (each, a “Mortgage” as defined below) and a pledge of the Gross Receipts of all of the Members including NSLIJ HCI. See “The Mortgages” below in this Part, and “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS - Payment of and Security for the Series 2012A Bonds” and “- The Mortgages.”

The Series 2012A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

The Master Trust Indenture

Each Obligation, including the Series 2012A Obligation, heretofore or hereafter issued pursuant to the Master Trust Indenture, constitutes a joint and several obligation of each Member of the Obligated Group. Each Member of the Obligated Group is obligated, jointly and severally, for the payment of all Obligations issued under the Master Trust Indenture. The issuance of Obligations is subject to the satisfaction of certain financial covenants set forth in the Master Trust Indenture that bind all Members of the Obligated Group. For a description of the Master Trust Indenture, and all related definitions, see Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE — MASTER TRUST INDENTURE”.

The Mortgages

Each Obligation, including the Series 2012A Obligation, heretofore or hereafter issued pursuant to the Master Trust Indenture, is secured equally and ratably by Mortgages granted by the Members of the Obligated Group, other than NSLIJ HCI, to the Master Trustee on their core healthcare facilities; provided that the Mortgage granted on premises known as the Manhattan Eye, Ear and Throat Institute, an LHH outpatient center located on East 64th Street in Manhattan, is subordinate to a prior lien in favor of a commercial lender. The Master Trustee may release portions of the Mortgaged Property from the Lien of the Mortgages, or amend or modify any of the Mortgages, as provided in the Master Trust Indenture. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS – The Mortgages” and Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE.”

Additional Indebtedness

Each Member of the Obligated Group, upon compliance with the terms and conditions of the Master Trust Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Trust Indenture, will constitute a joint and several general obligation of each Member of the Obligated Group secured on a parity basis by the security interest in Gross Receipts and the Mortgages with the Series 2012A Obligation and all other Obligations heretofore or hereafter issued under the Master Trust Indenture. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS – The Master Trust Indenture.”

Under certain conditions, the Members may incur Indebtedness that is not evidenced or secured by an Obligation issued under the Master Trust Indenture. Any such other Indebtedness may be unsecured or secured by a Lien on Property to the extent such Lien is permitted under the Master Trust Indenture. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE.”

Additional Bonds

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

Obligated Group. The Holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series. Each such Series of Additional Bonds shall be secured by a separate Obligation.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2012A Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture and the Series 2012A Obligation, copies of which are on file with the Authority and the Trustee. See also Appendix C – “Summary of Certain Provisions of the Loan Agreement,” Appendix D – “Summary of Certain Provisions of the Resolutions” and Appendix E – “Summary of Certain Provisions of the Master Trust Indenture and the Series 2012 Supplemental Indenture” for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of and Security for the Series 2012A Bonds

General

The Series 2012A Bonds and all other Series of Bonds to be issued under the General Resolution will be special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price of, and interest on, the Series 2012A Bonds are payable, solely from, and are secured by, the Revenues pledged to secure such Series and the funds and accounts (excluding the Arbitrage Rebate Fund) established by the Series 2012A Resolution. The Revenues consist of the payments required to be made by NSLIJ HCI under the 2012A Loan Agreement and to be made by the Members of the Obligated Group under the Series 2012A Obligation. The Revenues have been pledged and assigned to the Trustee for the benefit of the Holders of the Series 2012A Bonds.

The obligation of NSLIJ HCI under the 2012A Loan Agreement is a general obligation of NSLIJ HCI. Payment of the principal, Sinking Fund Installments, Redemption Price, if any, and interest on the Series 2012A Bonds when due, and payment when due of NSLIJ HCI to the Authority under the 2012A Loan Agreement, will be secured by payments made by the Obligated Group pursuant to the Series 2012A Obligation. The Series 2012A Obligation is a joint and several general obligation of each Member of the Obligated Group. The Authority has pledged and assigned the payments to be made by the Obligated Group pursuant to the Series 2012A Obligation to the Trustee for the benefit of the Series 2012A Bondholders. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS - The Master Trust Indenture” and “ – The Mortgages.”

The 2012A Loan Agreement obligates NSLIJ HCI to make monthly payments to the Trustee in amounts sufficient to pay, among other things, the principal and Sinking Fund Installments of, and interest on, the Outstanding Series 2012A Bonds as they become due. With respect to the Series 2012A Bonds, each payment will be equal to one-sixth of the interest coming due on the next succeeding interest payment date and one-twelfth of the principal and Sinking Fund Installments coming due on or prior to the next succeeding May 1. See “PART 3 - THE SERIES 2012A BONDS - Redemption Provisions.”

The Authority has directed NSLIJ HCI, and NSLIJ HCI has agreed, to make payments under the 2012A Loan Agreement directly to the Trustee. Any payments made on the Series 2012A Obligation will also be made directly to the Trustee. All of such payments will be applied by the Trustee to the payment of the principal, Sinking Fund Installments and Redemption Price of, and interest on, the Series 2012A Bonds.

Pursuant to the terms of the Resolutions, the funds and accounts established and pledged by the Series 2012A Resolution (other than the Arbitrage Rebate Fund) secure only the Series 2012A Bonds, and do not secure any other Series of Bonds issued under the Resolutions, regardless of their dates of issue.

The actual realization of amounts to be derived upon the enforcement of any security interest securing the Series 2012A Bonds will depend upon the exercise of various remedies specified by the 2012A Loan Agreement, the Resolutions and the Master Trust Indenture. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing law, the remedies specified by the 2012A Loan Agreement, the Resolutions and the Master Trust Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2012A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors' rights generally. See "PART 8 – RISK FACTORS AND REGULATORY PROVISIONS WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP", Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT" and Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE."

The Series 2012A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. See "PART 9 - THE AUTHORITY."

The Master Trust Indenture

General

Pursuant to the Master Trust Indenture, each Obligation issued thereunder is a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants in the Master Trust Indenture that it will not pledge or grant a security interest in any of its Property except as otherwise permitted by the Master Trust Indenture. The Master Trust Indenture includes a pledge of a security interest in the Gross Receipts of each Member of the Obligated Group made to the Master Trustee to secure on a parity basis all Obligations theretofore and thereafter issued under the Master Trust Indenture. Pursuant to the Master Trust Indenture, the Master Trustee will hold the Mortgages from each Member of the Obligated Group (except NSLIJ HCI) to secure on a parity basis all Obligations theretofore and thereafter issued under the Master Trust Indenture. As described in Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE – MASTER TRUST INDENTURE – Limitations on Creation of Liens" and "– Limitations on Indebtedness," under certain circumstances the Members of the Obligated Group may create Liens on Property or incur Indebtedness. However, under the Master Trust Indenture, the Members may not create or suffer to be created any Lien on Property other than Permitted Liens. The Liens created by the Mortgages are Permitted Liens. By operation of the Master Trust Indenture, the distribution of proceeds from the enforcement or foreclosure of the Mortgages and any future Mortgage will be pro rata based on the outstanding principal amount (after deducting certain amounts) of the Obligations secured by such Mortgages and any future Mortgages, thereby effectively placing all Obligations on a parity with respect to foreclosure proceeds regardless of the order of priority of the liens granted under such Mortgages and any future Mortgages. See "– The Mortgages" in this PART 2.

The Members of the Obligated Group may issue additional Obligations which will be secured on a parity basis by the security interest in Gross Receipts and the Mortgages with the Series 2012A

Obligation and all previously issued Obligations. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE – MASTER TRUST INDENTURE – Limitations on Indebtedness” for a description of the conditions whereby the Members of the Obligated Group may issue additional Obligations.

THE MASTER TRUST INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE SERIES 2012A OBLIGATION EVIDENCED BY THE PLEDGE OF GROSS RECEIPTS AND THE MORTGAGES. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY ANY OTHER MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE TRUSTEE FOR THE SECURITY OF THE SERIES 2012A BONDS.

Security Interest in Gross Receipts

As security for the obligations of the Members of the Obligated Group under the Master Trust Indenture, each Member of the Obligated Group has pledged to the Master Trustee a security interest in their Gross Receipts, consisting of all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source; provided, however, that Gross Receipts do not include (x) gifts, grants, bequests, donations, and contributions and any income derived therefrom, to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Loan Agreement, (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group, or (z) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group and the proceeds thereof and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from Excluded Property which constitutes real property. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE – SERIES 2012 SUPPLEMENTAL INDENTURE – Gross Receipts Pledge.”

The security interest in Gross Receipts has been perfected to the extent, and only to the extent, that such security interest may be perfected by filing financing statements under the Uniform Commercial Code of the State of New York (the “UCC”). Continuation statements with respect to such filings must be filed as required by law to continue the perfection of such security interest. The security interest in Gross Receipts is subject to Permitted Liens that existed prior to or that may be created subsequent to the time the security interest in Gross Receipts attached and subject to the right of each Member of the Obligated Group to sell accounts receivable or incur Indebtedness secured by accounts receivable under certain circumstances, as described more fully in Appendix E. The security interest in Gross Receipts may not be enforceable against third parties unless Gross Receipts are transferred to the Master Trustee (which transfer Members of the Obligated Group are required to make only if requested by the Master Trustee after a default under the Master Trust Indenture) and is subject to certain exceptions under the UCC. The enforcement of the security interest in Gross Receipts may be further limited by the following: (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal bankruptcy laws, State receivership or fraudulent conveyance laws or similar laws affecting creditors’ rights that may affect the enforceability of the Master Trust Indenture or the security interest in Gross Receipts and (vi) rights of third parties in Gross Receipts not in the possession of the Master Trustee.

Particular Covenants

Subject to the terms of the Master Trust Indenture, any Persons which are not Members of the Obligated Group and corporations which are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Trust Indenture may become a Member of the Obligated Group. The Members of the Obligated Group are subject to covenants under the Master Trust Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio and restricting, among other things, incurrence of Indebtedness, existence of Liens on Property, consolidation and merger, disposition of assets, permitted releases of portions of the Mortgaged Property or permitted modifications of the Mortgages, addition of Members of the Obligated Group and withdrawal of the Obligated Group Members from the Obligated Group. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE.”

Limitations on Indebtedness. The Master Trust Indenture imposes certain limitations on the incurrence of Indebtedness by the Members of the Obligated Group. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE – MASTER TRUST INDENTURE – Limitations on Indebtedness”.

Long-Term Debt Service Coverage Ratio and Days Cash on Hand. Pursuant to the Master Trust Indenture, each Member of the Obligated Group covenants to set rates and charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10, but the failure to meet such requirement is not an Event of Default under the Master Trust Indenture; *provided, however*, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE – MASTER TRUST INDENTURE – Long-Term Debt Service Coverage Ratio.”

Each Member of the Obligated Group also covenants in the Series 2012 Supplemental Indenture that in no event shall the Long-Term Debt Service Coverage Ratio be less than 1.00 at the end of any Fiscal Year, and the failure to meet such requirement is an Event of Default under the Master Trust Indenture.

In addition, the Series 2012 Supplemental Indenture provides that, if, on any Semi-Annual Testing Date, (i) the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.25 or (ii) the number of Days Cash on Hand for the Obligated Group is less than thirty (30), then the Obligated Group shall (i) prepare a scope of work for a Consultant in form and content acceptable to the Authority, (ii) retain a Consultant acceptable to the Authority, (iii) require such Consultant, within fifteen (15) days of its appointment, to commence work on a report to be delivered to the Obligated Group and the Authority recommending changes with respect to the operation and management of the Obligated Group’s facilities, and (iv) to the extent permitted by Governmental Restrictions, implement such Consultant’s recommendation in a timely manner. Failure on the part of the Obligated Group to satisfy the provisions set forth in this paragraph is not an Event of Default under the Master Trust Indenture, and the sole remedies for noncompliance will be the right of the Authority to seek specific performance.

Notwithstanding the foregoing, and so long as any Related Bonds of the Authority, including the Series 2012A Bonds, are Outstanding, if, (i) on any Semi-Annual Testing Date the Days Cash on Hand

has decreased by 30% or more within the prior 12-month period, or (ii) on any Semi Annual Testing Date the Days Cash on Hand has decreased by 50% or more within the prior 24-month period, then the Obligated Group shall, within thirty (30) days of such Semi-Annual Testing Date, deliver written notice to the Authority of such decrease and cooperate with the Authority in evaluating cause(s) for such decrease.

The Mortgages

Each Obligation, including the Series 2012A Obligation, heretofore or hereafter issued pursuant to the Master Trust Indenture, is secured equally and ratably by Mortgages granted by the Members of the Obligated Group, other than NSLIJ HCI, to the Master Trustee on their core healthcare facilities; provided that the Mortgage granted on premises known as the Manhattan Eye, Ear and Throat Institute, an LHH outpatient center located on East 64th Street in Manhattan, is subordinate to a prior lien in favor of a commercial lender. The Master Trustee may release portions of the Mortgaged Property from the Lien of the Mortgages, or amend or modify any of the Mortgages, as provided in the Master Trust Indenture.

The Master Trust Indenture provides for the pro rata allocation of the proceeds of foreclosure of all or any of the Mortgages and any future Mortgage to payment of outstanding Obligations including the Series 2012A Obligation, Obligations that secure Outstanding Authority Bonds issued for the benefit of one or more Members of the Obligated Group and future Obligations issued under the Master Trust Indenture. The pro rata allocation of such proceeds shall be based on the outstanding par amount of each Obligation issued under the Master Trust Indenture.

See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE — SERIES 2012 Supplemental Indenture — The Mortgages”.

Events of Default and Acceleration under the Resolutions

The following constitute events of default under the General Resolution with respect to the Series 2012A Bonds: (i) a default by the Authority in the payment of the principal, Sinking Fund Installments or Redemption Price of, or interest on, any Series 2012A Bond; (ii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the Series 2012A Bonds, in the General Resolution or in the Series 2012A Resolution which continues for 30 days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee’s discretion or at the written request of Holders of not less than 25% in principal amount of Outstanding Series 2012A Bonds), unless the default is not capable of being cured within 30 days, the Authority has commenced to cure the default within 30 days and is diligently prosecuting such cure; (iii) a default by the Authority in the due and punctual performance of any applicable tax covenant which results in the loss of the exclusion of interest on the Series 2012A Bonds from gross income under the Code; or (iv) an “Event of Default,” as defined in the 2012A Loan Agreement, shall have occurred and is continuing and the Authority has declared all sums payable by NSLIJ HCI under the 2012A Loan Agreement immediately due and payable (unless such declaration shall have been annulled).

The General Resolution provides that if an event of default occurs and continues (except in the case of an event of default described in clause (iii) of the preceding paragraph), the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2012A Bonds, declare the principal of, and interest on, all Outstanding Series 2012A Bonds to be immediately due and payable. At the expiration of 30 days from the giving of such declaration under the Resolution, the principal and interest due on the Series 2012A Bonds shall become immediately due and payable. The Trustee shall, with the written consent of the Holders of not less than 25% in principal amount of Series 2012A Bonds not yet due by their terms and then Outstanding, annul such declaration and its

consequences under the terms and conditions specified in the General Resolution with respect to such annulment.

Upon the declaration of acceleration by the Trustee pursuant to the Resolution, the Trustee shall also request the Master Trustee to declare all Outstanding Obligations to be immediately due and payable. Pursuant to the Master Trust Indenture, the Master Trustee may, upon the occurrence and during the continuation of an Event of Default under the Master Trust Indenture, and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, will, declare all Obligations Outstanding immediately due and payable.

The General Resolution also provides that if any event of default (including the occurrence and continuance of an event of default described in clause (iii) of the first paragraph under this caption) occurs and continues, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2012A Bonds, shall proceed to protect and enforce its rights and the rights of the Holders under the Resolutions.

The General Resolution provides that the Trustee shall give notice to the Holders within 30 days of each event of default known to the Trustee, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, Sinking Fund Installment or Redemption Price of, or interest on, any of the Series 2012A 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 2012A Bonds.

PART 3 - THE SERIES 2012A BONDS

Description of the Series 2012A Bonds

General

The Series 2012A Bonds will be issued pursuant to the Act, the General Resolution and the Series 2012A Resolution. The Series 2012A Bonds will be dated their date of delivery, and will bear interest from such date (payable on November 1, 2012 and on each November 1 and May 1 thereafter until final maturity or redemption thereof) at the rates and will mature as set forth on the inside cover page of this Official Statement.

The Series 2012A Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2012A 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 2012A Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2012A Bonds, the Series 2012A Bonds will be exchangeable for other fully registered certificated Series 2012A Bonds of the same maturity in any authorized denominations. See "Book-Entry Only System" herein. The Trustee may impose a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Series 2012A Bond. The cost, if any, of preparing each new Series 2012A Bond issued upon such exchange or transfer, and any other expenses of the Authority or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the Series 2012A Bonds will be payable by check mailed to the registered owners thereof. As long as the Series 2012A 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. If the Series

2012A Bonds are not registered in the name of Cede & Co., as nominee for DTC, interest shall be paid by wire transfer to the registered owner of such Series 2012A Bonds at a wire transfer address within the continental United States upon the written request of such owner received by the Trustee not less than five days prior to the Record Date.

Redemption Provisions

Special Redemption

The Series 2012A Bonds are subject to redemption prior to maturity, in whole or in part, at the Redemption Price equal to 100% of the principal amount of Series 2012A Bonds being redeemed plus accrued interest to the redemption date at the option of the Authority, at any time, (i) from the proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Projects or the Mortgaged Property, or (ii) from unexpended proceeds of the Series 2012A Bonds upon the abandonment of all or a portion of the Projects due to a legal or regulatory impediment.

Selection of Series 2012A Bonds to be Redeemed

In the case of Series 2012A Bonds to be redeemed at the election or direction of the Authority, the Authority will select the maturities and principal amounts of Series 2012A Bonds to be redeemed. If less than all of a maturity of the Series 2012A Bonds are to be redeemed, the Series 2012A Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee in its discretion shall consider proper.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2012A Bonds in the name of the Authority by mailing a notice of redemption, 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 the Series 2012A Bonds which are to be redeemed, at their last known addresses appearing on the registration books not more than 10 business days prior to the date such notice is given. The failure of any such registered owner to receive such notice shall not affect the validity of the proceedings for the redemption of the Series 2012A Bonds. Any notice of an optional redemption may state that such redemption shall be conditional upon the receipt of such moneys by the Trustee on the date fixed for redemption.

If on the redemption date moneys for the redemption of the Series 2012A 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, then interest on the Series 2012A Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2012A Bonds will no longer be considered to be Outstanding under the Resolutions. If such moneys shall not be so available on the redemption date, such Series 2012A Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

For a more complete description of the redemption and other provisions relating to the Series 2012A Bonds, see Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2012A Bonds. The Series 2012A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2012A Bond certificate will be issued for

each maturity of Series 2012A 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 issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC 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”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2012A 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, however, 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 2012A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2012A Bonds, except in the event that use of the book-entry system for the Series 2012A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2012A 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 2012A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2012A 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 2012A Bonds within a stated maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2012A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2012A 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 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and redemption payments on the Series 2012A 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 detailed information, 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 redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority and 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 service with respect to the Series 2012A Bonds at any time by giving reasonable notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Series 2012A Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 2012A Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2012A Bonds in other authorized denominations and of the same maturity as set forth in the Resolutions, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

NEITHER THE AUTHORITY, THE MEMBERS OF THE OBLIGATED GROUP, NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2012A BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO SERIES 2012A BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS A SERIES 2012A BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2012A BONDS.

Each person for which a Participant acquires an interest in the Series 2012A 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, THE MEMBERS OF THE OBLIGATED GROUP, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC DIRECT PARTICIPANTS, INDIRECT

PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT, THE RESOLUTIONS AND THE SERIES 2012A RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

For every transfer and exchange of beneficial ownership of the Series 2012A 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.

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

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the Institutions and the Obligated Group Members believes to be reliable, but none of the Authority, the Members of the Obligated Group or the Underwriters takes responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Series 2012A Bonds, as nominee for DTC, references herein to the Bondholders, Holders, or registered owners of the Series 2012A Bonds (other than under the captions "PART 12 - TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2012A Bonds.

PART 4 - THE PLAN OF REFUNDING

The Series 2012A Bonds

The Series 2012A Bonds are being issued to (i) refund a portion of the Series 1998 Bonds listed below (the "Refunded Bonds"), the proceeds of which were used to finance or refinance the costs of construction, renovation and rehabilitation of certain facilities for NSUH, GCH, PH, FHH and CECR, (ii) pay a portion of the interest on the Series 2012A Bonds, and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2012A Bonds.

The Refunded Bonds

A portion of the Series 2012A Bonds are being issued to refund the Refunded Bonds listed in the following table:

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REFUNDED BONDS

<u>Maturity</u> <u>Date</u>	<u>Coupon</u>	<u>Amount</u> <u>Refunded</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>	<u>CUSIP</u>
11/1/2012	5.000%	\$ 440,000	6/4/2012	100.0%	649838E54
11/1/2012	5.000	810,000	6/4/2012	100.0	649838L80
11/1/2017	5.200	17,425,000	6/4/2012	100.0	649903LZ2
11/1/2017	5.000	1,425,000	6/4/2012	100.0	649903ME8
11/1/2017	5.000	2,360,000	6/4/2012	100.0	649903MJ7
11/1/2017	5.000	3,900,000	6/4/2012	100.0	649903MN8
11/1/2017	5.000	2,500,000	6/4/2012	100.0	649903MS7
11/1/2019	5.250	13,185,000	6/4/2012	100.0	649903MA6
11/1/2020	5.000	1,910,000	6/4/2012	100.0	649903MT5
11/1/2023	5.000	11,710,000	6/4/2012	100.0	649903MB4
11/1/2023	5.000	2,230,000	6/4/2012	100.0	649903MF5
11/1/2023	5.000	5,875,000	6/4/2012	100.0	649903MK4
11/1/2023	5.000	7,195,000	6/4/2012	100.0	649903MP3

A portion of the proceeds of the Series 2012A Bonds will be used with other available moneys to refund the Refunded Bonds. Upon the issuance of the Series 2012A Bonds, such proceeds are expected to be held uninvested as cash or used to acquire noncallable direct obligations of the United States of America (the "Investment Securities"), the principal of and interest on which, when due, together with any initial cash deposit, will provide moneys sufficient to pay the principal and redemption price of the Refunded Bonds and the interest on such Refunded Bonds to the date fixed for redemption.

The Investment Securities will be deposited with the trustee for the Refunded Bonds upon the issuance and delivery of the Series 2012A Bonds, and will be held in trust solely for the payment of the redemption price of and interest on the applicable Refunded Bonds. At the time of or prior to such deposit, the trustee will be given irrevocable instructions to give notice of the refunding and redemption of the Refunded Bonds and to apply the proceeds from the Investment Securities, together with any initial cash deposit, to the payment of the principal and redemption price of and interest on the Refunded Bonds. Bond Counsel to the Authority is expected to give an opinion that, upon making such deposits with the trustee for the Refunded Bonds and the issuance of certain irrevocable instructions to such trustee, the Refunded Bonds will, under the terms of the documents pursuant to which they were issued, be deemed to have been paid and will no longer be outstanding under said documents, and the pledge of the revenues or other moneys and securities pledged to the Refunded Bonds and all other rights granted by the applicable documents shall be discharged and satisfied. See "PART 17 - VERIFICATION OF MATHEMATICAL COMPUTATIONS."

PART 5 - ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each Fiscal Year ending December 31, (i) the amounts required to be paid by the Obligated Group to the Trustee in each Fiscal Year for the payment of principal of (whether at maturity or pursuant to sinking fund redemptions) and interest on the Series 2012A Bonds and (ii) total debt service on all other long-term debt of the Obligated Group. In some cases, totals in the following table may not foot due to rounding.

Fiscal Year Ending December 31,	Debt Service on the Series 2012A Bonds		Total Debt Service on Other Outstanding Long-Term Debt of the Obligated Group ⁽¹⁾⁽²⁾⁽³⁾	Total Debt Service on All Long-Term Debt of the Obligated Group
	Principal	Interest		
2012	-	\$1,154,256	\$ 122,785,700	\$ 123,939,956
2013	-	2,334,450	119,881,423	122,215,873
2014	-	2,334,450	119,602,331	121,936,781
2015	\$7,250,000	2,166,200	111,010,160	120,426,360
2016	6,875,000	1,841,075	103,759,917	112,475,992
2017	7,205,000	1,509,825	103,335,844	112,050,669
2018	7,185,000	1,161,000	97,528,081	105,874,081
2019	7,540,000	802,750	89,880,939	98,223,689
2020	8,120,000	418,325	90,052,057	98,590,382
2021	1,510,000	181,075	85,997,471	87,688,546
2022	1,585,000	105,425	85,070,882	86,761,307
2023	1,660,000	33,200	84,599,613	86,292,813
2024	-	-	83,791,143	83,791,143
2025	-	-	84,906,978	84,906,978
2026	-	-	84,787,875	84,787,875
2027	-	-	81,939,726	81,939,726
2028	-	-	81,875,216	81,875,216
2029	-	-	80,636,182	80,636,182
2030	-	-	73,797,181	73,797,181
2031	-	-	73,631,815	73,631,815
2032	-	-	73,627,147	73,627,147
2033	-	-	73,711,149	73,711,149
2034	-	-	73,626,852	73,626,852
2035	-	-	73,627,290	73,627,290
2036	-	-	58,914,847	58,914,847
2037	-	-	58,916,186	58,916,186
2038	-	-	58,912,134	58,912,134
2039	-	-	58,915,966	58,915,966
2040	-	-	58,916,428	58,916,428
2041	-	-	58,911,928	58,911,928
TOTAL	<u>\$48,930,000</u>	<u>\$14,042,031</u>	<u>\$ 2,506,950,462</u>	<u>\$2,569,922,493</u>

⁽¹⁾ Other Outstanding Long-Term Debt of the Obligated Group encompasses existing outstanding bonds of the Obligated Group (excluding the portion of the Series 1998 Bonds to be refunded), as well as non-bonded long term obligations of the Obligated Group, including the February 2012 SIUH \$8.8 million tax-exempt leasing program borrowing.

⁽²⁾ Debt service for Series 2007B Floating Rate Notes was calculated at the synthetic fixed swap rate of 4.172%.

⁽³⁾ Debt service for Series 2009B, C and D Variable Rate Notes was calculated at the synthetic fixed swap rate of 3.6502%.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Series 2012A Bonds:

Sources:	
Bond Proceeds:	
Principal Amount	\$48,930,000
Plus Net Original Issue Premium	7,125,426
Other Available Funds (including released funds from the Debt Service Reserve Funds for the Refunded Bonds)	17,095,293
Total Sources:	\$73,150,719

Uses:	
Refunding Escrow Deposits	\$71,292,097
Cost of Issuance ^{1/}	1,462,289
Underwriters' Discount	396,333
Total Uses:	\$73,150,719

^{1/}Includes New York State Bond Issuance Fee and other Delivery Date Expenses.

PART 7 - THE OBLIGATED GROUP

Introduction

Proceeds of the Series 2012A Bonds will be used to refund a portion of the Series 1998 Bonds. The Members of the North Shore-Long Island Jewish Obligated Group are: Long Island Jewish Medical Center ("LIJMC"), North Shore University Hospital ("NSUH"), Glen Cove Hospital ("GCH"), Plainview Hospital ("PVH"), Forest Hills Hospital ("FHH"), North Shore University Hospital Stern Family Center For Extended Care and Rehabilitation ("CECR"), Franklin Hospital ("FRH"), Southside Hospital ("SH"), Huntington Hospital Association d/b/a Huntington Hospital ("HH"), Staten Island University Hospital ("SIUH"), Lenox Hill Hospital ("LHH") and North Shore – Long Island Jewish Health Care, Inc. ("NSLIJ HCI" and, together with the other Members, the "Obligated Group"). The Members of the Obligated Group are each a part of the North Shore-LIJ Health System (the "Health System" or "North Shore-LIJ"), which is an integrated healthcare delivery system comprised of hospitals, other healthcare providers and related entities. See "*Organizational Chart*" herein.

The Obligated Group Representative is NSLIJ HCI.

The Members of the Obligated Group represented 96.0% of the total consolidated operating revenue and 97.1% of the consolidated total assets of the Health System for the year ended and as of December 31, 2011.

North Shore-LIJ Health System

According to a survey of healthcare systems in the United States in the 2011 issue of *Modern Healthcare*, North Shore-LIJ is the:

- Second largest not-for-profit, secular healthcare system nationwide when ranked by 2010 staffed acute-care beds;
- Fifth largest not-for-profit secular healthcare system nationwide and the second in New York State when ranked by 2010 net patient revenue;
- Fifteenth largest healthcare system (overall) nationwide when ranked by 2010 net patient revenue;
- Fourth largest healthcare system nationwide operating home care agencies ranked by number of 2010 home care visits; and
- Seventh largest healthcare system nationwide operating psychiatric hospitals ranked by number of 2010 staffed beds.

North Shore-LIJ was ranked in the 2012 Top 100 Integrated Healthcare Networks (“IHN”) by IMS Health (“IMS”), published January 23, 2012. The IMS “IHN 100” (formerly known as the SDI IHN 100) is a national rating system designed to evaluate integrated health networks on their performance and degree of integration.

North Shore-LIJ has an inpatient market share of 26.9% in its service area, which comprises Nassau, Suffolk, Queens, New York (Manhattan), and Richmond (Staten Island) Counties - a service area encompassing more than seven million people.

North Shore-LIJ is the ninth largest employer in New York City with 19,872 full-time employees located in New York City (according to *Crain’s New York Business*, April 11, 2011).

North Shore-LIJ had \$ 6.3 billion in total operating revenue for the year ended December 31, 2011. Total operating revenue of the Obligated Group represented 96.0% of the consolidated operating revenue of the Health System for such period.

North Shore-LIJ includes the following healthcare providers: 14 hospitals, two long-term care facilities, three certified home health agencies, one long-term home health agency, one licensed nursing agency, one pharmacy, two regional trauma centers, one regional pediatric trauma center, two level 2 trauma centers, a hospice network, many outpatient centers, The Feinstein Institute for Medical Research (“The Feinstein Institute”) and certain other related entities.

Approximately 2,400 faculty physicians and 6,500 community physicians are on the medical staff of North Shore-LIJ facilities. According to a 2011 survey published in *New York* magazine, “New York’s Best Doctors” June 8, 2011 issue, North Shore-LIJ has 99 doctors recognized as being at the top of their field in the New York area. Those honored represent a wide variety of specialties.

North Shore-LIJ provides many community education programs and sponsors more than 110 accredited medical residency and fellowship training programs; educating over 1,500 future practicing physicians each year. In addition, the Health System trains in excess of 700 students annually from major medical school affiliations with Albert Einstein College of Medicine, New York University, The State University of New York (“SUNY”) Downstate, SUNY Stony Brook and the New York College of Osteopathic Medicine as well as other students from medical, dental and podiatric schools across the country and overseas. In March 2008, Hofstra University, a major university on Long Island, and North Shore-LIJ entered into a joint academic agreement to develop an allopathic medical school. The Hofstra North Shore-LIJ School of Medicine (the “Hofstra NSLIJ Medical School”) received preliminary

accreditation in June 2010 and the inaugural class began August 1, 2011. A major part of this initiative is to improve the health of the surrounding community. See “*Hofstra North Shore-LIJ School of Medicine.*”

History of and Other Information Concerning North Shore-LIJ Health System

The ultimate parent of North Shore-LIJ is North Shore-Long Island Jewish Health System, Inc., a New York not-for-profit corporation (“NSLIJ HSI”). As such, NSLIJ HSI is the ultimate parent of each Member of the Obligated Group, and of each other entity within the Health System. NSLIJ HSI was formed on October 29, 1997, through the affiliation of the then existing North Shore Health System (“NSHS”) with LIJMC. NSHS and LIJMC each remained separate corporate entities upon their affiliation. The Chief Executive Officer of NSLIJ HSI is also the Chief Executive Officer of all the Obligated Group Members (other than HH and SIUH). NSLIJ HSI is the sole corporate member of each Member of the Obligated Group, and NSLIJ HSI is the sole corporate member of NSLIJ HCI.





The not-for-profit entities in the Health System are New York not-for-profit corporations that do not have “stockholders” but instead have “members,” which have rights similar to those of stockholders, including the right to elect trustees. With NSLIJ HSI as their common direct or indirect parent, all of the entities in the Health System are considered to be under common control for antitrust and other legal purposes and, thus, may conduct joint managed care contracting and other joint activities, including strategic planning.

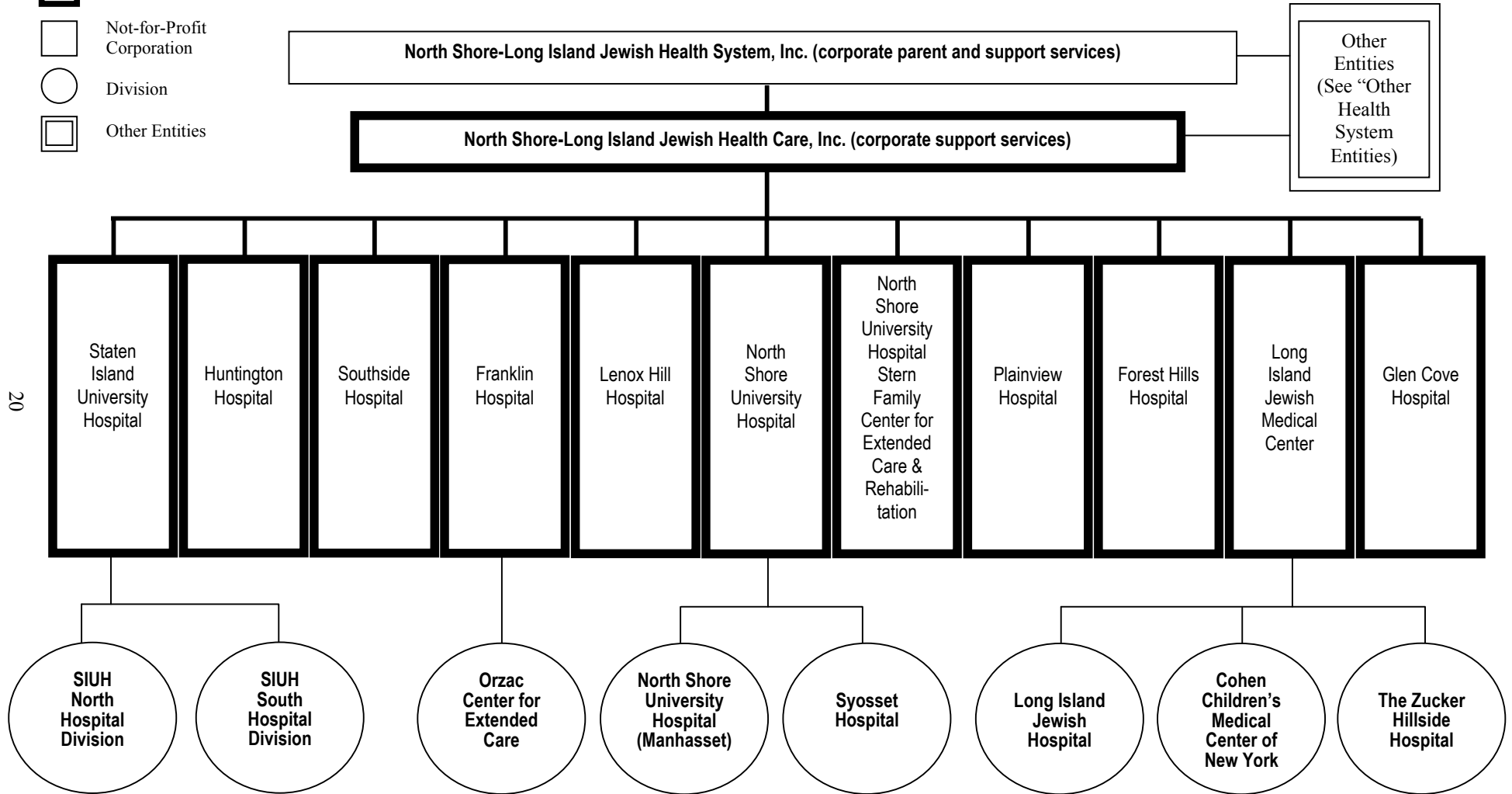
The corporate affiliates that are under direct or indirect control of NSLIJ HSI but that are not members of the Obligated Group are referred to herein as the “Other North Shore-LIJ Health System Entities.” See “*Other Health System Entities.*”

In addition, NSLIJ HSI has contractual agreements with several healthcare institutions, terminable on specified written notice, which provide for cooperation on matters relating to healthcare delivery, clinical research and healthcare education for the benefit of their respective communities and the furtherance of their respective missions. These institutions are sometimes referred to herein as “Clinical Affiliates.”

The following organizational chart sets forth the principal operating entities that comprise North Shore-LIJ, and the map shows the location of each of the hospitals in the Health System.

Principal Operating Entities of North Shore-LIJ Health System

-  Obligated Group
-  Not-for-Profit Corporation
-  Division
-  Other Entities



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*North Shore-Long Island Jewish Health System, Inc. is the ultimate corporate Parent of all the entities

North Shore-LIJ Health System



Source: North Shore-LIJ Department of Planning

Obligated Group

Each Member of the Obligated Group is a New York not-for-profit corporation that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code, and each Member has been established as an operator of a hospital or a long term care facility pursuant to Article 28 of the Public Health Law of the State of New York. The table below provides historical and licensed bed information for each such Member, except for NSLIJ HCI, and their respective operating divisions, where applicable.

Tertiary Facilities	Year Opened	Licensed Beds
Long Island Jewish Medical Center		
Long Island Jewish Hospital*	1954	583
The Zucker Hillside Hospital	1927	236
Steven and Alexandra Cohen Children’s Medical Center (“CCMCNY”)	1983	164
North Shore University Hospital		
North Shore University Hospital (Manhasset)	1953	804
North Shore University Hospital (Syosset)**	1962	103
Lenox Hill Hospital	1857	652
Southside Hospital	1911	341
Staten Island University Hospital		
Staten Island University Hospital – South	1869	206
Staten Island University Hospital – North	1919	508
Community Facilities		
Franklin Hospital	1963	305
Orzac Center for Extended Care and Rehabilitation	1989	120
Huntington Hospital Association	1916	408
Glen Cove Hospital	1921	265
Plainview Hospital	1961	204
Forest Hills Hospital	1953	312
North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation	1989	256

* 95 additional beds added in 2012 for OB and medical surgical.

** Provides primarily community hospital care, but under common license with NSUH.

Source: North Shore-LIJ Records

Market

The Members of the Obligated Group and the Other North Shore-LIJ Health System Entities operate within a highly competitive healthcare market, which comprises Nassau and Suffolk Counties on Long Island, and New York, Queens and Richmond Counties in New York City. The service areas of the hospitals in this healthcare market tend to overlap due in part to their relatively close geographic proximity. While these hospitals typically have a number of core services to meet the healthcare needs of the local community, many also offer nationally and internationally recognized specialty programs.

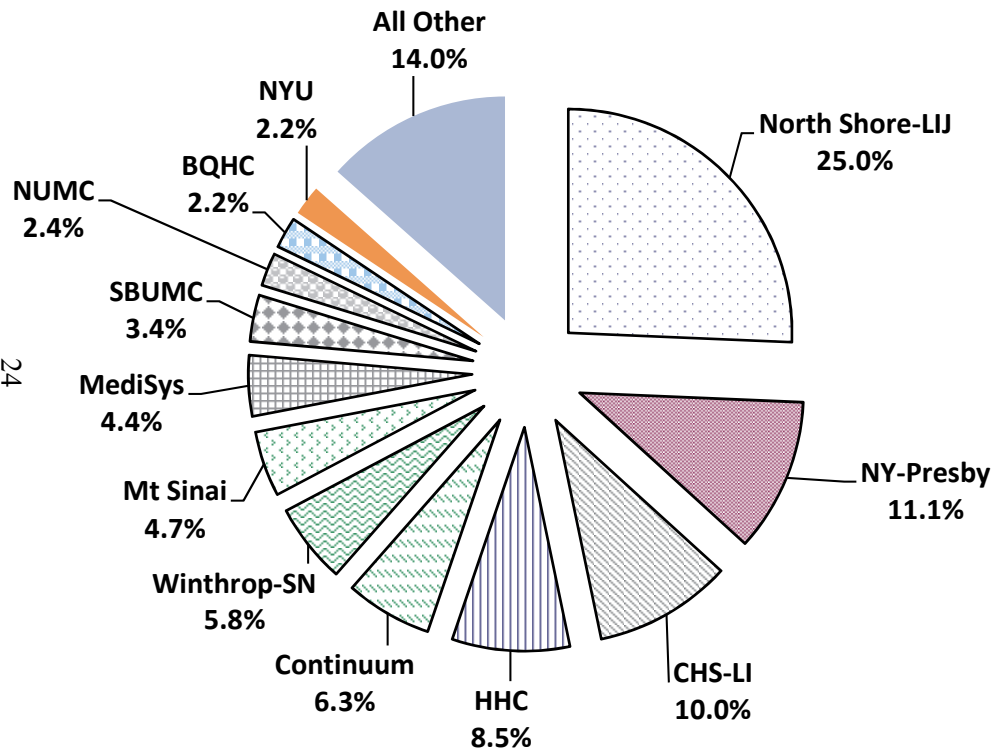
The Health System service area comprises Nassau, Suffolk, Queens, New York and Richmond Counties. Correspondingly, North Shore-LIJ’s service area competitors operate in the same service area of Long Island and New York City and include the following on Long Island: (i) Catholic Health

Services of Long Island (“CHS-LI”), a health system with three hospitals in Nassau County (St. Francis Hospital, Mercy Medical Center, and St. Joseph’s Hospital) and three hospitals in Suffolk County (St. Charles Hospital and Rehabilitation Center, St. Catherine of Siena Hospital and Good Samaritan Hospital Medical Center); (ii) Winthrop-South Nassau University Health System, which includes two Nassau County hospitals (Winthrop-University Hospital Association and South Nassau Communities Hospital); (iii) Stony Brook University Medical Center, which is in an alliance in Suffolk County with the East End Health Alliance which is comprised of Peconic Bay Medical Center, Eastern Long Island Hospital and Southampton Hospital (“SBUMC”); and (iv) Nassau University Medical Center (“NUMC”), which is a Clinical Affiliate of North Shore-LIJ. See *“History of and Other Information Concerning North Shore-LIJ Health System.”*

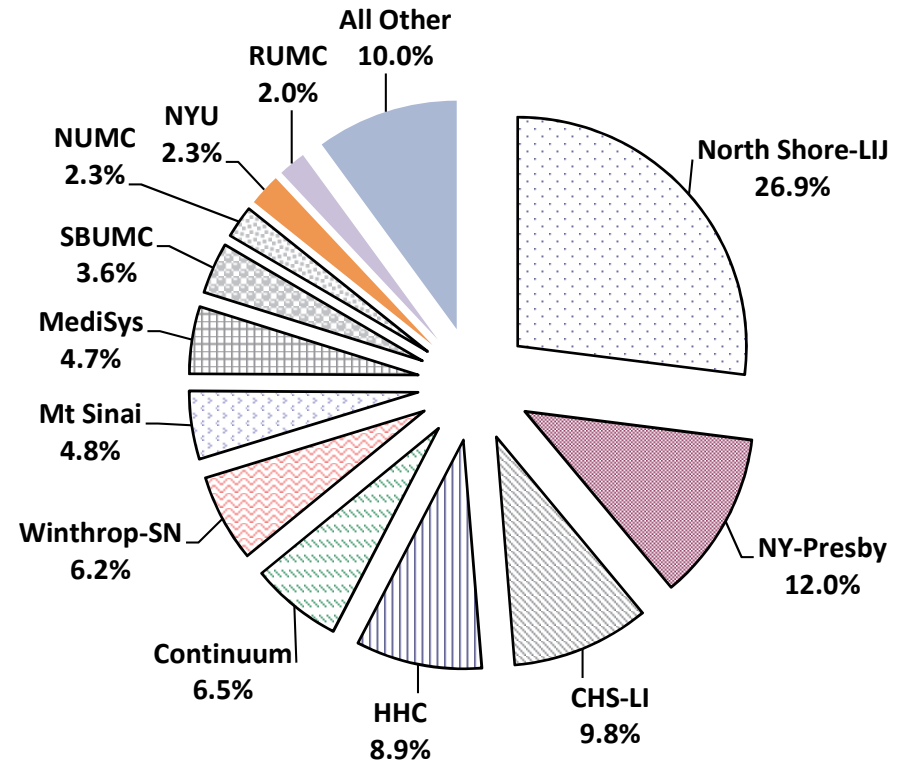
With the addition of LHH in May 2010, the other major competitor systems in the North Shore-LIJ service area are primarily the major medical centers in Manhattan, New York including: (i) The New York Presbyterian Health System, a health system composed of several affiliated hospitals, including one hospital in Queens, New York (New York Hospital Medical Center of Queens), and three in Manhattan (New York Presbyterian – Columbia Presbyterian Center, New York Weill Cornell Center and Allen Pavilion in Manhattan), as well as a number of other hospitals in New Jersey, Brooklyn, The Bronx and Westchester County in New York; (ii) The New York City Health and Hospitals Corporation (“HHC”), a municipal health system comprising eleven hospitals in The Bronx, Brooklyn, Queens and Manhattan (in the North Shore-LIJ service area, HHC operates two hospitals in Queens: Elmhurst Hospital Center and Queens Hospital Center, and three hospitals in Manhattan: Bellevue Hospital Center, Harlem Hospital Center, and Metropolitan Hospital Center); (iii) Continuum Health Partners (“Continuum”) a Manhattan-based health system with one hospital in Brooklyn and three hospitals in Manhattan (Beth Israel Medical Center/Petrie Campus, and St. Luke’s Roosevelt Hospital – St. Luke’s Division and Roosevelt Division); (iv) Mount Sinai Hospital (“Mount Sinai”), located in Manhattan, a health system with one hospital in Queens, New York (Mount Sinai Hospital of Queens); (v) NYU Langone Medical Center (“NYU”) with two hospitals in Manhattan (NYU Hospital Center and NYU Hospital for Joint Diseases); and (vi) MediSys Health Network (“MediSys”), which comprises three hospitals, two of which are in Queens (Jamaica Hospital Medical Center and Flushing Hospital Medical Center) and one of which is in Brooklyn (Brookdale University Hospital and Medical Center). In Richmond County, where the Health System’s SIUH is the major provider, the only other acute care hospital provider is Richmond University Medical Center (“RUMC”). Continuum and NYU have announced their intent to affiliate.

According to Statewide Planning and Research Cooperative System data for hospital discharges, for the years ended December 31, 2010, 2009 and 2008, North Shore-LIJ had an inpatient market share of 26.9%, 26.2% and 25.0%, respectively in its service area (as defined above and excluding newborns). For the year ended December 31, 2010, the next largest single competitor, New York Presbyterian Health System, held a 12.0% market share. The remaining market share was apportioned as follows: CHS-LI (9.8%), HHC (8.9%), Continuum (6.5%), Winthrop-South Nassau University Health System (6.2%), Mount Sinai (4.8%), MediSys (4.7%), SBUMC (3.6%), NUMC (2.3%), NYU (2.3%), RUMC (2.0%) and other institutions (10.0%).

2008 Market Share North Shore-LIJ Service Area (5 Counties)



2010 Market Share North Shore-LIJ Service Area (5 Counties)



Service Area defined as Nassau, Suffolk, Queens, Manhattan and Richmond Counties
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Service Area defined as Nassau, Suffolk, Queens, Manhattan and Richmond Counties
SPACRSver6.27.2011/ja

Geographic Origin of Inpatients and Ambulatory Surgery Patients of the Obligated Group

The following chart sets forth the geographic origin of inpatients of the Obligated Group Members, except CECR, for the three years ended December 31, 2008, 2009 and 2010, respectively.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Nassau County	26.1%	25.5%	24.6%
Suffolk County	18.4%	17.7%	17.6%
New York County	5.4%	5.1%	5.2%
Queens County	27.7%	29.4%	29.5%
Richmond County	14.0%	14.1%	14.6%
All Other	<u>8.4%</u>	<u>8.2%</u>	<u>8.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: New York Department of Health SPARCS database

The following chart sets forth the geographic origin of ambulatory surgery patients of the Members of the Obligated Group, except CECR, for the three years ended December 31, 2008, 2009 and 2010, respectively.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Nassau County	30.2%	31.9%	31.9%
Suffolk County	19.5%	20.0%	21.1%
New York County	5.4%	3.5%	4.1%
Queens County	20.1%	20.8%	20.6%
Richmond County	15.7%	15.9%	13.8%
All Other	<u>9.1%</u>	<u>7.9%</u>	<u>8.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: New York Department of Health SPARCS database

Centralized Services and Other Clinical Matters

Centralized Services

The Health System supports its hospitals by providing a strategic planning framework, providing administrative resources and developing programs necessary to meet their community objectives in a fiscally responsible manner. Centralized services with consolidated management for the Obligated Group include:

Academic Affairs	Managed Care Contracting
Center for Learning and Innovation	Marketing and Public Relations
Community Health Services	Material Support Services
Corporate Compliance	Medical Emergency Transportation System
Employee Health and Wellness	Patient Financial Services
Facilities Design and Construction	Patient Safety Institute
Finance	Physician & Ambulatory Network Services
Financial Assistance Unit	Quality Management
Health Services Research	Real Estate Services
Human Resources/Payroll	Security and Emergency Management
Information Systems	Strategic Planning
Institute for Nursing	Supply Chain
Insurance/ Risk Management	System Administration
Laboratory Services	Web Services
Legal Counsel	Workforce Development

Common Objectives

Although the strategic planning framework is the same for all the hospitals in the Health System, each hospital has a unique relationship with its community and the Health System in the support of its objectives. Each hospital shares common objectives to:

- Foster recognition by the community as a comprehensive, quality, community-based acute care hospital.
- Develop and integrate target programs that will complement existing clinical strengths.
- Sustain relationships within historical markets.
- Develop closer relationships with community physicians within the strategic market area.
- Develop closer relationships with other healthcare providers and community based organizations within the strategic market area.
- Develop financially viable programs to sustain the hospital.
- Provide the community with health education and promotion activities using physicians and other staff members.

Coordinated Clinical Leadership

Clinical programs that are currently coordinated across the Health System by common appointed clinical leadership, in addition to the administrative services described above, are: Behavioral Health, Cancer Care Services, Cardiovascular Services, Children's Health Services including Satellite Pediatric Specialty Centers, Continuing Care – Home Care, Continuing Care – Hospice, Continuing Care – Rehabilitation, Continuing Care – Skilled Nursing, Diagnostic Imaging Services, Emergency Services, Laboratory Services, Physical Medicine and Rehabilitation, Radiation Oncology, Research, Neurosciences, Orthopedics, Urology and Women's Health Services. Centralized services and clinical integration provide economies-of-scale and standardized quality care while helping to establish branding of the Health System. In addition, integrated management helps to align hospital and North Shore-LIJ strategic plans.

Scope of Services; Centers of Excellence

The Members of the Obligated Group provide substantially all inpatient specialties and subspecialties and a broad range of outpatient services as well. In addition, the Health System is currently expanding centers of excellence in neurosciences, tertiary cardiac care, women's health, cancer, and orthopedics. Examples of this strategy include The Center for Advanced Medicine and The Institute for Orthopedic Science; the Katz Women's Hospital and the Harvey Cushing Institutes of Neuroscience ("HCIN"), described under the heading "*Research.*"

Ambulatory services are provided at many locations in the service area, including an outpatient treatment center known as the North Shore-LIJ Health System Center for Advanced Medicine ("CFAM") at i-Park in Lake Success, New York. CFAM is located across from LIJMC's campus and two miles from the NSUH-Manhasset ("NSUH-M") campus and includes an ambulatory surgery center, diagnostic imaging center, chemotherapy center and the Bioskills Education Center. The Lenox Hill Hospital Extension Clinic at MEETH ("MEETH") is an LHH outpatient center located on 64th Street in Manhattan (formerly the site of Manhattan Eye, Ear and Throat Hospital which was merged into LHH in 2007). MEETH includes an ambulatory surgery center as well as numerous outpatient specialty clinics.

Ambulatory health services within North Shore-LIJ cover six primary care areas and 43 specialty care services, and provide services that allow access to medical care to individuals across the entire life span from infancy to old age. The six primary care areas are General Internal Medical, General Pediatrics, Adolescent Medicine, Obstetrics / Gynecology, Nephrology / End-Stage Renal Disease and Infectious Disease / CART Care. The 43 specialty care services encompass a full spectrum of medical, pediatric, and surgical specialty services, capable of addressing complex as well as simple health needs. These services are provided in locations that include both the hospital campuses and off-site locations.

Research

Research is a vital component of the operations of North Shore-LIJ. The Feinstein Institute, an Other North Shore-LIJ Health System Entity, is headquartered in Manhasset, New York adjacent to NSUH. The Feinstein Institute is an integral part of the Health System, and its investigators have access to all North Shore-LIJ patients, positioning The Feinstein Institute as a leader in translational research. Based on the National Institutes of Health (“NIH”) database of 2010 awards, The Feinstein Institute is in the top five percent (5%) of all research institutions worldwide that receive support from the NIH and received \$44 million in NIH awards in 2010.

As part of its global mission of advancing translational research, in April 2008, The Feinstein Institute signed a collaborative agreement with the Karolinska Institute (“Karolinska”) in Sweden which allows Karolinska graduates to conduct post-doctoral research in New York, while scientists from The Feinstein Institute can study at Karolinska’s laboratories in Stockholm.

The Feinstein Institute’s research includes conducting basic science experiments and clinical investigations; establishing technology transfer standards; and teaching graduate school courses, investigative medicine seminars and community outreach programs. The Feinstein Institute’s investigators hold patents for experimental drugs that are in various stages of clinical and preclinical testing for arthritis, cancer, cardiac disease, sepsis, shock, trauma and other inflammatory conditions.

The Feinstein Institute encourages collaboration among basic science and clinical investigators in order to support success in translational research. The Feinstein Institute has several infrastructure elements that support collaborative research:

- A Biostatistics Unit provides investigators with statistical support from start to finish, including study design, data collection and results analysis.
- A cyclotron and Food and Drug Administration-approved radiochemistry facility manufactures radiopharmaceuticals on site for use in The Feinstein Institute’s positron emission tomography (“PET”) suite.
- An NIH-funded Early-Phase Schizophrenia Center focuses on understanding the development of and best treatments for schizophrenia.
- A Laboratory of Medicinal Biochemistry, which complements The Feinstein Institute’s drug discovery efforts, develops and streamlines preclinical testing methods.
- A Laboratory of Medicinal Chemistry, which functions as a collaborative institutional group, develops novel small molecules based upon the mechanisms of disease discovered by The Feinstein Institute investigators.
- The international, peer-reviewed biomedical science journal, *Molecular Medicine*, published by The Feinstein Institute which is ranked in the top 5th percentile of all research journals by the 2010 Journal Citation Report, is committed to reporting developments in molecular medicine.
- The Feinstein Institute is the NIH grant-receiving entity for the Obligated Group hospitals and various Other North Shore-LIJ Health System Entities, though research is also conducted in laboratories on the LIJMC campus, at the Center for Clinical Research and Technology in Staten Island and at other locations within the Health System.

In December 2011, The Feinstein Institute entered into an agreement to become an institutional founding member of the New York Genome Center, Inc. for the purpose of establishing a state-of-the-art genome sequencing, bioinformatics and research center in New York City.

In January 2012, an innovation alliance agreement with the Cleveland Clinic Foundation (“CCF”) was entered into by the Health System with the intent to further enhance the joint capabilities of The Feinstein Institute and CCF to help patients through the discovery, deployment and commercialization of new technologies while leveraging The Feinstein Institute’s technological, research and clinical expertise.

Harvey Cushing Institutes of Neuroscience

Founded in 2006, HCIN is committed to advancing understanding of the causes, prevention and treatment of diseases of the nervous system through research. The neurological specialists at HCIN are also devoted to educating the physicians of the future through the education of fellows, residents and medical students.

Institute for Clinical Excellence and Quality

North Shore-LIJ's Institute for Clinical Excellence and Quality ("ICEQ") seeks to achieve outcomes that consistently meet or exceed customer expectations across all facilities. Guiding principles of the strategic plan include providing patient-centered care, prioritizing patient safety, and ensuring that care is delivered in a timely, efficient and equitable way. The plan emphasizes developing a culture of safety in which two-way communication exists without barriers, and where human errors are managed appropriately. The five strategic goals outlined in the plan include the following:

1. Reduce unnecessary variation and overuse in care
2. Improve care coordination and patient safety
3. Integrate the continuum of care
4. Improve population health
5. Increase stakeholder trust by engaging patients and families

North Shore-LIJ is attempting to reduce variation in practice and achieve higher reliability in care through the use of evidence-based practices, creative tools and checklists, innovative training programs and performance feedback to all practitioners.

ICEQ's focus on eliminating healthcare associated infections through the use of evidence-based guidelines has led to improved patient outcomes and results. As of December 2011, 39% of the Health System's 33 adult, pediatric and neonatal ICUs had operated for more than six months without a Central Line-Associated Bacteremia ("CLAB"). Overall there was more than a 57% reduction in CLABs from 2004 – 2011. (Data for LHH is included in 2011 data only.) To reduce overall rates of ventilator associated pneumonia ("VAP"), North Shore-LIJ implemented five key elements of the Institute for Healthcare Improvement's "ventilator bundle." As a result of these efforts, the VAP index has significantly decreased by more than 68% from 2004 to 2011. (Data for LHH is included in 2011 data only.)

A number of team-based initiatives to reduce harm and improve patient care have been initiated at North Shore-LIJ. Patient safety priorities include patient safety rounds, surgical safety, perinatal safety and sepsis reduction. In the eight hospitals that deliver perinatal services, the number of births less than 39 weeks decreased from 104 in 2009 to eight in the first nine months of calendar year 2011, primarily through the use of evidence-based clinical guidelines and team initiatives. (Data for LHH is included in 2011 data only.) Mortality rates for severe sepsis and septic shock have decreased by more than 36% (2008-2011) due to the guidelines that were implemented to ensure early recognition and prompt evidence-based treatment for this disease.

North Shore-LIJ's Patient Safety Institute is a multidisciplinary simulation center, featuring computerized mannequins that are programmed to mimic a range of high-risk medical scenarios. This form of education enables physicians and nurses to hone their clinical and communication skills in a realistic hospital setting without risk to real patients.

Achievements in Quality and Patient Safety

Adult Cardiac Surgery and PCI

In the most recent report from the New York State Department of Health (“DOH”) on adult cardiac surgery (covering 2007-09) LIJMC was one of only four hospitals in the state of New York and the only one on Long Island with risk-adjusted mortality rates that were significantly better than the statewide average for 676 patients undergoing surgeries to repair or replace heart valves and for those in need of surgeries for both valve/coronary artery bypass graft (“CABG”) surgery. In a separate category analyzing outcomes for CABG, valve or valve/CABG, LIJMC and NSUH were among six hospitals in the state and the only two on Long Island that were noted as having comparatively low, risk-adjusted mortality rates.

In a separate DOH report on PCI, LHH had the lowest risk-adjusted mortality rate in the state of New York in 2009 for 2,940 patients undergoing angioplasty. Over the three-year period covered in the report (2007-09), LIJMC was one of six hospitals across the state of New York that had statistically superior outcomes for angioplasty. In addition, NSUH was one of only three hospitals in New York and the only one on Long Island that had significantly better outcomes for 935 patients undergoing emergency angioplasty during the three year period covered in the report.

Center for Emergency Management

In 2011, North Shore-LIJ established a safe haven for more than 1,300 patients, non-system nursing home residents and others seeking shelter during hurricane Irene. Emergency operation protocols, system command and control procedures, disaster plans, surge procedures, augmented staffing plans and employee communication systems were fully deployed. Nearly 1,000 patients were safely evacuated from three hospitals and transported by ground and air to facilities across the Health System.

Joint Commission Accreditation

North Shore-LIJ underwent 19 Joint Commission accreditation surveys in 2011 for its hospital, home care, behavioral health and long-term care programs. In all programs surveyed, North Shore-LIJ facilities had a lower number of recommendations for improvement compared to the national average.

Quality Awards

National Quality Forum (“NQF”) National Quality Healthcare Award

In 2010, North Shore-LIJ earned the NQF National Quality Healthcare Award for its ongoing commitment to providing high-quality, transparent, patient-centered healthcare. As a leading national organization whose mission is to improve the quality of healthcare in America, NQF presents the quality award each year to healthcare organizations that are role models for achieving meaningful, sustainable quality improvement.

Outstanding Leadership Award

In 2011, the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Health, Office of Healthcare Quality and the Critical Care Societies Collaborative recognized North Shore-LIJ with its Outstanding Leadership Award for Achievements in Eliminating Ventilator-Associated Pneumonia and Central Line-Associated Bloodstream Infections. This award recognizes teams of critical care professionals and healthcare institutions that achieve excellence and notable, sustained improvements in preventing healthcare-associated infections, specifically infections in the critical care setting.

Hospital Quality Incentive Demonstration Project

The U.S. Centers for Medicare and Medicaid Services (“CMS”) awarded nine North Shore-LIJ hospitals for their performance in delivering care in six clinical areas in a voluntary national pay-for-performance Hospital Quality Incentive Demonstration project (“HQI Demonstration Project”). Over the past six years of the HQI Demonstration Project, North Shore-LIJ performance received 213 awards in clinical areas, making it the fourth-highest ranking health system in the nation in terms of overall number of awards.

The Joint Commission

In 2011, the Joint Commission implemented its first-ever recognition program for hospitals scoring 95% or better on a composite score for key quality measures and meeting or exceeding 95% performance for accountability measures in four areas (heart attack, heart failure, pneumonia and surgical care). Three North Shore-LIJ hospitals: NSUH, PVH and SH were named among the nation’s top performers on quality measures by the Joint Commission. These hospitals represent the top 14% of Joint Commission accredited hospitals that report core measure performance data.

Workforce

Medical Staff

The Members of the Obligated Group employ directly, or through controlled professional corporations, approximately 2,400 physicians (“faculty physicians”). In addition, approximately 6,500 physicians are in private practice or not employed by members of the Obligated Group but have medical staff privileges as Members of the Obligated Group.

The following is a summary of the medical staff of the Obligated Group, including the number of active physicians, the percentage that are board certified, and the average age of the active physicians as of March 2012.

	<u>Active Medical Staff</u>	<u>% Board Certified</u>	<u>Average Age of Active Medical Staff</u>
TOTAL ⁽¹⁾	8,927	84.1%	51

⁽¹⁾ Total number of active physicians at all facilities are counted only once and do not include cross credentialing hospital affiliations.

Source: North Shore-LIJ Physician and Ambulatory Network Services Office

Physician and Ambulatory Network Services

The Health System’s Physician and Ambulatory Network Services (“PAANS”) supports approximately 2,400 faculty physicians throughout the Health System. The physician business services provided by the PAANS organization include revenue cycle services, physician practice management, finance, information technology, human resources, quality, ambulatory nursing, and operational support.

PAANS is an integrated component of the Health System and its hospitals and is not incorporated as a separate business entity. It encourages the integration of administration and faculty acting as partners in fulfilling objectives consistent with the mission of the Health System. The PAANS organization includes all faculty physicians and clinical practitioners employed by the Health System and its hospitals. The PAANS organization maintains an oversight committee which provides sponsorship and support for the activities of the faculty practice.

Nursing

As a multi-hospital healthcare system, the Health System engages in continuous quality and safety initiatives in order to promote system-wide improvements in care.

North Shore-LIJ has developed and implemented a values-based, patient-centered model and infrastructure intended to translate its mission, vision and values into the daily practice of patient care.

The Health System has initiated many programs to retain and recruit nurses. These include access to advanced education and a clinical ladder program for career advancement and mentoring. The average vacancy rate for the Health System was 4.6% for fiscal year 2010 and 4.3% for fiscal year 2011. The Health System's registered nurse turnover rate was 5.0% for fiscal year 2010 and 5.6% for fiscal year 2011. Statewide, in 2010, registered nurse vacancy rates averaged 6.1% and registered nurse turnover was 9.5%, according to The Healthcare Association of New York State ("HANY") in 2011. These comparatively lower vacancy and turnover rates have enabled a decrease system-wide in use of agency staff as well as decreased use of staff overtime, a significant factor in the Health System's NQF recognition in 2010.

To help ease new graduates as well as experienced medical surgical nurses into specialty nursing areas, the Health System began a Critical Care Nurse Fellowship in June 2005, an Emergency Department Nurse Fellowship Program in September 2006, a Pediatric Emergency Department and a Pediatric ICU Fellowship Program in September 2007, followed by a Perioperative Nurse Fellowship in October 2011 and a Cardiac Cath Fellowship in March 2012. The fellows are hired as full-time nurses with comparable pay and benefits. The Fellowship Program consists of three semesters. Each semester is tailored in scope and duration specific to the patient population. After one year, the nurses graduate from the Fellowship Program and commit to working for the Health System for an additional year. The investment in recruiting and intensively educating fellows has yielded savings in advertising costs as well as a reduction in the turnover rate and an increase in retention.

In September 2010, the Health System required all new registered nurse hires to hold a bachelors degree in nursing or to achieve such a degree within five years of hire. This change in hiring practice was made after reviewing numerous research studies which demonstrated that the higher the percent of baccalaureate prepared nurses in the workforce, the lower the mortality rate, the lower the adverse events, and the higher the patient satisfaction. In October 2010, the Institute of Medicine recommended an increase in baccalaureate prepared nurses to 80% by 2020 in their report entitled "The Future of Nursing." As of August 2011, 63% of the registered nurses in the Health System hold a baccalaureate degree.

The Health System's Center for Learning and Innovation Institute for Nursing offers an array of continuing education programs. In 2011, over 100 programs providing 20,852 contact hours were attended by more than 5,000 nurses. The Health System has a Registered Nurse On-Site Education program and contracts with numerous schools of nursing across the region to assist the nursing staff in advancing their education.

Among the many university affiliations that North Shore-LIJ has developed with nursing schools is an affiliation with the Case Western Reserve University Frances Payne Bolton School of Nursing ("Case") in Cleveland, Ohio. More than 70 advance practice nurses from North Shore-LIJ hospitals have been enrolled in the doctor of nursing practice ("DNP") at Case. Established in the fall of 2006, Case faculty members teach courses either in Ohio or in New Jersey. To date, 41 North Shore-LIJ DNPs have graduated from the program with an additional 7 at dissertation level.

Labor Relations

North Shore-LIJ has over 43,000 employees. Through its Corporate Human Resources Department, North Shore-LIJ manages the entire workforce, administers benefits and compensation packages to all employees, and handles all labor relations and union contracts organization-wide.

Due to many factors, including an aging workforce, a high volume of workers approaching retirement and an increase in senior patient populations, labor shortages are affecting healthcare institutions at local, regional and national levels. To offset these challenges, North Shore-LIJ continues to offer salaries and benefit packages that Management believes are competitive. At a time when many hospitals are cutting employee benefits, North Shore-LIJ continues to subsidize, on average, 87% of the cost of benefits for its non-union employees, and even offers a no-cost medical plan to certain members of the workforce.

Management believes that North Shore-LIJ’s relationships with 1199 Service Employees International Union (“SEIU”) United Healthcare Workers East (“Local 1199”), New York State Nurses Association (“NYSNA”), SEIU Local 32BJ (“32BJ”) and other collective bargaining organizations are healthy. Since North Shore-LIJ is a 40% unionized organization, its Labor and Employee Relations Management team routinely collaborates with various groups of union organizers and delegates to support sound employee relations, to reduce areas of conflict and to ensure that the interests of all parties are served. In addition, the majority of North Shore-LIJ’s unionized facilities have Departmental Labor Management Committees (“DLMCs”), Unit-Based Councils (“UBCs”), or Collaborative Care Councils (“CCCs”) that work to resolve challenges and lead quality improvement initiatives at the department/unit level.

Percent of Workforce Represented by Labor Unions		
Location	All Employees	% Union
Forest Hills Hospital	1,300	81%
Franklin Hospital	1,424	80%
Glen Cove Hospital	1,288	0%
Huntington Hospital Association	2,142	26%
Lenox Hill Hospital	3,772	74%
Long Island Jewish Medical Center	6,130	46%
North Shore University Hospital - Manhasset	5,595	0%
North Shore University Hospital - Syosset	656	73%
Plainview Hospital	1,295	77%
Southside Hospital	2,268	78%
Staten Island University Hospital – South/North	6,142	70%
Hospital Facilities Total	32,012	50%
Shared Services and Other	11,317	14%
North Shore-LIJ Total	43,329	40%

Source: North Shore-LIJ Human Resources

In addition, CECR has a workforce of 479 and is not unionized. There are currently 25 collective bargaining agreements with respect to the Members of the Obligated Group of which two agreements are currently in negotiation. The remaining agreements expire on a rolling basis through September 30, 2015. In the past five years, there have not been any work stoppages at any Member of the Obligated Group. The largest union presence is 1199, which represents over 8,000 employees.

Employee Benefit Plans

North Shore-LIJ's principal defined benefit plans are a Health System noncontributory, defined benefit pension plan referred to as North Shore-LIJ's cash balance plan (the "Cash Balance Plan") and HH's pension plan. Effective January 1, 2011, the LHH pension plan was merged into the Cash Balance Plan. There is also a North Shore-LIJ tax deferred annuity 403(b) plan in which all members of the Obligated Group participate, except for SIUH, which has its own 403(b) plan. HH and LHH also have legacy 403(b) plans. Some Members of the Obligated Group have frozen legacy plans.

Contributions to the defined benefit plans and the 403(b) plans are funded as required by the Employee Retirement Income Security Act of 1974 ("ERISA") as amended under the Pension Protection Act of 2006 ("PPA") and The Worker, Retiree and Employer Recovery Act of 2008 ("WRERA"). Defined benefit plan contributions are based on annual actuarial projections. Contributions to the 403(b) plans are based on percentages of annual salaries.

The combined funded status of North Shore-LIJ's non-contributory defined benefit pension plans, on an actuarial basis was 73%, 73% and 70% at December 31, 2009, 2010, and 2011 respectively. The combined funded status as of December 31, 2009 does not include LHH. Refer to Note 10 to the Audited Consolidated Financial Statements of North Shore-LIJ for the years ended December 31, 2011 and 2010 with Report of Independent Auditors (the "Audited Consolidated Financial Statements") in Appendix B, "Management's Discussion and Analysis of Recent Financial Performance" for historical and current funded status, and "Investment Policy" for investment target allocations.

For further information concerning the participation of Members of the Obligated Group in multi-employer plans and the risks of such plans, see Note 10 to the Audited Consolidated Financial Statements in Appendix B and "PART 8 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP –*Multiemployer Pension Plans.*"

Center for Learning and Innovation

The Center for Learning and Innovation ("CLI"), created in 2002, is a "corporate university" dedicated to workforce development and organizational learning in a healthcare environment. CLI fosters growth and lifelong learning among employees and advances the Health System's strategic and business goals. Through education, knowledge transfer and team-building, CLI assists both administrative and clinical healthcare professionals to acquire new skills. Among others, CLI's programs include Leadership Development for Administrators, Physicians and Nurses; Operational Performance Solutions (Six Sigma, LEAN, Change Management); Enrichment Courses for all levels of employees; and Organizational Development Programs that include Coaching and Mentoring and Nurse Fellowship Programs.

Medical Education

The Health System sponsors more than 110 accredited medical residency and fellowship training programs educating well over 1,400 future practicing physicians each year. The Health System also sponsors graduate training for programs in general and pediatric dentistry, oral and maxillofacial surgery, oral pathology and podiatric medicine and surgery.

The Health System, along with its partner Hofstra University, opened a new allopathic Liaison Committee on Medical Education accredited medical school, the Hofstra NSLIJ Medical School, on August 1, 2011.

In addition, the Health System trains in excess of 500 students each year from its major medical school affiliations with Albert Einstein College of Medicine, SUNY Downstate, New York University, New York Medical College, SUNY at Stony Brook and the New York College of Osteopathic Medicine as well as the many other students from medical, dental and podiatric schools across the country and overseas.

The majority of the Health System's residency and student teaching programs are based at the facilities of LIJMC (which includes Long Island Jewish Hospital, Cohen Children's Medical Center of New York, and Zucker Hillside Hospital), NSUH, LHH and SIUH. In addition, FHH hosts an internal medicine program, and GCH, PVH and SH each are involved in teaching medical school students and sponsor graduate programs in Family Practice.

In conjunction with regional colleges and universities, the Health System's entities provide clinical instruction and training to numerous allied professionals in a wide variety of fields such as behavioral specialists, clinical nutrition, clinical pharmacy, clinical psychology, clinical x-ray, community/school psychology, creative arts therapy, dental assisting, educational counseling, food service management, healthcare administration, health education, human genetics, lab technology, library science, licensed practical nursing, medical biology, medical laboratory technology, medical records administration, medical secretarial, neuro-psychology, nuclear medicine technology, occupational therapy, pathology, perfusion techniques, pharmacy technology, physical therapy, physician assistants, radiation therapy technology, radiology technology, registered nursing (undergraduate and advanced practice), rehabilitation counseling, respiratory therapy, social work, special education, speech pathology/audiology, surgical technology and ultrasound technology.

Hofstra North Shore-LIJ School of Medicine

In 2008, Hofstra University, a university based on Long Island, and the Health System entered into a joint academic agreement to work in close collaboration to develop an allopathic medical school to be called Hofstra NSLIJ Medical School. Management of the Health System expects the Hofstra NSLIJ Medical School partnership to enhance the national prestige, reputation and visibility of North Shore-LIJ. In particular, Management believes that the affiliation with Hofstra University may enhance recruitment of faculty, leadership, researchers, residencies and fellowships; increase the Health System's competitiveness for grants and referrals for patient care; and enhance integration of clinical and translational science. The Hofstra NSLIJ Medical School is not a Member of the Obligated Group.

Dr. Lawrence Smith, Executive Vice President and Physician-in-Chief of North Shore-LIJ, was appointed the founding Dean of the Hofstra NSLIJ Medical School, which opened with its first class of 40 students in August 2011. The school has received preliminary accreditation from the Liaison Committee on Medical Education and New York State Department of Education.

Through 2017, the Health System has agreed to provide an aggregate of up to \$50 million to Hofstra University as reimbursement for a portion of the Hofstra NSLIJ Medical School's annual costs. The Health System is not required to provide any funds to Hofstra University that have not yet been spent in connection with the Medical School. The Health System has recorded approximately \$24.4 million of costs to the Hofstra NSLIJ Medical School through December 31, 2011.

Currently North Shore-LIJ and Hofstra University have jointly developed the Hofstra NSLIJ Medical School's curriculum. The Hofstra NSLIJ Medical School is the third medical school on Long Island, joining SUNY Stony Brook School of Medicine and New York Institute of Technology's College of Osteopathic Medicine in Old Westbury. The Hofstra NSLIJ Medical School plans to establish a comprehensive, patient-centered program that focuses on health care needs of the surrounding community. Training will involve a patient-centric approach, including case studies, team-based learning

and hands-on care. Management expects the Hofstra NSLIJ Medical School to have 100 students in each year of training for a total student body of approximately 400 students.

Licensure and Accreditation

With the exception of NSLIJ HCI, the Members of the Obligated Group are each licensed by DOH and are currently accredited through The Joint Commission (“JC”). The accreditations are typically renewed on a three year basis and the renewal dates vary across the hospitals. These Obligated Group Members are also certified by the United States Department of Health and Human Services for participation in the Medicare and Medicaid programs.

Philanthropy

North Shore-Long Island Jewish Health System Foundation, an Other North Shore-LIJ Health System Entity (the “Foundation”), conducts fundraising efforts for the Obligated Group and Other North Shore-LIJ Health System Entities for capital projects and to support certain designated programs at the benefiting institutions. The Foundation is not a Member of the Obligated Group.

The Health System, primarily through the Foundation in the form of cash and net pledges, raised \$49.8 million, \$112.7 million, and \$142.3 million, for the years ended 2009, 2010, and 2011, respectively.

For further information, see *“Management’s Discussion and Analysis of Recent Financial Performance – Fundraising.”*

Community Benefit Overview

North Shore-LIJ strives to improve the health and quality of life of the people and communities it serves by providing world-class service and patient-centered care. To fulfill its mission and meet its charitable purpose, in 2010 North Shore-LIJ contributed more than \$644 million in community benefit programs and services, approximately 11.9% of the Health System’s operating expenses, offering 2,050 unique programs and serving well over 1.6 million community members. The Health System provides a broad array of community benefit programs, such as: improving access to healthcare services and caring for the medically underserved; screenings and health fairs; community education and outreach; and support groups. Certain of these programs are described further below.

Health Access Center

In 2011, the North Shore-LIJ Healthcare Access Center (“HAC”), staffed by bilingual employees, assisted in the enrollment referral of over 2,400 community residents into government-subsidized insurance programs such as Medicaid, Child Health Plus and Family Health Plus. The HAC handled over 1,300 phone calls (both incoming & outgoing) and participated in 40 community events touching over 2,000 individuals in the communities that North Shore-LIJ serves.

Screenings and Health Fairs

North Shore-LIJ provides community residents with free health screenings through programs organized by each member hospital. Screenings are held in conjunction with national campaigns (Heart Health, Blood Pressure, Prostate Cancer and Skin Cancer) and throughout the year at educational events, all of which are open to the public. A director or chief of service oversees each screening event, and is available to see any individual that does not have an existing provider for follow up. Uninsured individuals that require follow up care can utilize the services of the hospital’s sliding fee scale program, with services starting free of cost. Throughout the year, North Shore-LIJ hosts health fairs in collaboration with community partners, and free health screenings are available at these events. In 2011, North Shore-LIJ provided more than 10,000 screenings and 138 health fairs.

Physician Referral Service

North Shore-LIJ operates a telephone service for community residents who are seeking a local physician. Information is available on physician specialty(s), office location(s), language(s) spoken, hospital privileges and accepted health insurance plans (including Medicaid and Medicare). Bilingual telephone operators are available 24 hours a day, every day.

Support Groups

Support groups offer people with similar medical conditions and life challenges an opportunity for discussion, a sharing of experience and knowledge and a place to ask questions. North Shore-LIJ hospitals provide more than 110 support groups to the community, free of charge, on a wide range of topics. Support groups are organized by each hospital member and include: bereavement, cancer, cardiac, diabetes, nutrition, and stroke.

Financial Assistance Policy

To further its mission of providing the highest quality of care to all patients, regardless of their ability to pay, the Health System launched a major initiative in 2004 to offer care at reduced fees for individuals and families who lack insurance, or are underinsured, and cannot afford to pay out-of-pocket expenses. The centerpiece of this community health advocacy plan is a financial assistance policy (“FAP”) that establishes reduced fees for needy patients seeking medically necessary inpatient, outpatient, emergency, ancillary, ambulatory, primary or specialty care at the Health System facilities. The FAP also includes professional fees if the services are performed at a North Shore-LIJ facility by salaried staff. Commencing in 2004, eligibility was based on income and family size and was available for families earning up to three times the federal poverty level. Commencing in May 2008, eligibility is based on income and family size and is available for families earning up to five times the federal poverty level (\$111,750 for a family of four). Individuals are also screened for Medicaid and other government-subsidized insurance programs such as Child Health Plus and Family Health Plus. The FAP exceeds the requirements for providing financial assistance to low-income, uninsured patients enacted by the New York State Legislature.

All medically necessary services are covered under the FAP. The FAP is communicated through multilingual signage throughout facilities, multilingual educational brochures at key points of patient contact, website (www.northshorelij.com/assistance), through staff outreach and is noted on patient bills.

Outstanding Indebtedness

The table below reflects the long-term indebtedness of the Health System as of December 31, 2011.

Series	Obligor	Outstanding Amount	Structure	Final Term
Series 2011 A	Obligated Group	\$392,200,000	Fixed	2041
Series 2009 A	Obligated Group	235,615,000	Fixed	2037
Series 2009 B ⁽¹⁾	Obligated Group	50,000,000	Variable	2039
Series 2009 C ⁽¹⁾	Obligated Group	37,500,000	Variable	2039
Series 2009 D ⁽¹⁾	Obligated Group	37,500,000	Variable	2039
Series 2009 E	Obligated Group	60,890,000	Fixed	2033
Series 2007 A	Obligated Group	150,495,000	Fixed	2037
Series 2007 B ⁽¹⁾	Obligated Group	52,510,000	Floating Rate Notes	2018
Series 2005 A	Obligated Group	107,600,000	Fixed	2034
Series 2005 B	Obligated Group	9,355,000	Fixed	2034
Series 2003	Obligated Group	30,565,000	Fixed	2018
Series 1998 ⁽²⁾	Obligated Group	109,545,000	Fixed	2023
Bank Loan	North Shore University Hospital	5,500,000	Variable	2014
TELP Financing	Long Island Jewish Hospital	17,884,000	Fixed	2019
Term Loan ⁽¹⁾	SIUH Hospital	46,000,000	Variable	2023
Note Payable	SIUH Hospital	25,903,000	Variable	2015
TELP Financing ⁽³⁾	SIUH Hospital	1,203,000	Fixed	2012
Term Loan	Lenox Hill Hospital	32,600,000	Variable	2029
Net Unamortized Bond Premium	Consolidated	10,510,000		
Total Outstanding Long-Term Debt:		\$1,413,375,000		

(1) Variable rate is swapped to a fixed rate via interest rate swap agreements.

(2) Proceeds of the Series 2012A Bonds will be used to refinance a portion of the Series 1998 Bonds.

(3) In February 2012, SUIH closed on a new \$8.8 million tax-exempt equipment leasing program (“TELP”) borrowing to finance the purchase of medical equipment.

Source: NSLIJ Finance Department

Refer to Note 7 of the Audited Consolidated Financial Statements in Appendix B, “*Revolving Credit Availability*” and “*Management’s Discussion and Analysis of Recent Financial Performance*” for more information on revolving credit availability, short-term debt, capital lease obligations and interest rate swap agreements.

Guarantees

In settlement of United States Department of Health and Human Services, Office of the Inspector General (“OIG”) liabilities, SIUH agreed to make a one-time payment in 2008 of \$76.5 million. SIUH funded the amount with a loan from a bank of \$60.0 million and the balance from operating cash. North Shore-LIJ has guaranteed repayment of SIUH’s bank loan (which has a \$20 million balloon due April 10,

2018) as well as SIUH's two related variable to fixed interest rate swaps with the two counterparties, T.D. Bank N.A. and JPMorgan Chase Bank N.A. As of the date of this Official Statement, there have been no draws on these guarantees, and no collateral has been required to be posted on the swaps.

Revolving Credit Availability

Total bank unsecured revolving credits and lines of credit maintained by the Health System at December 31, 2011 were \$266 million, with \$90.5 million outstanding as of December 31, 2011. In March 2012, the Health System obtained an additional \$40.0 million unsecured revolving credit increasing total revolving credit facilities to \$306.0 million. As of March 30, 2012, there was \$110.5 million outstanding. The Health System primarily uses its revolving credits to bridge capital expenditures to be paid with donations and/or bond issues.

Swap and Debt Policy

North Shore-LIJ has adopted a formal interest rate swap policy. The policy provides guidelines for the execution and management of all Health System swaps (including those of the Obligated Group). The policy sets forth permitted instruments, counterparty considerations and risk analysis, limits the notional amount of swaps to the par amount of associated debt, and limits the swap term to the lesser of 30 years or the term of associated debt. The policy specifically provides that swaps and other similar financial products not be used for speculation (as defined in the policy) but rather for interest rate risk management.

Refer to "*Management's Discussion and Analysis of Recent Financial Performance*" for further information on the swaps and variable rate debt.

Risk Management and Commercial Insurance Program

Oversight of the commercial insurance program and risk management services is centralized at NSLIJ HSI and provided by the Risk Management Department. A staff of over 25 employees administers property and casualty commercial claims, recommends purchases of commercial insurance, monitors the insurance brokers and third party claims administrators, and oversees the professional liability program.

The Risk Management department seeks to identify new exposure to risk throughout the Health System and mitigate the risk as appropriate. Formal loss control programs are in force to reduce loss throughout the Health System from a variety of risks such as injury to patients, damage to property and injury to employees.

The Health System maintains a portfolio of commercial insurance to transfer certain risks. The portfolio currently includes commercial general liability insurance with a combined single limit of \$1 million per occurrence and \$8 million annual aggregate and with a separate policy for LHH affording limits of \$1 million per occurrence and \$10 million annual aggregate; directors and officers liability insurance; miscellaneous errors and omissions coverage; umbrella liability policies with a combined limit of \$105 million per occurrence and annual aggregate; automobile liability; statutory workers' compensation as required by law, with LHH remaining self-insured with stop loss insurance; and property insurance on its buildings and contents, including fire and boiler and machinery on a replacement cost basis.

Professional liability insurance is provided through a combination of self insurance and commercial insurance. Management believes that the growth of the Health System increases the need for and efficiency of self insuring and self administering the risk within the so-called working layer and commercially insuring the per claim catastrophe exposure. Management works closely with an independent actuary to review the professional liability program on a regular basis.

See Appendix B, Note 12, for information concerning the Health System's professional liability insurance program, actuarial estimates relating to loss reserves, and the status of deferred premiums.

The purchase of the various policies and limits and deductibles are adjusted in accordance with the current insurance market and exposures within the Health System.

Investment Policy

The Investment Committee of North Shore-LIJ monitors, in conjunction with investment consultants (who do not manage any investment of funds), the investment performance of, and provides the investment guidelines and investment policy for, the Health System's operating, retirement (Cash Balance Plan, defined benefit plans and defined contribution plans), malpractice self-insurance, Regional Insurance Company Ltd. (North Shore-LIJ's offshore captive malpractice insurance provider) and endowment funds. Independent firms manage investment of all funds under the guidelines established by the Investment Committee. The Investment Committee regularly reviews the asset allocation of these funds in relation to the cash flow requirements of the funds and reviews the performance of each professional investment manager compared against an appropriate benchmark index. The goal of the portfolio design, which is based on asset liability studies, is to generate adequate yield while minimizing risk and volatility for the portfolios' time horizons.

The current target allocation for the operating fund, malpractice self-insurance fund and Regional Insurance Company Ltd. is 15% cash, 45% fixed income, 30% diversified equities (domestic, international, global and emerging markets); and 10% funds of hedge funds which the Investment Committee anticipates will have low performance volatility and low correlation to the equity markets.

The endowment's current target asset allocation is 47% diversified equities (domestic, international, global and emerging markets); 3% commodities; 20% fixed income; 30% alternative investments (20% funds of hedge funds which the Investment Committee anticipates will have low performance volatility and low correlation to the equity markets and 10% private equity and real estate). North Shore-LIJ's endowment is in the early stages of diversifying to private equity and real estate. In the interim, the target asset allocation is 55% equities, 3% commodities, 20% fixed income and 22% alternatives (primarily funds of hedge funds).

The retirement plans are monitored for compliance with ERISA. The different asset allocation targets for the Health System's Cash Balance Plan and other pensions reflect the plans' different liability characteristics. Effective December 31, 2011, the LHH Plan was merged into the Health System's Cash Balance Plan. The current target asset allocation for the Cash Balance Plan and the LHH Plan is 31% diversified equities (domestic, international, global and emerging markets); 34% fixed income; 31% alternative investments (20% funds of hedge funds which the Investment Committee anticipates will have low performance volatility and low correlation to the equity markets and 11% private equity and real estate); 3% commodities and 1% cash. The Cash Balance Plan and the LHH Plan are in the early stages of diversifying to private equity and real estate. In the interim, the target asset allocation will be 40% equities, 22% alternatives (primarily funds of hedge funds), 34% fixed income, 3% commodities and 1% cash.

HH's pension's target asset allocation is 40% fixed income and 60% equities. LHH's ambulatory site known as MEETH has a frozen pension whose target asset allocation is 20% fixed income, 41.5% equities and 38.5% alternatives (inflation hedging natural resources, hedge funds and private equity). SIUH has a frozen pension whose target asset allocation is 5% cash, 40% fixed income and 55% equities.

Future Capital Plans

The Health System currently plans for capital improvements on a six year basis with periodic updates. The current plan covers the 2011-2016 period and anticipates an aggregate expenditure of

\$3.3 billion over that time period for new and replacement equipment, information technology and major capital projects. These capital expenditures equate to approximately 178% of the Health System's projected depreciation, over the 2011-2016 period. It is anticipated that these capital investment needs will be funded approximately 56% from operations, 14% from donations, 20% from new debt issuance, and 10% from existing debt. In light of the current economic environment, Management is carefully monitoring the commencement of projects.

The capital investment plan includes the Health System's implementation of an enterprise-wide, integrated clinical information system ("CIS") which is in process. The CIS initiative is intended to provide the tools to streamline workflows and integrate quality care delivery across the Health System. This multi-year, phased project began in mid-2006 and will continue until at least 2013. Clinicians representing all sites within the Health System are involved in the design, testing and implementation.

No new borrowings other than for the Series 2012A Bonds are underway, however, the Health System may continue its practice of bridging donor projects with bank lines and using leases primarily for equipment subject to rapidly changing technology and for facility needs in community settings. See "*Management's Discussion and Analysis of Recent Financial Performance*" herein for a discussion of annual capital expenditures.

Management is exploring the possibility of converting the Series 2009B, C, and D bonds from variable to a fixed rate and, in connection therewith, terminating the interest rate swaps and eliminating the letters of credit related thereto.

Management may explore certain tax-exempt and taxable financing opportunities in the future to the extent such financings are permissible under the additional indebtedness restrictions set forth in the Master Trust Indenture. (See "*Appendix E - Summary of Certain Provisions of the Master Trust Indenture and the Series 2012 Supplemental Indenture*" for information regarding additional indebtedness.)

Management anticipates making the full range of capital expenditures described above only if funds available from donations and cash generated from operations are sufficient to support such expenditures or debt incurred to finance those expenditures.

Regulatory Reviews, Audits and Investigations

The Obligated Group, like other health care institutions, is subject to regulatory review, audit and investigation of its governmental reimbursement. In the last several years the federal and state governments have devoted a significant amount of resources to the auditing of health care providers, including hospitals. The recoveries from these audits can be significant and are often based on a small sample size with the results extrapolated to a universe of all paid claims in the audit period.

The Recovery Audit Contractor ("RAC") program is a federal government cost containment effort, administered by CMS. It is aimed at reducing improper payments within Medicare programs as well as identifying process improvements to reduce or eliminate future improper payments. Section 302 of the Tax Relief and Health Care Act of 2006 made the Recovery Audit Program permanent and required the Secretary of the U.S. Department of Health and Human Services to expand the program to all 50 states by no later than 2010. Each RAC is responsible for identifying overpayments and underpayments in approximately one-fourth of the country. The Medicare RAC contractor for New York State is DCS Healthcare. In addition, the Patient Protection and Affordable Care Act, enacted in March 2010, as amended by the Health Care and Education Reconciliation Act (the "ACA") also includes an expansion of the RAC program to Medicaid claims and managed Medicare plans, which may result in greater risks to providers for recoupment of prior payments.

Although the Obligated Group is not currently the subject of an audit finding requiring a significant financial repayment that could have a material adverse effect on the consolidated financial

statements, if it is audited in the future, depending on the results of the audits, the Obligated Group could be required to repay significant sums, which could have an adverse financial impact on the Obligated Group Members. Specifically, New York State has established the Office of the Medicaid Inspector General (“OMIG”). Since its inception, the OMIG has undertaken numerous audits, including extrapolation audits, of providers throughout the state of New York and has achieved large recoveries. The Obligated Group is not currently the subject of such an audit that could have a material adverse effect on the consolidated financial statements, but could be in the future and the result of any such audit could have a significant adverse financial impact on the Obligated Group Members.

In 2008, LHH received an administrative subpoena issued by the OIG, working in coordination with the Civil Division of the Office of United States Attorney for the Southern District of New York (“USAO/SDNY”). The subpoena pre-dates the sponsorship of LHH by the Health System and seeks documents and other information relating to Medicare outlier payments received by LHH on Medicare claims submitted for the period from 1997 to 2003. LHH has provided information as required by the subpoena and has executed a series of tolling agreements relating to this matter. In 2011, LHH was served with Civil Investigative Demands (“CIDs”) from the USAO/SDNY for the oral testimony of certain former LHH employees regarding the receipt of outlier payments by LHH during the period under inquiry. Beginning in December 2011, the parties have been engaged in discussions aimed at resolving the matter. To date, however, the USAO/SDNY has not made any specific demand for repayment.

In 2010, the Health System received a letter from the Civil Division of the Office of United States Attorney for the Southern District of Florida (“S.D. Fla.”). The letter notified the Health System that certain of its hospitals may have submitted claims for payment from Medicare for the implantation of implantable cardioverter defibrillators (“ICDs”) that were not medically necessary or that otherwise did not comply with Medicare payment policy during the period from 2003 to the present. In addition, the letter requested that the Health System execute on behalf of itself and its hospitals a tolling agreement to provide the S.D. Fla. with sufficient time to review the claims. The Health System believes this letter is part of a nationwide initiative by the S.D. Fla. and the United States Department of Justice to examine claims billed to Medicare for the implantation of ICDs. The Health System has executed tolling agreements relating to this matter and since then has provided information as requested by the S.D. Fla. To date, the S.D. Fla. has neither indicated whether it believes the Health System has any liability with regard to any of the claims at issue nor made any specific demand for repayment.

On or about November 18, 2010, NSUH, the Health System and certain of their employees received CIDs issued by the USAO/SDNY. The CIDs sought documents, interviews and other information relating to NSUH’s clinical documentation improvement program (“CDI”), which is an initiative undertaken by NSUH and certain other Health System hospitals to ensure compilation of clear, complete, accurate and timely inpatient medical records for the purpose of coding and quality of care. The Health System has produced documents and provided witnesses as required by the initial CIDs and has complied or is in the process of complying with a series of additional CIDs that have sought medical records from other NSLIJ-affiliated hospitals, including LIJMC, SH, PVH and HH. To date, although the USAO/SDNY has indicated its intention to extrapolate liability to the multiple affected hospitals based on a statistical extrapolation methodology and expert coding analysis that the Health System considers to be highly flawed, the SDNY has not made a specific demand for repayment and continues to explore the legal and factual issues that underlie the matter.

In October 2011, SH learned that the U.S. Attorney’s Office for the Western District of New York (“USAOWD”) is conducting a review of inpatient admissions for atherectomy procedures, a minimally invasive surgical method used to treat peripheral arterial disease of the lower extremities. The USAOWD has requested that SH provide information concerning such procedures (but has not issued a subpoena for such information), and SH is cooperating with the request. Management understands similar requests have been made of other hospitals. The USAOWD has not indicated whether it believes SH has any potential liability in this matter.

Adverse resolution of any of the above reviews, audits and investigations could have a material adverse effect on the Obligated Group Members.

Other Litigation

Various claimants have asserted professional malpractice liability claims against the Health System. 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 respective insurance companies handling such matters. It is the opinion of Management, based on prior experience, that adequate insurance and/or self-insurance reserves are maintained to provide for all routine professional malpractice liability losses which may arise.

In addition, sixty Federal and State court cases have been filed against a Member of the Obligated Group and various physicians regarding surgery performed on patients suffering from Chiari malformation, which is a congenital malformation of the skull that can cause various neurological symptoms. Plaintiffs claim the named physicians and a Member of the Obligated Group were negligent in the care and treatment of the patients and assert claims for large sums of monetary damages including claims for punitive damages. Defendants' discovery of plaintiffs has been completed, as has plaintiffs' discovery of defendants. Expert witness depositions are now in progress, which will be followed by pre-trial motion practice. At this time it is too early to provide a meaningful analysis of the claims; however, the claims will be vigorously defended.

All of the Members of the Obligated Group, other than LHH, are defendants in an action entitled *DeSilva et. al v. North Shore Long Island Jewish Health System et. al.*, filed in March 2010, in which the named plaintiffs claim that they and a group of approximately 38,000 current and former employees of North Shore-LIJ entities were required to perform compensable work during their unpaid meal breaks and were not paid for such work, in violation of the Fair Labor Standards Act ("FLSA") and various federal and state laws. Similar claims have been filed against many other hospitals and health systems in the area. North Shore-LIJ filed a motion to dismiss the complaint which was granted, in part, on March 7, 2012. On March 8, 2012, the Court granted the plaintiffs' motion for conditional certification under the FLSA and New York Labor Law. The claims in this action will be vigorously defended, however, at this time it is too early to determine whether this claim will result in any liability that would have a material adverse effect on the Health System.

The Health System is also a defendant in various commercial and other actions. Although the outcome of any such claim or action or any pending or threatened claim of which the Health System has knowledge cannot be currently determined, Management is of the opinion that the eventual liability therefrom, if any, will not have a material adverse effect on the financial position of the Health System or on its ability to make required debt service payments.

Governance

The board of trustees of each Member of the Obligated Group is comprised of substantially identical membership, with the exception of HH, which has a separate governing body. HH has a Board of Directors with a composition separate from the other Members of the Obligated Group, but the Directors of HH are elected by and can be removed by NSLIJ HCI. For purposes of the discussion below, references to the Members of the Obligated Group do not include HH unless expressly stated otherwise.

Each Member of the Obligated Group is a separate New York not-for-profit corporation governed by its own governing body. The governing body of each Member of the Obligated Group is referred to as the Board of Trustees (the "Board"). Notwithstanding their separate corporate organization, the governing body of each Member of the Obligated Group is comprised of the same persons. These persons also comprise the governing body of NSLIJ HSI. The Chief Executive Officer of NSLIJ HSI is a member of the governing body of each Member of the Obligated Group. The governing body members are divided into classes who serve for overlapping three-year terms.

The Trustees and Directors of NSLIJ HSI, NSLIJ HCI and the Obligated Group Members

The following is a list of the members of the Board of Trustees of NSLIJ HSI, NSLIJ HCI and each Member of the Obligated Group, including their business affiliations/occupations, as of February 27, 2012.

<u>Trustees</u>	<u>Affiliation/Occupation</u>
Richard S. Abramson	Senior Vice President and National Managing Director, Bernstein Investment Research & Management
William Achenbaum	Chairman and Chief Executive Officer, Gansevoort Hotel Group, WSA Management, Ltd.
John W. Alexander	Chairman and Chief Executive Officer, Northfield Bank
Ira I. Altfeder	President, Imperial-Harvard Label, Inc.
Philip S. Altheim	Executive Vice President, Five Star Electric Corp.
Stanley A. Applebaum	Stanley A. Applebaum, Esq.
Michael L. Ashner	Chairman and Chief Executive Officer, Winthrop Reality Trust
Beverly VP. Banker	Businesswoman
Ralph M. Baruch	Retired, Founder Viacom International Inc.
Morton M. Bass	President, Morton M. Bass, P.C.
Frank J. Besignano	Retired
Elise M. Bloom	Partner; Co-Chair, Labor & Employment Law Department, Proskauer Rose LLP
Eric S. Blumencranz	Partner/Executive Vice President, BWD Group, LLC
Roger A. Blumencranz	President, BWD Group, LLC
David Blumenfeld	Vice President, Blumenfeld Development Group, LTD
Edward Blumenfeld	President, Blumenfeld Development Group, LTD
E. Steve Braun	Vice President, Cassidy Turley
Dayton T. Brown, Jr.	Chairman, Dayton T. Brown, Inc.
Allen E. Busching	Partner, B & B Capital Corp.
Jonathan S. Canno	Retired, Former Chairman and CEO Equitable Bag Company
Michael Caridi	Vice President, Kozy Shack Enterprises, Inc.
Rev. Dr. Demetrius S. Carolina	Reverend, First Central Baptist Church
Rudolph C. Carryl	CEO and Chief Investment Officer, Carryl Capital Management
Robert W. Chasanoff	Partner, Chasanoff Properties
Alan Chopp	Retired
Mark Cluster	President, Carl Marks & Co, Inc.
Diana F. Colgate	Civic Leader
Daniel M. Crown	President & Chief Executive Officer, Foray Entertainment
Philippe P. Dauman	President & Chief Executive Officer, Viacom
Daniel C. de Roulet	President, Patrina Corporation
Lorinda de Roulet	Retired
Thomas E. Dewey, Jr.	Managing Member, Dewey Devlin & King, LLC
Thomas E. Dooley	Senior Executive Vice President, Chief Administrative Officer and Chief Financial Officer, Viacom
Michael J. Dowling	President and CEO, North Shore-LIJ Health System
Robert N. Downey	Senior Director, Goldman Sachs & Co.
Melvin Dubin	Chairman of the Board, Slant/Fin Corp.
Patrick R. Edwards	Retired

Toni J. Elliott	Retired
Michael A. Epstein	Partner, Weil, Gotshal & Manges, LLP
Leonard Feinstein	Co-Chairman, Bed Bath & Beyond
Michael E. Feldman	Partner, Proskauer Rose, LLP
Anthony C. Ferreri	President and Chief Executive Officer, Staten Island University Hospital
Arlene Lane Fisher	Retired
Catherine C. Foster	Retired, Former Senior Executive, American Express Company in New York
William H. Frazier	Managing Director, Gates Capital
Eugene B. Friedman, M.D.	Partner, Park Pediatrics, LLP
Sy Garfinkel	President, Sykel Enterprises Co., Inc.
Lloyd M. Goldman	President, BLDG Management Company
Richard D. Goldstein	Chairman and Chief Executive Officer, AEP Capital LLC
J. Joaquin Gonzalez	Senior Program Manager, The Port Authority of NY & NJ
Michael Gould	Chairman and Chief Executive Officer, Bloomingdale's
Albert L. Granger, D.D.S	Endodontist, Albert L. Granger, DDS, PLLC
Alan I. Greene	Managing Director, Neuberger Berman, LLC
James R. Greene	Director and Treasurer of the David and Alan Greene Family Foundation, Inc.
Stanley Grey	Retired Certified Public Accountant
Richard Guarasci, Ph.D.	President, Wagner College
Paul B. Guenther	Retired, Former President, PaineWebber Group, Inc.
Henry L. Hackmann	Businessman
Amy M. Hagedorn	President, The Hagedorn Foundation
Stephen L. Hammerman	Retired, Former Deputy Commissioner of Legal Matters, NYCPD
Ira Hazan	Retired, Former President, Isaac Hazan & Company, Inc.
Linda W. Heaney	Partner, Friedman LLP
Marlene Hess	Retired, Former Managing Director of Global Philanthropic Services at JP Morgan Private Banking
William O. Hiltz	Senior Managing Director, Evercore Partners
Michael Hoffman	Managing Director, Riverstone Holdings LLC
Gedale B. Horowitz	Senior Managing Director, Citigroup*
Richard A. Horowitz	Chairman, P & F Industries, Inc.
M. Allan Hyman	Senior Partner, Certilman Balin Adler & Hyman
Mark Jacobson	President, Grocery Haulers Inc.
Jeffrey Jurick	Vice President, Business Development, Access Direct
Lyn Jurick	Former Secretary/Treasurer, Fala Direct Marketing, Inc.
Arthur Kalish	Attorney, Retired from Paul, Weiss, Rifkind Wharton & Garrison
Steven L. Kantor	Executive Managing Director and Global Head of Investment Bank, Cantor Fitzgerald
David M. Katz	Partner, Sterling Equities, Inc.
Michael Katz	Executive Vice President, Sterling Equities, Inc.
Saul B. Katz	President, Sterling Equities, Inc.
Lisa A. Kaufman	Businesswoman
Robert Kaufman	President, William Kaufman Organization LTD
Cary Kravet	President, Kravet, Inc.
Stanley Kreitman	Signature Bank
Seth Kupferberg	Principle, Kepco Inc.

Jeffrey B. Lane	Chairman, The National Center on Addiction and Substance Abuse at Columbia University
Curt N. Launer	Managing Director, Investment Banking, Natural Resources Group, Deutsche Bank Securities Inc.
Laura Lauria	Corporate Secretary/Treasurer, Mark Lauria Associates, Inc.
Kevin F. Lawlor	President and CEO, Huntington Hospital Association
Michael S. Leeds	President, Flight Star, Inc.
David W. Lehr	David W. Lehr, Esq.
Jonathan W. Leigh	President, Long Island Hearing & Speech Society
Sylvia Lester	Chairman, Patient Relations, North Shore University Hospital
Arthur S. Levine	CEO, Tahari Levine LLC
Stuart R. Levine	Chairman and CEO, Stuart Levine & Associates, LLC
Seth Lipsay	Managing Director, New World Realty Management, LLC
David S. Mack	Senior Partner, The Mack Company
William L. Mack	Chairman and Founder, Area Property Partners and President, The Mack Company
Howard S. Maier	President, Maier Ventures
Linda W. Manfredi	Principal, New York City Department of Education
James S. Marcus	Retired, Former Limited Partner, Goldman Sachs
Bradley Marsh, D.P.M.	Retired, Former Physician of Podiatry
Jeffrey S. Maurer	Partner/CEO Evercore Wealth Management LLC
Ronald J. Mazzucco	Ronald J. Mazzucco, Esq.
F.J. McCarthy	President, Site Selection Advisory Group, Inc.
Patrick F. McDermott	Partner, McDermott & Thomas Associates
James McMullen	Retired, Owner, Jim McMullen Catering Corporation
Charles Merinoff	Vice Chairman & Chief Executive Officer, The Charmer Sunbelt Group
Aimée M. Merszei	Retired, Former Associate Editor, Fortune Magazine
Richard D. Monti	Vice President, Crest Hollow Country Club
Tomás D. Morales, Ph.D.	President, College of Staten Island/CUNY
Richard Murcott	President and Chief Executive Officer, Murcott Merchandising
Ralph A. Nappi	President, North Shore-LIJ Health System Foundation
Richard B. Nye	President, Baker Nye Advisers
Clyde I. Payne, Ed.D.	Dean, School of Education, Dowling College
Arnold S. Penner	Arnold S. Penner Real Estate Investments
John J. Raggio	Vice President, Sealift Inc.
Lewis S. Ranieri	Chairman and Chief Executive Officer, Ranieri & Co., Inc.; Founder and Chairman, Ranieri Partners Management, LLC
Jay R. Raubvogel	Retired
Corey Ribotsky	Managing Member, The N.I.R. Group, LLC
Dennis Riese	Chairman and Chief Executive Officer, The Riese Organization
Terry P. Rifkin, M.D.	Great Neck Obstetrics & Gynecology, PC
Robert A. Rosen	Chairman and Chief Executive Officer, Rosen Associates Management Corp.
Marcie Rosenberg	Director of Development, Tilles Center for the Performing Arts C.W. Post Campus of LIU
Robert D. Rosenthal	Chairman and Chief Executive Officer, First Long Island Investors, LLC
Bernard M. Rosof, M.D.	President and Chief Executive Officer, Quality in Health Care Advisory Group, LLC

Jack J. Ross	Managing Director, Waterfall Asset Management LLC
Barry Rubenstein	Managing Partner, Wheatley Partners
Herbert Rubin	President, Herzfeld & Rubin, P.C.
Scott Rudolph	President, Piping Rock Health Products
Michael H. Sahn	Senior Partner, Sahn Ward Coschignano & Baker, PLLC
Frank W. Scarangelo, Sr.	Retired
Norman Schlanger	Philanthropist, Former New York Stock Exchange Member
Lois C. Schlissel	Managing Attorney, Meyer, Suozzi, English & Klein, PC
John M. Shall	Partner, DeSantis, Kiefer & Shall, LLP
Robert F. Shapiro	Vice Chairman, Klingenstein, Fields & Co., LLC
Marc V. Shaw	Interim Sr. Vice Chancellor for Budget, Finance, & Financial Policy, CUNY
Sean G. Simon	Businessman
Richard Sims	Vice President, Scarlett
Michael C. Slade	Retired, Former Senior Vice President, NBTY, Inc.
Phyllis Hill Slater	President, Hill Slater Group
Howard D. Stave	Howard D. Stave, Esq.
Russell Stern	President, Norca Corporation
Maganlal Sutaria, M.D.	Retired
John B. Thomson, Jr.	President, Thomson Holdings LLC
Peter Tilles	Former General Manager, The Tilles Investment Co.
Sandra Tytel	Philanthropist - Civic Leader
Nancy Waldbaum	Philanthropist
Gary Walter	President, Theo. Walter Co., Inc.
Howard Weingrow	President and Founder, Stanoff Corporation
Lewis M. Weston	Retired
Jon Wurtzburger	President, AirLifeLine
Barbara Hrbek Zucker	President, The Donald and Barbara Zucker Family Foundation
Donald Zucker	Chairman of the Board, Donald Zucker Company
Roy J. Zuckerberg	Senior Director, Goldman Sachs Group, Inc.

* Citigroup is an underwriter of the Series 2012A Bonds.

Executive Committees of the Boards of Trustees

NSLIJ HSI, NSLIJ HCI and each of the Members of the Obligated Group has an Executive Committee which exercises all of the authority of the respective Board of Trustees or Board of Directors, as applicable, (except as limited by applicable law) between meetings of such Board. The Executive Committee meets monthly except in months in which a regular meeting of the Board of Trustees is scheduled to be held, and the Boards meet four times a year, in addition to an annual meeting. The individuals who comprise the Executive Committee of the Board of NSLIJ HSI also comprise the Executive Committee of the Board of NSLIJ HCI and of each Member of the Obligated Group. The exceptions are HH (which has a separate Board as discussed above) and SIUH and LHH, which share a common Board with the other Members of the Obligated Group but have Executive Committees with compositions different from the Executive Committee of NSLIJ HSI and which have Executive Committee meeting schedules which are different from that of NSLIJ HSI. The members of the Executive Committees of SIUH and LHH also serve as trustees of NSLIJ HSI and of each Member of the Obligated Group other than HH. These Executive Committees are elected by Boards identical to the Board of NSLIJ HSI. The Chief Executive Officer of NSLIJ HSI, NSLIJ HCI and of each Member of the Obligated Group is an ex-officio voting member of the Executive Committee of the Board of each such

corporation. The Executive Committee of the Board of each such corporation (other than HH, SIUH and LHH) consists of the individuals listed below.

Richard S. Abramson	Amy M. Hagedorn	Ronald J. Mazzucco
Roger A. Blumencranz	William O. Hiltz	F.J. McCarthy
Robert W. Chasanoff	Michael Hoffman	Patrick F. McDermott
Mark Claster	Gedale B. Horowitz*	Ralph A. Nappi
Michael J. Dowling	Saul B. Katz	Robert D. Rosenthal
Michael A. Epstein	Cary Kravet	Bernard M. Rosof, M.D.
Lloyd M. Goldman	Jeffrey B. Lane	Barry Rubenstein
Richard D. Goldstein, Chairman	Seth Lipsay	Donald Zucker
	William L. Mack	Roy J. Zuckerberg

* Citigroup, with which Mr. Horowitz is affiliated, is an underwriter of the Series 2012A Bonds.

The executive staff of NSLIJ HSI, NSLIJ HCI and the Members of the Obligated Group (other than HH and SIUH) are:

Richard D. Goldstein	Chairman of the Board of Trustees
Michael J. Dowling	President and Chief Executive Officer
Lawrence G. Smith, M.D.	Executive Vice President and Physician-in-Chief
Mark J. Solazzo	Executive Vice President and Chief Operating Officer
Jeremy Boal, M.D.	Chief Medical Officer
Robert S. Shapiro	Senior Vice President and Chief Financial Officer
Keith C. Thompson	Senior Vice President, General Counsel and Assistant Secretary
Donna Drummond	Senior Vice President and Chief Administrative Officer
Kathleen Gallo, R.N., Ph.D., M.B.A.	Senior Vice President and Chief Learning Officer
Howard B. Gold	Senior Vice President, Managed Care and Business Development
Jeffrey A. Kraut	Senior Vice President, Strategy
Ralph A. Nappi	President, NSLIJ Foundation
Joseph Cabral	Senior Vice President and Chief Human Resources Officer
Greg S. Radinsky	Chief Corporate Compliance Officer
Maureen T. White	Senior Vice President and Chief Nurse Executive

SIUH and HH have executive staffs different from those of the other Members of the Obligated Group, although those staffs have direct reporting relationships to the executive staff at NSLIJ HSI, and the NSLIJ HSI Chief Financial Officer and the NSLIJ HSI General Counsel serve in similar executive officer positions at both SIUH and HH.

Board

Richard D. Goldstein, *Chairman of the Board of Trustees of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Mr. Goldstein, an attorney, has been since July 2008, Chairman and CEO of AEP Capital LLC, a specialized investment/merchant banking firm located in New York. Mr. Goldstein is also a Senior Managing Director of Alpine Capital LLC and related entities including Alpine Equity Partners L.P. (collectively “Alpine”), of which he has been affiliated since 1990. Prior to joining Alpine, Mr. Goldstein was an attorney at the law firm of Paul, Weiss, Rifkind, Wharton & Garrison, in which he became a partner in 1984, specializing in mergers and acquisitions and corporate securities.

Mr. Goldstein serves as a director of Alpine Capital Bank, a privately held New York State chartered FDIC insured banking institution, and various private portfolio companies of Alpine. He is also a Trustee Emeritus (and former Chair) of the Queens College Foundation.

Mr. Goldstein is a summa cum laude, Phi Beta Kappa graduate of Queens College and a magna cum laude graduate of Harvard Law School.

Executive Staff

For purposes of the biographies below, references to the Members of the Obligated Group do not include HH or SIUH unless expressly stated otherwise.

Michael J. Dowling, *President, Chief Executive Officer and Board Member of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Prior to becoming president and Chief Executive Officer (“CEO”) in 2002, Mr. Dowling was the Health System’s Executive Vice President and Chief Operating Officer. Before joining North Shore-LIJ in 1995, he was a Senior Vice President at Empire Blue Cross/Blue Shield.

Mr. Dowling served in New York State government for 12 years, including seven years as state director of Health, Education and Human Services and deputy secretary to the governor. He was also commissioner of the New York State Department of Social Services.

Before his public service career, Mr. Dowling was a professor of social policy and Assistant Dean at the Fordham University Graduate School of Social Services and director of the Fordham campus in Westchester County.

Governor Andrew Cuomo appointed Mr. Dowling to the new administration’s committee on health and education in November 2010 and co-chair of a Medicaid reform task force in January 2011. Mr. Dowling is past Chairman of the Greater New York Hospital Association, the Healthcare Association of New York State and the League of Voluntary Hospitals and Homes of New York. He is currently Chairman of the National Center for Healthcare Leadership (“NCHL”). He is also a member of the Board of Directors of the Harvard University Trust Symposium Steering Committee, the Long Island Association Board of Directors, the Adelphi University President’s Advisory Council, the Biomedical Research Alliance of New York Board, the Holocaust Center of Nassau County and the North America Board of the Smurfit School of Business at University College Dublin, Ireland. He is also an instructor at the Center for Continuing Professional Education at the Harvard School of Public Health.

In the August 22, 2011 issue of *Modern Healthcare*, Mr. Dowling was recognized as 29th in the annual “100 Most Powerful People in Healthcare” national recognition survey. Mr. Dowling was also named one of the Ten Most Influential Leaders on Long Island in the December 19, 2008 issue of *Long Island Business News*. Most recently, Mr. Dowling was recognized as the 5th Most Influential Long Islander in the June 14, 2011 issue of the *Long Island Press 9th Annual Power List Edition* of “The 50 Most Influential Long Islanders of 2011”.

Mr. Dowling earned his undergraduate degree from University College in Cork, Ireland and his Master’s Degree from Fordham University. He also has an Honorary Doctorate from Hofstra University.

Lawrence G. Smith, M.D., *Executive Vice President and Physician-in-Chief of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group as well as Dean of Hofstra NSLIJ Medical School.* Dr. Smith joined the Health System in May 2005 as Chief Academic Officer and Senior Vice President of Academic Affairs to oversee the Health System’s graduate medical education and medical student education programs, as well as academic faculty appointments. He was appointed Senior Vice President and Chief Medical Officer in September 2006, promoted to Executive Vice President in January 2010 and in January 2011 to Physician-in-Chief. As Physician-in-Chief, Dr. Smith is NSLIJ HSI’s senior physician for all clinical issues.

In March 2008 Dr. Smith was appointed to be the founding Dean of the Hofstra NSLIJ Medical School developed in partnership with the Health System. As the Medical School’s first Dean, Dr. Smith

is working closely with academic leaders in shaping the educational framework at the school, including the development of a curriculum, the selection of faculty, and moving the accreditation process forward.

Mark J. Solazzo, *Executive Vice President and Chief Operating Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Prior to his appointment as Chief Operating Officer in 2005, Mr. Solazzo served as Chief of Staff and Chief Administrative Officer to the Health System's President and CEO.

Before joining North Shore-LIJ in 1995, Mr. Solazzo held a number of senior-level positions within the New York State Department of Social Services ("DSS") for 15 years. During his tenure there, he was responsible for the state's Child Assistance Program which earned him Harvard University's Innovations in Government Award. Mr. Solazzo culminated his work at DSS as director of the Bureau of Management and Administrative Support. Mr. Solazzo is a member of the Healthcare Institute, Inc., The Health Management Academy and the Healthcare Association of New York State.

Mr. Solazzo earned an undergraduate degree from Fordham University, studied at Albany Medical College, and received a Masters in Business Administration with a specialization in health system management from Union College, Schenectady, NY.

Jeremy Boal, M.D., *Chief Medical Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Dr. Boal joined the Health System in May 2007 as Medical Director of LIJMC. In January 2011, he was appointed the Chief Medical Officer of the Health System. He is responsible for the overall professional management of clinical, educational, operational and research issues related to all medical and clinical affairs. He is also Professor of Medicine at the Hofstra North Shore-LIJ School of Medicine. Dr. Jeremy Boal has been appointed the Chief Medical Officer for the Health System, reporting to Dr Smith on the operational issues related to all medical and clinical affairs.

Prior to assuming his position at North Shore-LIJ, Dr. Boal received his B.Sc. from McGill University and his M.D. from the Medical College of Wisconsin. He completed his internship and residency in Internal Medicine at the University of Minnesota and The Mount Sinai Medical Center, respectively, and his fellowship in Geriatrics at Mount Sinai. In his second year of residency, Dr. Boal co-founded the Mount Sinai Visiting Doctors Program, which became under his ten year leadership one of the nation's largest home-based primary care program. In the latter years of his time at Mount Sinai he also served as the Department of Medicine's Vice Chair for Strategic Planning and Vice Chair for Faculty Practices.

He is a Board Member of the American Board of Internal Medicine, Test-Writing Committee for the Recent Advances Self-Evaluation Process Module in Geriatric Medicine.

Robert S. Shapiro, *Senior Vice President and Chief Financial Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Robert S. Shapiro has served as the Health System's Senior Vice President and Chief Financial Officer since 2000. His responsibilities include oversight of financial affairs and other corporate operations including treasury, which includes bank relationships, investment management and cash management; budget; financial and strategic planning; capital planning and access; and insurance. Mr. Shapiro also serves as the administrative contact for several committees of the Board of Trustees.

Prior to holding his present position, Mr. Shapiro was Vice President of Financial Operations and Director of Finance/Assistant Administrator. He joined North Shore -LIJ in 1984.

Mr. Shapiro began his career as a senior accountant with Blue Cross and Blue Shield of Greater New York from 1976 to 1978. In 1978, he was a supervisor with Touche Ross & Company, before being appointed Assistant Director of Finance of Maimonides Medical Center in 1981.

Mr. Shapiro is a Certified Public Accountant and a Fellow of the Healthcare Financial Management Association. He is an Adjunct Professor at Hofstra University in Hempstead, New York where he teaches a graduate level course in Health Systems Finance. Mr. Shapiro received his Bachelor of Science degree from the State University of New York at Binghamton in 1975.

Keith C. Thompson, *Senior Vice President, General Counsel and Assistant Secretary of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group including SIUH.* Mr. Thompson joined Health System in 1999. Mr. Thompson, a member of the New York and Washington, D.C. Bars, received his undergraduate degree from the University of Illinois, and law and business degrees from the University of Pennsylvania and Harvard University, respectively. After being associated with the law firm of White & Case in New York and in Washington, D.C., he was a Senior Vice President of Nabisco Brands, Inc. before joining The New York Hospital in 1988 as Senior Vice President and General Counsel. After the merger of New York Hospital and The Presbyterian Hospital in 1997, he became a Senior Vice President of the merged New York Presbyterian Hospital and, prior to joining North Shore-LIJ, he also served as General Counsel of the New York Presbyterian Healthcare Network.

Donna Drummond, C.P.A., *Senior Vice President, Chief Administrative Officer and Administrative Chief of Staff to the President and Chief Executive Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* As the Health System's Chief Administrative Officer, Ms. Drummond has oversight of materials management, real estate services, risk management, corporate operations, marketing and corporate digital services. She joined North Shore-LIJ in 2002 and has since then served the Health System as Chief Procurement Officer, and before that, Vice President of Value Analysis and Executive Director of Non-Clinical Services.

Before coming to North Shore-LIJ, Ms. Drummond held a number of positions with J.P. Morgan & Co., Inc. Previously, she was employed with Deloitte, Haskins & Sells. Ms. Drummond holds a Bachelor of Science degree in accounting from Saint John's University, Queens, NY and is a certified public accountant.

Kathleen Gallo, R.N., Ph.D., M.B.A., FAAN, *Senior Vice President and Chief Learning Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Dr. Gallo is responsible for leadership development throughout the Health System, the creation and implementation of a comprehensive learning strategy, and the development of a new human resources architecture. Within the Health System, Dr. Gallo has served as System Director for Emergency Medicine and Vice President for Emergency Medical Services. She has more than 25 years experience in emergency nursing, having held a variety of clinical and administrative positions in tertiary care hospitals on Long Island. Dr. Gallo was an examiner for the Malcolm Baldrige Quality Award Program from 2003 through 2005. She was Chair of the Dean's Advisory Committee, School of Nursing, the State University of New York ("SUNY") at Stony Brook from 2002 to 2007. She is a member of the University of Pennsylvania (Wharton and The Graduate School of Education) Executive Program in Work-Based Learning Leadership Advisory Board, the National Institute for Healthcare Leadership, and the Society for Simulation in Healthcare Head of Quality, Board of Review for Council for Accreditation of Healthcare Simulation Programs. Dr. Gallo is a fellow of the American Academy of Nursing. She has held several regional and national seats for emergency medical services and emergency nursing and has authored articles on trauma, nursing research and Leadership Development.

Dr. Gallo received her Bachelor of Science in Nursing degree at Regents College, University of the State of New York, a Masters of Science in Nursing degree from the SUNY at Stony Brook, a Ph.D. in Nursing from Adelphi University in Garden City, New York and a Masters in Business Administration also from Adelphi University. Dr. Gallo was inducted into the 2005 Hall of Fame at Adelphi University School of Nursing, received the 2005 Distinguished Alumni Award from SUNY at Stony Brook, and was inducted as a Fellow of the American Academy of Nursing in 2011.

Howard B. Gold, *Senior Vice President Managed Care and Business Development of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Mr. Gold earned a bachelor's degree from SUNY at Buffalo in 1973 and an MA from the Graduate Faculty, New School for Social Research. He joined North Shore-LIJ as Senior Vice President in 1995. Prior to that, he was Vice President - Vice Provost for Strategic Planning at the New York Hospital - Cornell Medical Center. From 1991 to 1993, Mr. Gold was the Executive Director of the State of New York's Health Care Advisory Board. Beginning in 1978, Mr. Gold held increasingly responsible positions in the New York State Office of Mental Retardation and Development Disabilities leaving in 1991, after serving as the Deputy Commissioner, Office of Policy and Planning.

Mark Jarrett, M.D., MBA, *Vice President and Chief Quality Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Dr. Jarrett serves as the Chief Quality Officer for the Health System. Prior to this position, he was the Chief Medical Officer and Designated Institutional Official for Graduate Medical Education at Staten Island University Hospital as well as Chairman of the Graduate Medical Education Committee.

Academically, Dr. Jarrett holds the faculty position of Professor of Medicine at the Hofstra NSLIJ Medical School and was Clinical Professor of Medicine and Clinical Associate Dean at Downstate Medical School, SUNY Health Science Center at Brooklyn.

Dr. Jarrett was appointed SIUH Director of Rheumatology in 1982 and held the post until 1999. In addition to his responsibilities at SIUH, Dr. Jarrett was a practicing physician on Staten Island for 29 years, specializing in Rheumatology. Prior to coming to Staten Island, Dr. Jarrett was on the full time faculty and an Assistant Professor of Medicine at Northwestern University Medical School in Chicago.

Dr. Jarrett earned his medical degree from New York University School of Medicine in 1975, having graduated from Muhlenberg College, PA, in 1971 with a Bachelor of Science Degree. He subsequently earned a Masters in Business Administration from Wagner College in 1994.

Dr. Jarrett is a past President of the Richmond County Medical Society. He is on the Advisory Board of the NYC Medical Reserve Corps.

Jeffrey A. Kraut, *Senior Vice President for Strategy of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Mr. Kraut is responsible for coordinating the strategic planning activities of North Shore- LIJ, as well as the development of its network of providers through merger, acquisition or affiliated relationships, he also has been responsible for its branding, marketing, web, community health planning and regional policy and economic development activities. He also serves as Associate Dean for Strategic Planning in the Hofstra North Shore-LIJ School of Medicine. Prior to the merger of NSHS and LIJMC, Mr. Kraut served as the LIJMC Vice President for Strategic Planning. Mr. Kraut joined LIJMC in 1994.

Mr. Kraut was formerly the Vice President for Planning and Policy at the SUNY Health Sciences Center at Brooklyn (Downstate Medical Center) and served as a manager of the Health Care Strategy Development Group at KPMG Peat Marwick and as Vice President at RMR Health Management Consultants, Inc.

Mr. Kraut is a member of the New York State Public Health and Health Planning Council ("PHHPC") where he serves as Vice Chair and chairs the Project Review and Establishment Committees. The PHHPC oversees public health planning, regulatory and certificate of need activities in the state of New York. He currently serves as vice chair of Healthix, a regional health information organization which facilitates the interoperability and sharing of health information across the provider continuum. He is a fellow of the New York Academy of Medicine and was the recipient of the 25th Anniversary Leadership Award of The New York State Society for Health Planning, an organization of which he served as past President.

He is a board member of the Long Island Regional Planning Council, Sustainable Long Island and The Brookville Center for Children Services. Mr. Kraut advises the Long Island Index and ERASE Racism on health policy and community health needs.

Previously, Mr. Kraut has served as a member of the Long Island Regional Advisory Committee of the New York State Commission on Health Care Facilities in the 21st Century (the “Berger Commission”).

Mr. Kraut received a Master of Business Administration from the Baruch College - Mount Sinai School of Medicine of the City University of New York. He received his Bachelor of Arts degree from the SUNY at Stony Brook.

Ralph A. Nappi, *President of the NSLIJ Foundation and Board Member of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Mr. Nappi has been associated with NSUH for more than four decades. Currently, Mr. Nappi serves as Chairman of both The Feinstein Institute for Medical Research and the Elmezzi Graduate School of Molecular Medicine. In addition, Mr. Nappi is a founding Director of the Don Monti Memorial Research Foundation and serves on the Board of Directors of Variety Children’s Lifeline. He is also a member of the Executive Council of SIUH and LHH.

Previously, Ralph Nappi was Chairman of the Board of Trustees of NSUH. Mr. Nappi is a former member of the Board of Governors of Healthcare Trustees of New York State, Board of Overseers of Cornell University Medical College and the Board of Directors of the Nassau-Suffolk Health Systems Agency. In addition, Mr. Nappi is a past Chairman of the Institute for Student Achievement, the Nassau County HIV Commission, and Vice Chairman of the Ryan White Planning Council. Mr. Nappi is a graduate of Hofstra University and Brooklyn Law School. From 1959 through 1990, he was actively involved in the practice of law.

Joseph Cabral, *Senior Vice President and Chief Human Resources Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Mr. Cabral is responsible for partnering with the Health System leadership to translate the organization’s strategic and operating plans into action through its workforce. He heads all Human Resources (“HR”) functions and develops and executes strategies for North Shore-LIJ’s total workforce. HR’s mission is to attract, develop and retain exceptional talent by providing the knowledge, resources and work environment that are necessary for optimal performance.

Mr. Cabral has held HR leadership roles at New York Presbyterian Hospital and Children’s Hospital in Boston, MA, and has been cited by *Time Magazine*, *Business Week*, *The Wall Street Journal*, *New York Times*, *Forbes* and other industry publications for his expertise in “Best Practices” in Human Resources. He recently accepted, on behalf of the Health System, the Taleo Customer Innovation Award. He holds an M.S. in Quality Systems Management and has served as an adjunct professor in Human Resources Management at the University of Massachusetts. He also served as a Baldrige Examiner and serves as a trustee for the fourth largest Taft-Hartley Pension Plan in the country.

Greg S. Radinsky, J.D., M.B.A., *Chief Corporate Compliance Officer of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group.* Mr. Radinsky joined the Health System as the Chief Corporate Compliance Officer in 2007. Mr. Radinsky began his career as a healthcare fraud and abuse attorney for the OIG. In 2002, he joined Medtronic and worked in various legal, compliance and business positions. Immediately prior to joining North Shore-LIJ, Mr. Radinsky served as Vice President and Assistant General Counsel for Broadlane Inc., now MedAssets, a leading healthcare procurement company. He also served as a Vice Chair to the Healthcare Group Purchasing Industry Initiative, an organization dedicated to promote and monitor best ethical business practices in the healthcare group purchasing industry. Mr. Radinsky, a member of the Washington, D.C. and Missouri Bars, received his undergraduate degree from Tufts University, *magna cum laude*, his law degree from the Saint Louis

University School of Law, *magna cum laude*, and his business degree from the Kellogg School of Management.

Maureen T. White, *Senior Vice President-Chief Nurse Executive of NSLIJ HCI, NSLIJ HSI and of each Member of the Obligated Group*. Ms. White has held her current position since April 1999. Prior to her current position, Ms. White was Vice President for Patient Care Services of NSUH from 1998-April 1999 and LIJMC from 1996 to April 1999. Prior to 1996, Ms. White held the following positions at LIJMC: Associate Director - LIJ Hospital; Administrator for Patient Care Services - Finance and Systems; Assistant Administrator for Nursing - Finance and Systems; Nursing Care Coordinator - Intensive Care and Open Heart Surgery Units; Assistant Nursing Care Coordinator - Intensive Care and Open Heart Surgery Units; and Registered Nurse - Intensive Care and Open Heart Surgery Units. Prior to joining LIJMC, Ms. White was In-service Coordinator - Intensive Care and Coronary Care Units at Good Samaritan Hospital in West Islip, New York from 1976-1977. Ms. White received a Bachelor of Arts degree and a Bachelor of Science degree in Nursing from Molloy College and an MBA from Fordham University.

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Utilization

Utilization Statistics for the Obligated Group*

	Year Ended December 31,		
	<u>2009*</u>	<u>2010*</u>	<u>2011</u>
<u>Inpatient</u>			
Discharges (excl. Nursery)	256,860	259,953	259,687
Patient Days (excl. Nursery)	1,513,784	1,513,828	1,494,505
Average Length of Stay (in Days) ⁽¹⁾	5.89	5.82	5.76
Average Daily Census	4,147	4,147	4,095
Licensed Beds (excl. Nursery)	5,372	5,372	5,372
Beds Available ⁽²⁾	4,702	4,716	4,733
Occupancy Percentage ⁽²⁾	88.3%	88.3%	86.4%
Normal Newborn Discharges	23,294	23,426	23,850
Total Discharges	280,154	283,379	283,537
<u>Outpatient</u>			
Emergency Room Visits	446,165	449,204	471,744
Emergency Room Admissions	162,678	167,081	168,321
Total Emergency Room Encounters	608,843	616,285	640,065
Health Center Visits (incl. psychiatry day hospital and methadone)	906,032	896,382	881,407
Ambulatory Surgery Visits ⁽³⁾	136,701	137,204	133,411
Other Outpatient Visits and Encounters ⁽⁴⁾	788,139	812,306	840,346

Source: NSLIJ Finance Department

(*) Utilization statistics for the years ended December 31, 2009 and 2010 are presented on a pro forma basis to include a full year of statistics for LHH, which was acquired by North Shore-LIJ on May 19, 2010.

(1) Average length of stay improvements due to Management initiatives.

(2) Beds Available, which vary primarily based upon need, are reported as the number of beds at the end of each reporting period. Occupancy Percentage is calculated using the average beds available for the reporting period.

(3) Ambulatory Surgery Visits decreased primarily due to the general industry wide reduction in elective surgical procedures and the migration of cases from LHH to a free-standing ambulatory surgery center partially owned by the Health System but outside the Obligated Group.

(4) Other Outpatient Visits and Encounters increased primarily due to the opening of a new imaging center and growth at CFAM in chemotherapy and diagnostic imaging services.

Payer Mix for the Obligated Group*

Percent of Gross Revenue (Inpatient and Outpatient)

	Year Ended December 31,		
	<u>2009*</u>	<u>2010*</u>	<u>2011</u>
Medicare ⁽¹⁾	44%	43%	43%
Medicaid ⁽²⁾	15%	16%	17%
Commercial	35%	35%	34%
Self Pay and Other	<u>6%</u>	<u>6%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes Medicare Managed Care.

(2) Includes Medicaid Managed Care.

(*) Payer mix for the years ended December 31, 2009 and 2010 is presented on a pro forma basis to include a full year of gross revenue of LHH, which was acquired by North Shore-LIJ on May 19, 2010.

Source: NSLIJ Finance Department

Financial Ratios

North Shore-LIJ Health System Financial Ratios

The Days Cash on Hand and Long Term Debt/Cash Flow ratios, as calculated for 2010, include a full year of operations for LHH and subsidiaries, although those entities were acquired by North Shore-LIJ on May 19, 2010.

	<u>2009</u>	<u>December 31, 2010</u>	<u>2011</u>
Days Cash on Hand ⁽¹⁾	91	101	103
Long Term Debt/Cash Flow ⁽²⁾	4.3	3.3	3.2
Debt to Capitalization	54%	42%	44%

(Capitalization = Debt + Unrestricted and Temporarily Restricted Net Assets)

Source: NSLIJ Finance Department

(1) Although the Days Cash on Hand presented above was calculated at the Health System level, the amounts are not materially different from the Days Cash on Hand for the Obligated Group as prescribed in the Master Trust Indenture.

(2) Cash flow is defined as the excess of revenue and gains and losses over expenses before depreciation and amortization, the change in net unrealized gains and losses and change in value of equity method investments, the change in fair value of interest rate swap agreements designated as derivative instruments, the gain in 2009 and loss in 2011 on refunding of long-term debt, the contribution received in the acquisition of LHH and subsidiaries in 2010, and the non-recurring medical resident tax recovery in 2010 and 2011.

Capitalization

The following table sets forth North Shore-LIJ's historical capitalization ratios as of December 31, 2010 and 2011, and the pro forma capitalization ratio as of December 31, 2011 assuming the Series 2012A Bonds and the 2012 SIUH TELP financing were issued, resulting in a net decrease in debt of \$6.7 million, as illustrated in the table below. For further information concerning the change in the debt to capitalization ratio from 2010 to 2011, please see "Management's Discussion and Analysis of Recent Financial Performance - Debt."

North Shore-LIJ Health System			
Capitalization			
(Dollars in Thousands)			
	December 31,		2011 Pro
	2010	2011	Forma
Debt:			
2012 Debt ⁽¹⁾	\$ -	\$ -	\$64,806
Existing Debt ⁽²⁾	<u>1,438,186</u>	<u>1,589,913</u>	<u>1,518,428</u>
Total Debt	1,438,186	1,589,913	1,583,234
Net Assets-Unrestricted	1,677,074	1,735,798	1,735,798
Net Assets-Temporarily Restricted	<u>306,053</u>	<u>328,463</u>	<u>328,463</u>
Total Capitalization	<u><u>\$3,421,313</u></u>	<u><u>\$3,654,174</u></u>	<u><u>\$3,647,495</u></u>
Percentage of Debt to Capitalization	42%	44%	43%

Source: NSLIJ Finance Department

- (1) Includes \$56.1 million relating to the Series 2012A Bonds including \$7.1 million in net bond premium, and \$8.8 million relating to the SIUH TELP financing in February 2012.
- (2) Pro Forma Existing Debt as of December 31, 2011 reflects the refunding of \$71.5 million in Series 1998 Bonds, including \$0.5 million in unamortized premium, with the Series 2012A Bonds. Refer to "Outstanding Indebtedness" herein.

Historical and Pro Forma Coverage of Debt Service

The following table sets forth North Shore-LIJ's pro forma and historical long term debt service coverage ratios calculated per the definition in the Master Trust Indenture for the years ended December 31, 2010 and 2011, respectively, and the pro forma long term debt service coverage ratio for the year ended December 31, 2011. The pro forma long term debt service coverage ratio for the year ended December 31, 2010 includes a full year of operations for LHH and subsidiaries, although those entities were acquired by North Shore-LIJ on May 19, 2010. The pro forma long term debt service coverage ratio for the year ended December 31, 2011 assumes pro forma maximum annual debt service including the Series 2012A Bonds and the 2012 SIUH TELP financing.

North Shore–LIJ Health System
Long-Term Debt Service Coverage Ratio
(Dollars in Thousands)

	<u>2010</u> ⁽¹⁾	<u>2011</u>	<u>Pro Forma</u> <u>2011</u>
Funds Available for Debt Service:			
Excess of Revenue and			
Gains and Losses over Expenses	\$739,667	\$139,131	\$139,131
Plus: Interest	66,441	61,007	61,007
Plus: Depreciation and amortization	228,768	264,128	264,128
(Less) Plus: Change in Net Unrealized Gains			
and Losses and Change in Value of			
Equity Method Investments	(70,783)	24,307	24,307
Plus: Change in Fair Value of			
Interest Rate Swap Agreements			
Designated as Derivative Instruments	7,338	14,909	14,909
Plus: Loss on Refunding of Long-Term Debt	-	12,589	12,589
Less: Contribution Received in the			
Acquisition of Lenox Hill Hospital			
and Subsidiaries	(448,689)	-	-
Less: Medical Resident Tax Recovery	(40,867)	(1,794)	(1,794)
Total Funds Available for Debt Service	<u>\$481,875</u>	<u>\$514,277</u>	<u>\$514,277</u>
Maximum Annual Debt Service			
Requirements:			
Existing Debt	127,366	125,845	-
Existing Debt and Pro Forma 2012 Debt ⁽²⁾	-	-	124,074
Total Maximum Annual Debt Service			
Requirements⁽³⁾	<u>\$127,366</u>	<u>\$125,845</u>	<u>\$124,074</u>
Historical and Pro Forma Long Term Debt			
Service Coverage Ratio⁽⁴⁾	3.8x	4.1x	4.1x

Source: NSLIJ Finance Department

(1) Pro Forma to include a full fiscal year of operations for LHH and subsidiaries.

(2) Pro Forma Maximum Annual Debt Service as of December 31, 2011 assumes the inclusion of the Series 2012A Bonds and the February 2012 SIUH TELP financing, and the exclusion of the portion of the Series 1998 Bonds refunded with the Series 2012A Bonds. Pro Forma Maximum Annual Debt Service occurs in 2012.

(3) Maximum Annual Debt Service (“MADS”) has been calculated in accordance with the Master Trust Indenture except for the Series 2009B-D Variable Rate Notes and Series 2007B Floating Rate Notes which were calculated conservatively at the synthetic fixed swap rate of 3.6502% and 4.172%, respectively.

(4) Although the Long Term Debt Service Coverage Ratio presented above was calculated at the Health System level, the amounts are not materially different from the Long Term Debt Service Coverage Ratio for the Obligated Group as prescribed in the Master Trust Indenture. Such ratio for the Obligated Group was also 4.1x for the year ended December 31, 2011.

Consolidated Statements of Operations

The following consolidated statements of operations for the years ended December 31, 2009, 2010 and 2011 have been derived from the consolidated financial statements of North Shore-LIJ, which have been audited by Ernst & Young LLP. The 2010 and 2011 data should be read in conjunction with the Audited Consolidated Financial Statements, related notes, and supplementary information included in Appendix B to this Official Statement and “*Management’s Discussion and Analysis of Recent Financial Performance*” herein.

As further discussed in “*Management’s Discussion and Analysis of Recent Financial Performance*,” on May 19, 2010, North Shore-LIJ acquired LHH. Accordingly, in accordance with U.S. generally accepted accounting principles, the consolidated statement of operations for the year ended December 31, 2010, includes the results of operations of LHH from May 19, 2010. The consolidated statements of operations do not include the operating results of LHH prior to May 19, 2010.

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North Shore-LIJ Health System
Consolidated Statements of Operations

(In Thousands)

	Audited		
	Year Ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating revenue:			
Net patient service revenue	\$4,200,826	\$4,826,303	\$5,354,818
Physician practice revenue	432,612	490,904	671,917
Other operating revenue	209,902	250,567	245,585
Net assets released from restrictions used for operations	<u>42,860</u>	<u>41,953</u>	<u>49,937</u>
Total operating revenue	<u>4,886,200</u>	<u>5,609,727</u>	<u>6,322,257</u>
Operating expenses:			
Salaries	2,345,667	2,629,868	3,013,834
Employee benefits	682,511	747,258	861,052
Supplies and expenses	1,448,167	1,735,336	1,888,927
Bad debt expense	77,025	78,314	99,111
Depreciation and amortization	189,608	215,467	264,128
Interest	<u>59,891</u>	<u>62,850</u>	<u>61,007</u>
Total operating expenses	<u>4,802,869</u>	<u>5,469,093</u>	<u>6,188,059</u>
Excess of operating revenue over operating expenses	83,331	140,634	134,198
Non-operating gains and losses:			
Investment income	22,608	41,712	42,933
Change in net unrealized gains and losses and change in value of equity method investments	102,640	68,746	(24,307)
Change in fair value of interest rate swap agreements designated as derivative instruments	12,832	(7,338)	(14,909)
Gain (loss) of refunding on long-term debt	19,890	-	(12,589)
Contribution received in the acquisition of LHH and subsidiaries	-	448,689	-
Medical resident tax recovery	-	40,867	1,794
Other non-operating gains and losses	<u>(1,411)</u>	<u>9,135</u>	<u>12,011</u>
Total non-operating gains and losses	<u>156,559</u>	<u>601,811</u>	<u>4,933</u>
Excess of revenue and gains and losses over expenses	<u>\$ 239,890</u>	<u>\$ 742,445</u>	<u>\$ 139,131</u>

Source: Audited Consolidated Financial Statements

Consolidated Statements of Financial Position

The following consolidated statements of financial position of North Shore-LIJ as of December 31, 2009, 2010 and 2011 have been derived from the consolidated financial statements of North Shore-LIJ, which have been audited by Ernst & Young LLP. The 2010 and 2011 data should be read in conjunction with the Audited Consolidated Financial Statements, related notes, and supplementary information included in Appendix B to this Official Statement and “*Management’s Discussion and Analysis of Recent Financial Performance*” herein.

As further discussed in “*Management’s Discussion and Analysis of Recent Financial Performance*” herein, on May 19, 2010, North Shore-LIJ acquired LHH. Accordingly, in accordance with U.S. generally accepted accounting principles, the consolidated statement of financial position as of December 31, 2010 includes the financial position of LHH. The consolidated statement of financial position as of December 31, 2009 does not include the financial position of LHH.

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North Shore-LIJ Health System
Consolidated Statements of Financial Position

(In Thousands)

	Audited	Audited	Audited
	December 31,	December 31,	December 31,
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Assets			
Current assets:			
Cash and cash equivalents	\$345,829	\$410,253	\$474,738
Marketable securities and other investments	744,815	1,039,124	1,116,810
Accounts receivable for services to patients - net of allowance for doubtful accounts	441,012	570,360	620,543
Accounts receivable for physician activities, net	44,997	45,392	53,428
Assets limited as to use, current portion	74,336	96,774	76,017
Pledges receivable, current portion	37,121	41,316	48,939
Insurance claims receivable, current portion	-	-	97,346
Other current assets	119,928	123,261	212,114
Total current assets	<u>1,808,038</u>	<u>2,326,480</u>	<u>2,699,935</u>
Assets limited as to use, net of current portion	627,583	792,663	805,632
Pledges receivable, net of current portion	89,448	120,150	111,866
Property, plant and equipment, net	1,777,094	2,674,349	3,104,120
Insurance claims receivable, net of current portion	-	-	372,243
Other assets	101,338	233,273	169,617
Total assets	<u>\$4,403,501</u>	<u>\$6,146,915</u>	<u>\$7,263,413</u>
Liabilities and net assets			
Current liabilities:			
Short-term borrowings	\$27,258	\$15,540	\$90,540
Accounts payable and accrued expenses	364,932	508,288	592,634
Accrued salaries and related benefits	330,481	369,976	466,667
Current portion of capital lease obligations	4,342	5,008	4,208
Current portion of long-term debt	49,592	48,899	46,656
Current portion of insurance claims liability	-	-	97,346
Current portion of malpractice and other insurance liabilities	31,700	39,352	47,130
Current portion of third-party payer structured liabilities	6,458	6,724	5,438
Current portion of estimated payable to third party payers	250,734	254,500	288,029
Total current liabilities	<u>1,065,497</u>	<u>1,248,287</u>	<u>1,638,648</u>
Accrued retirement benefits, net of current portion	323,671	477,923	558,785
Capital lease obligations, net of current portion	81,393	85,400	81,790
Long-term debt, net of current portion	1,176,357	1,283,339	1,366,719
Insurance claims liability, net of current portion	-	-	372,243
Malpractice and other insurance liabilities, net of current portion	267,372	502,826	580,965
Third party payer structured liabilities, net of current portion	40,990	34,592	29,248
Other long-term liabilities	217,472	409,703	445,055
Total liabilities	<u>3,172,752</u>	<u>4,042,070</u>	<u>5,073,453</u>
Commitments and contingencies			
Net assets:			
Unrestricted	898,829	1,677,074	1,735,798
Temporarily restricted	238,606	306,053	328,463
Permanently restricted	93,314	121,718	125,699
Total net assets	<u>1,230,749</u>	<u>2,104,845</u>	<u>2,189,960</u>
Total liabilities and net assets	<u>\$4,403,501</u>	<u>\$6,146,915</u>	<u>\$7,263,413</u>

Source: Audited Consolidated Financial Statements

Management's Discussion and Analysis of Recent Financial Performance

Management's Discussion and Analysis of Recent Financial Performance contains "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended (the "Exchange Act"), and Section 27A of the United States *Securities Act of 1933*, as amended (the "Securities Act"). The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. North Shore-LIJ expressly disclaims any obligation or undertaking to issue any updates or revisions to those forward-looking statements if or when their expectations change, or events, conditions or circumstances on which such statements are based occur.

Management's Discussion and Analysis of Recent Financial Performance is based upon the financial results of North Shore-LIJ, as the Members of the Obligated Group represented 96.0% of the total consolidated operating revenue and 97.1% of the consolidated total assets of the Health System for the year ended and as of December 31, 2011. Accordingly, the discussion below includes the financial results of entities that are not Members of the Obligated Group. For further information, see the Audited Consolidated Financial Statements included in Appendix B for the consolidating and combining schedules of North Shore-LIJ and the Obligated Group.

Introduction

Operating income^[a] and operating income margin of North Shore-LIJ improved to \$134.2 million and 2.1% for the year ended December 31, 2011 from \$83.3 million and 1.7% for the year ended December 31, 2009. Operating cash flow margin improved to 7.3% for the year ended December 31, 2011 from 6.8% for the year ended December 31, 2009. These increases were the result of operational improvements as described below.

Growth in total operating revenue outpaced the growth in total operating expenses primarily as a result of growth in various inpatient and outpatient services, an increase in payment rates, revenue cycle initiatives and management of expenses in relation to utilization, cost, and volume. Increased patient demand for inpatient and outpatient services is partially attributable to the closure of two unrelated hospitals in the service area of North Shore-LIJ in 2009. Expense reductions as a result of supply chain initiatives (the implementation of productivity and efficiency efforts and a program to review utilization of medical and surgical supplies as well as pharmaceuticals) helped control the growth rate of supplies and expenses.

North Shore-LIJ's liquidity and debt to capitalization ratio have improved over the period from December 31, 2009 to December 31, 2011. Days cash on hand during this period increased 11.3 days to 102.6 days, and the debt to capitalization ratio improved from 54.1% as of December 31, 2009 to 43.5% as of December 31, 2011.

^[a] Excess of operating revenue over operating expenses in the Consolidated Financial Statements is referred to as "operating income" for purposes of the Management's Discussion and Analysis of Recent Financial Performance.

Management continues to focus on market growth and performance improvement while strengthening the balance sheet and operating performance so that North Shore-LIJ can continue to invest in people, programs and facilities in order to meet the healthcare needs of its patients, their families and the communities served.

Operations and Net Income Overview

Operating Income, Operating Cash Flow and Net Income

The following table presents a summary of key operating performance results and measures for North Shore-LIJ for the years ended December 31, 2009, 2010 and 2011. LHH and subsidiaries' results of operations since the May 19, 2010 acquisition date have been included in this and other tables presented herein. LHH and subsidiaries' results of operations for the period prior to May 19, 2010 are excluded from the Audited Consolidated Financial Statements in Appendix B.

<i>(\$'s In Millions)</i>	2009^[3]	2010^[3]	2011^[3]
Operating income	\$83.3	\$140.6	\$134.2
Operating margin	1.7%	2.5%	2.1%
Operating cash flow ^[1]	\$332.8	\$419.0	\$459.3
Operating cash flow margin ^[1]	6.8%	7.5%	7.3%
Net income ^[2]	\$220.0	\$252.9	\$149.9
Net income margin ^[2]	4.4%	4.4%	2.4%

[1] Operating income before interest and depreciation and amortization ("Operating cash flow").

[2] Excess of revenue and gains and losses over expenses in the Consolidated Statement of Operations is referred to as "net income" for purposes of this Management's Discussion and Analysis of Recent Financial Performance with the following exceptions:

- Net income excludes the non-cash gain (in 2009) and loss (in 2011) on refunding of long-term debt
- 2010 and 2011 net income excludes the non-recurring medical resident tax recovery
- 2010 net income excludes the contribution received in the acquisition of LHH and subsidiaries

[3] Derived from audited consolidated financial statements.

Operating Revenue and Volumes

Total operating revenue increased \$1.4 billion reflecting a year over year compound annual growth rate ("CAGR") of 13.7% from 2009 to 2011, including the impact of the LHH and subsidiaries acquisition. During the same period, excluding the impact of LHH and subsidiaries, total operating revenue increased by \$0.7 billion, reflecting a CAGR of 7.0%.

The following chart presents consolidated North Shore-LIJ operating revenue and certain volume utilization statistics for the years ended December 31, 2009, 2010 and 2011:

<i>(\$'s In Millions)</i>	2009 ^[1]	2010 ^[1]	2011 ^[1]
Operating revenue			
Total patient revenue, including physician practice revenue	\$4,633.4	\$5,317.2	\$6,026.7
Physician practice revenue	\$432.6	\$490.9	\$671.9
Other operating revenue	\$209.9	\$250.6	\$245.6
Total operating revenue	\$4,886.2	\$5,609.7	\$6,322.3
Volume *			
Discharges (excluding nursery)	228,516	249,115	259,687
Ambulatory Surgery Visits	110,435	126,928	133,411
Emergency Room Visits (treated and released)	409,572	435,800	471,744
Other Outpatient Visits	731,299	788,756	840,346

[1] Dollar amounts are derived from the most recent audited consolidated financial statements.

* Volume statistics differ from those in the table "Utilization Statistics for the Obligated Group" in "Utilization" herein, because those statistics include the full fiscal year of LHH on a pro forma basis for 2009 and 2010.

North Shore-LIJ's core business consists of net patient service revenue and physician practice revenue (collectively referred to as "total patient revenue"). North Shore-LIJ's total patient revenue increased from \$4.6 billion for the year ended December 31, 2009 to \$6.0 billion for the year ended December 31, 2011, as a result of the acquisition of LHH and subsidiaries, growth in inpatient and outpatient services, an increase in payment rates and revenue cycle initiatives. During the same period, excluding the impact of LHH and subsidiaries, total patient revenue increased by \$0.7 billion, and volume increased by 1,829 discharges and 22,919 emergency room visits (treat and released). Outpatient revenue, which is included in total patient revenue, continues to be a strategic focus of North Shore-LIJ, with efforts to grow physician and ambulatory services, as demonstrated by increases in physician practice revenue and outpatient visits.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of uncompensated care remained relatively constant at approximately 3% of total patient revenue for all periods presented.

The major components of other operating revenue are hospital grants/contracts, laboratory and other ancillary services, cafeteria sales and other miscellaneous items. Other operating revenue increased by \$35.7 million from 2009 to 2011, including LHH and subsidiaries, primarily as a result of growth in laboratory services.

Operating Expenses

Total operating expenses increased \$1.4 billion reflecting a CAGR of 13.5% from 2009 to 2011, including the impact of the LHH and subsidiaries acquisition. During the same period, excluding the impact of LHH and subsidiaries, total operating expenses increased by \$0.6 billion, reflecting a CAGR of 6.3%.

Summarized below are the operating expenses for the years ended December 31, 2009, 2010 and 2011:

<i>(\$'s In Millions)</i>	2009 ^[3]	2010 ^[3]	2011 ^[3]
Operating expenses			
Salaries and employee benefits ^[1]	\$3,036.5	\$3,381.6	\$3,881.0
Supplies and expenses ^[2]	\$1,439.8	\$1,730.9	\$1,882.8
Interest expense	\$59.9	\$62.9	\$61.0
Total operating expenses	\$4,802.9	\$5,469.1	\$6,188.1

[1] Salaries and employee benefits include nursing agency costs (nursing agency costs are reflected in supplies and expenses in the Audited Consolidated Financial Statements in Appendix B).

[2] Supplies and expenses shown are based upon the Audited Consolidated Financial Statements included in Appendix B, adjusted to exclude nursing agency costs.

[3] Derived from audited consolidated financial statements.

Salaries and employee benefits increased by \$0.8 billion, with a 13.1% CAGR, from the year ended December 31, 2009 to the year ended December 31, 2011. The increase in salaries and employee benefits was due to the acquisition of LHH and subsidiaries, an increase in benefit expenses, strategic investments in physicians and staff to support the growth in the hospitals and ambulatory network, and various other service and quality initiatives.

Supplies and expenses increased by \$0.4 billion, with a 14.4% CAGR, from the year ended December 31, 2009 to the year ended December 31, 2011. The growth is attributable to the acquisition of LHH and subsidiaries, supply usage associated with the incremental volume and investments in quality initiatives, program expansion, newly acquired physician practices and information technology. The investments in technology, including clinical software, are intended to ensure North Shore-LIJ remains competitive, maintains what Management believes is a competitive advantage regarding physician satisfaction and retention, and improves clinical and operational processes.

Supply chain efforts (which involve utilization initiatives for medical and surgical supplies as well as pharmaceuticals) along with productivity and efficiency efforts helped control the growth rate of supplies and expenses.

Non-Operating Gains and Losses

The following table presents a summary of non-operating gains and losses for North Shore-LIJ for the years ended December 31, 2009, 2010 and 2011:

(\$'s In Millions)	2009 ^[1]	2010 ^[1]	2011 ^[1]
Investment income	\$22.6	\$41.7	\$42.9
Change in net unrealized gains and losses and change in value of equity method investments	\$102.6	\$68.7	(\$24.3)
Change in fair value of interest rate swap agreements designated as derivative instruments*	\$12.8	(\$7.3)	(\$14.9)
Gain (loss) on refunding of long-term debt	\$19.9	-	(\$12.6)
Contribution received in the acquisition of LHH and subsidiaries	-	\$448.7	-
Medical resident tax recovery	-	\$40.9	\$1.8
Other non-operating gains and losses	(\$1.4)	\$9.1	\$12.0

[1] Derived from audited consolidated financial statements.

* Refer to “Interest Rate Swap Agreements” herein.

Due to volatility in the investment markets over the years 2009-2011, North Shore-LIJ’s gains and losses relating to investments and interest rate swaps have fluctuated each year.

In 2009, North Shore-LIJ recorded a non-cash gain on refunding of long-term debt of \$19.9 million related to the Series 2009 bond issues. In 2011, North Shore-LIJ recorded a non-cash loss on refunding of long-term debt of \$12.6 million related to the Series 2011A bond issue.

In 2010, North Shore-LIJ recorded a contribution received in the acquisition of LHH and subsidiaries. On May 19, 2010 (the “Acquisition Date”), North Shore-LIJ acquired LHH and subsidiaries by means of an interest contribution where no consideration was transferred by North Shore-LIJ. North Shore-LIJ accounted for the business combination by applying the acquisition method and, accordingly, all assets acquired and liabilities assumed were measured at fair value as of the Acquisition Date. The excess of the fair value of assets acquired over the fair value of liabilities assumed represents the value of the contribution received and is a non-recurring item recorded in the Consolidated Statements of Operations and Changes in Net Assets for the year ended December 31, 2010. The unrestricted excess of the fair value of LHH and subsidiaries’ assets acquired over the fair value of LHH and subsidiaries’ liabilities, of \$448.7 million, was recorded as a contribution received within non-operating gains and losses. The excess fair value of LHH and subsidiaries’ temporarily and permanently restricted net assets, of \$68.6 million, was recorded as a contribution received in the Consolidated Statement of Changes in Net Assets. The total contribution received in the acquisition of LHH and subsidiaries increased North Shore-LIJ’s net assets by \$517.3 million.

A medical resident tax recovery of \$40.9 million and \$1.8 million was recorded for the years ended December 31, 2010 and 2011, respectively. This recovery is a non-recurring and non-operating revenue item attributable to Federal Insurance Contributions Act (“FICA”) medical resident refund claims filed by North Shore-LIJ that are expected to meet the Internal Revenue Service (“IRS”) requirements to be eligible for refunds with interest. In March 2010, the IRS announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of FICA taxes. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain

information to meet the requirements of perfection established by the IRS for their claims applicable to periods prior to April 1, 2005.

Other Changes in Unrestricted Net Assets - Highlights

For a complete list of other changes in unrestricted net assets, refer to the Audited Consolidated Financial Statements in Appendix B. Interest Rate Swap Agreements are also discussed in “*Statement of Financial Position Overview*”.

Pension and Other Postretirement Liability Adjustments

North Shore-LIJ maintains several pension and other postretirement benefit plans for its employees. For the years ended December 31, 2009, 2010 and 2011, North Shore-LIJ, recorded an increase (decrease) in unrestricted net assets of \$79.9 million, (\$16.2) million and (\$149.3) million, respectively, associated with pension and other postretirement liability adjustments. These adjustments relate to changes in discount rates and investment gains and losses incurred by the assets included in the pension trusts and were made in accordance with the provisions of the Accounting Standards Codification Topic 715, *Compensation - Retirement Benefits*, which requires North Shore-LIJ to recognize the funded status (the difference between the projected benefit obligations and the fair value of the plan assets) of its defined benefit and postretirement plans in the Consolidated Statements of Financial Position with a corresponding adjustment to unrestricted net assets.

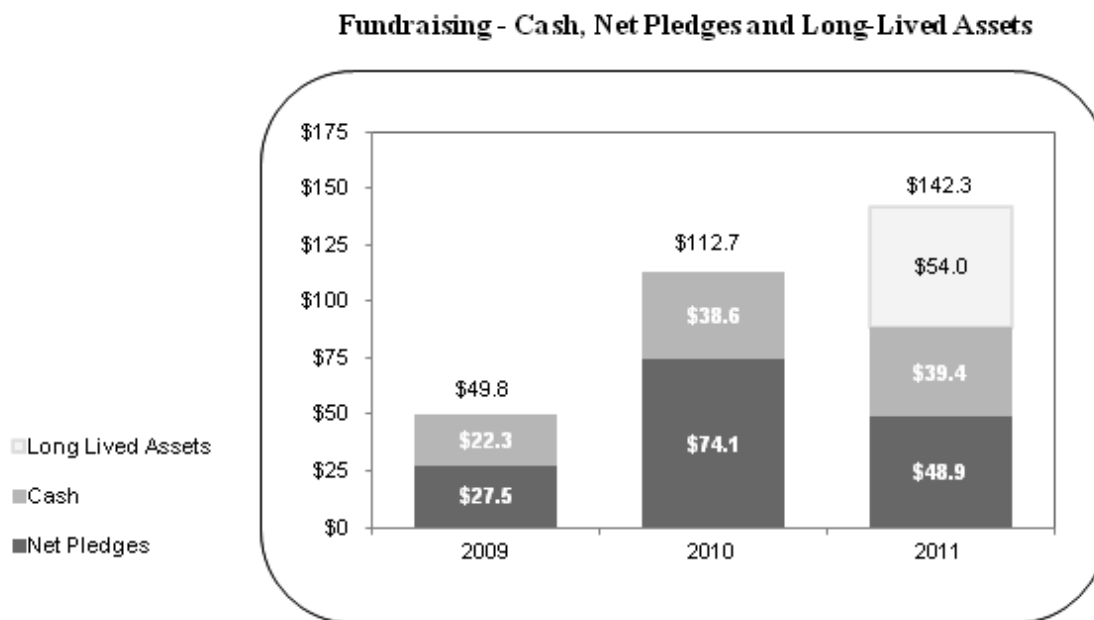
The combined funded status of North Shore-LIJ’s non-contributory defined benefit pension plans on an actuarial basis was 73%, 73% and 70% at December 31, 2009, 2010 and 2011, respectively. Refer to “*Investment Policy*” and “*Employee Benefit Plans*” for more information on these plans and North Shore-LIJ’s contribution policy.

Contributions of Long-Lived Assets

In 2011, North Shore-LIJ received a gift of a building in Manhattan, which was recorded at its estimated fair value of \$54 million, based on an independent valuation, as a contribution of a long-lived asset within other changes in unrestricted net assets.

Fundraising

For the years ended December 31, 2009, 2010 and 2011, North Shore-LIJ's fundraising efforts resulted in the following donations (in Millions):



Cash and pledges are generally received by the Foundation, which was formed to solicit, receive and administer funds to be used for major modernization, capital acquisitions, special programs and other health care services for the benefit of the Members of the Obligated Group and other affiliated tax-exempt organizations of the Health System. The Foundation is not a Member of the Obligated Group. For further information, see "Philanthropy" herein.

Statement of Financial Position Overview

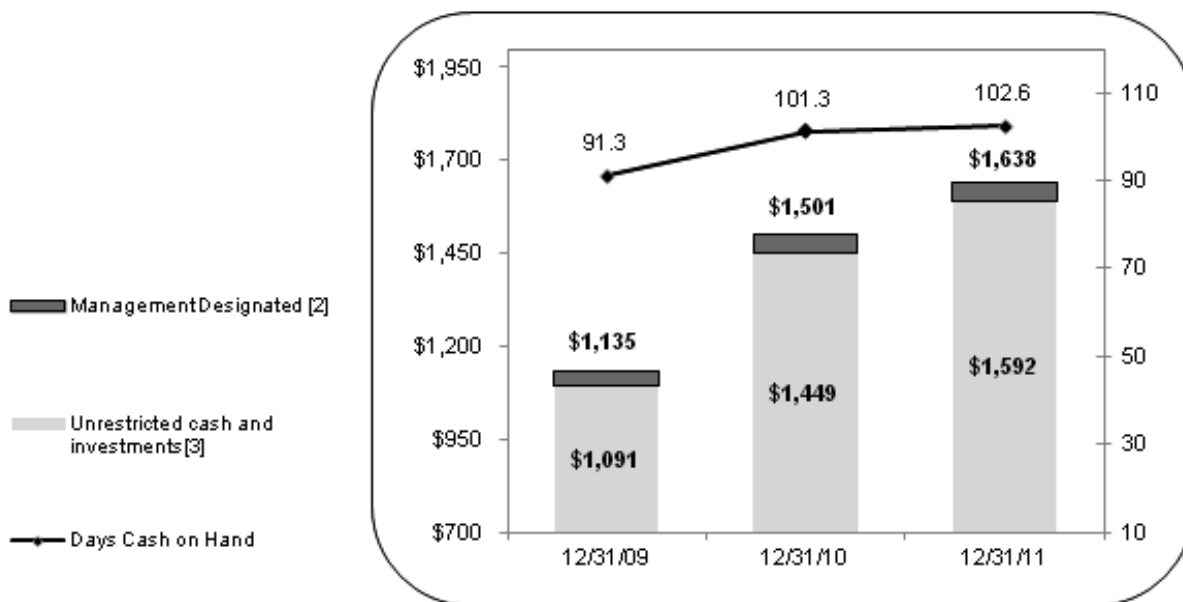
Days cash on hand, days in patient accounts receivable, days in accounts payable, long term debt to cash flow and debt service coverage ratio calculations for 2010 are presented on a pro-forma basis to include a full twelve months of operations for LHH and subsidiaries, although those entities were acquired by North Shore-LIJ on May 19, 2010. Refer to the Audited Consolidated Financial Statements in Appendix B and to www.dacbond.com and www.emma.msrb.org for the Audited Consolidated Financial Statements of LHH and Subsidiaries for the years ended December 31, 2010 and 2009.

Liquidity and Capital Resources

Unrestricted cash and investments increased to \$1.64 billion as of December 31, 2011 from \$1.14 billion as of December 31, 2009, resulting in 102.6 days cash on hand as of December 31, 2011, an increase of 11.3 days cash on hand from December 31, 2009. The growth was a result of profitable operations and Management's use of a systematic strategic capital allocation process. Management's strategic capital allocation process assesses capital expenditures within the context of operations, capital market conditions affecting investment performance, fundraising and debt capacity. Total unrestricted cash and investments is comprised of cash and cash equivalents and marketable securities and other investments (as defined in the Audited Consolidated Financial Statements in Appendix B) and management designated assets included in assets limited as to use in the Consolidated Statements of Financial Position.

The following chart presents total unrestricted cash and investments, in millions, included in days cash on hand calculations and days cash on hand at December 31, 2009, 2010 and 2011:

Total Unrestricted Cash and Investments and Days Cash on Hand^[1]

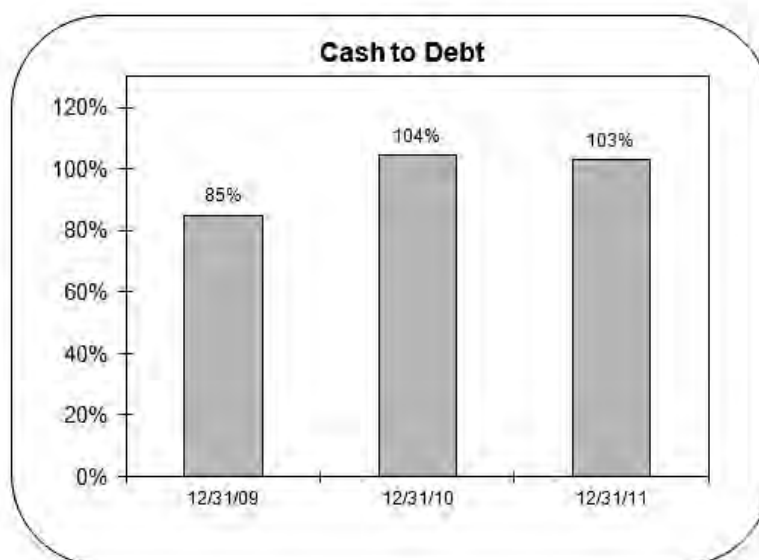


[1] Calculated on a pro forma basis for 2010 using a full year of operations for LHH and subsidiaries.

[2] Management designated asset funds included in days cash on hand, which are included in assets limited as to use in the Audited Consolidated Financial Statements included in Appendix B, were \$44.3 million, \$51.9 million and \$46.2 million, as of December 31, 2009, 2010 and 2011, respectively.

[3] Comprised of cash and cash equivalents and marketable securities and other investments (in the Audited Consolidated Financial Statements in Appendix B).

As a result of the growth in total unrestricted cash and investments, North Shore-LIJ's cash to debt measurement has increased from December 31, 2009 as illustrated below:



Although total unrestricted cash and investments increased as of December 31, 2011 compared to December 31, 2010, the new debt assumed in 2011 has resulted in a decline in the cash to debt ratio as of December 31, 2011 from 104% to 103%.

Refer to "Investment Policy" for North Shore-LIJ's investment allocations of its various portfolios.

Patient Accounts Receivable

Days of total patient revenue in patient accounts receivable were 38 days, 40 days and 41 days as of December 31, 2009, 2010 and 2011, respectively.

Property, Plant and Equipment

Management monitors and manages capital spending in relation to operations, capital market conditions affecting investments, fundraising and debt capacity. The members of North Shore-LIJ continue to invest their capital to meet the ongoing needs of their respective communities. Capital expenditures totaled \$220.0 million, \$415.3 million and \$622.1 million for the years ended December 31, 2009, 2010 and 2011, respectively. Of these amounts, \$74.7 million, \$69.1 million and \$86.4 million for the years ended December 31, 2009, 2010 and 2011, respectively, were financed from the proceeds of prior bond issues.

Net assets released from restrictions for capital asset acquisitions totaled \$29.5 million, \$52.6 million and \$15.8 million for the years ended December 31, 2009, 2010 and 2011, respectively.

Capital expenditures as a percentage of depreciation and amortization were 116%, 193% and 236% for the years ended December 31, 2009, 2010 and 2011, respectively. The increase in capital expenditures in 2011 was primarily related to the new women's hospital on the LIJMC campus, building additions and major renovation projects at other North Shore-LIJ facilities, and investments in IT. The reduced level of capital expenditures in 2009 represents Management containing capital spending in

relation to the sources of capital funding, which were impacted by the economic challenges that began in late 2008.

Accounts Payable

Days in accounts payable were 92 days, 101 and 115 days at December 31, 2009, 2010, and December 31, 2011, respectively.

Debt

The following table presents a summary of North Shore-LIJ's outstanding debt, debt to capitalization, and long term debt to cash flow as of December 31, 2009, 2010 and 2011:

<i>(\$'s In Millions)</i>	2009 ^[4]	2010 ^[4]	2011 ^[4]
Total outstanding debt ^[1]	\$1,338.9	\$1,438.2	\$1,589.9
Debt to capitalization ^[2]	54.1%	42.0%	43.5%
Long term debt / Cash flow ^[3]	4.3x	3.3x	3.2x

[1] Total outstanding debt includes long-term debt, capital lease obligations and short-term borrowings.

[2] Capitalization is defined as the sum of debt and unrestricted and temporarily restricted net assets.

[3] Cash flow is defined as net income before all items defined in footnote [b] below, except for interest expense.

[4] Derived from audited consolidated financial statements.

Leverage, as measured by total outstanding debt to capitalization and long-term debt to cash flow, has improved from December 31, 2009 to December 31, 2011. As a result of net income, the contribution recorded in the acquisition of LHH and subsidiaries and scheduled principal repayments, debt to capitalization has improved from 54.1% to 43.5% over this period with a slight increase as of December 31, 2011 compared to December 31, 2010. This increase is primarily due to the new debt assumed and the previously mentioned pension and postretirement liability adjustments recorded in 2011. Long-term debt to cash flow has improved from December 31, 2009 to December 31, 2011 primarily as a result of improved cash flow, as defined above.

The debt service coverage ratio for the years ended December 31, 2010 and 2011 improved from 3.8x to 4.1x, with a maximum annual debt service ("MADS") of \$127.4 million and \$125.8 million, respectively. MADS occurs in 2011 for the December 31, 2010 calculation. MADS occurs in 2012 for the December 31, 2011 calculation and includes the impact of the updated variable rate debt calculations per the Master Trust Indenture, the Series 2011A bonds issued in October 2011 and other new debt assumed, as disclosed in Note 7 of the Audited Consolidated Financial Statements in Appendix B. The debt service coverage ratio for the year ended December 31, 2012 was prepared on a pro forma basis to include a full year of operations for LHH and subsidiaries, although those entities were acquired by North Shore-LIJ on May 19, 2010. Income available for debt service^[b] for the years ended December 31, 2010 and 2011 was \$481.9 million and \$514.3 million, respectively. Please refer to the table "North Shore-LIJ Health System Long-Term Debt Service Coverage Ratio" in "*Historical and Pro Forma Coverage of Debt Service.*"

^[b] Defined as net income before depreciation and amortization, interest expense, the change in net unrealized gains and losses and change in value of equity method investments, the change in fair value of interest rate swap agreements designated as derivative instruments, the gain in 2009 and loss in 2011 on refunding of long-term debt, the contribution received in the acquisition of LHH and subsidiaries in 2010 and the non-recurring medical resident tax recovery in 2010 and 2011.

Total outstanding debt, including short-term borrowings, increased as of December 31, 2011 compared to December 31, 2009 primarily as a result of North Shore-LIJ's acquisition of the outstanding debt of LHH and subsidiaries in 2010, the issuance of the Series 2011A bonds net of debt refunded as part of the Series 2011A transaction, incremental short term borrowings and other new debt assumed, partially offset by scheduled principal repayments.

North Shore-LIJ primarily uses its revolving credits to bridge capital expenditures to be paid with donations and/or bond issues. Short term borrowings of \$15.5 million and \$90.5 million as of December 31, 2010 and 2011, respectively, were bridge borrowings for donor funded capital projects. Please also refer to "*Revolving Credit Availability*."

For further information, see "*Outstanding Indebtedness*" herein.

Interest Rate Swap Agreements

Certain members of North Shore-LIJ have entered into various interest rate swap agreements with financial institutions, matched or related to the term and rate of various bond issues or debt agreements. As of December 31, 2009, 2010 and 2011, the aggregate fair value of the interest rate swap agreements was a liability of \$15.1 million, \$23.8 million and \$39.6 million, respectively. As of December 31, 2010 and 2011, no collateral was required to be posted to the swap counterparties with respect to these swap agreements. Swap agreements expose North Shore-LIJ to credit risk in the event of nonperformance by the counterparties and to other risks. North Shore-LIJ believes that the risk of material impact to its consolidated financial position arising from nonperformance by the counterparties is low. For additional information on the interest rate swap agreements refer to "*Swap and Debt Policy*", "*Guarantees*" and to Note 7 of the Audited Consolidated Financial Statements in Appendix B.

Summary

Revenue improvements associated with volume growth, continued revenue cycle initiatives and increased payment rates, combined with expense reductions as a result of supply chain and other productivity and efficiency management initiatives, contributed to the operating results for North Shore-LIJ. In addition, the financial results from 2010 to 2011 were affected by the acquisition of LHH and subsidiaries in May 2010.

Operating income and Management's use of a systematic strategic capital allocation process led to a strengthened balance sheet with annual net increases in total unrestricted cash and investments and days cash on hand each year. With the improvement in operating income, debt service coverage and long-term debt to cash flow measures have improved as well.

North Shore-LIJ continues to focus on improving profitability despite the challenges and factors pressuring operating revenue. Management is focused on reducing operating expenses with supply chain initiatives and operational efficiency efforts, as well as creating additional volume through enhanced capacity, improved utilization and physician recruitment efforts. North Shore-LIJ continues to invest in strategic capital projects and technology, including clinical software, to remain competitive, to maintain what Management believes is a competitive advantage regarding physician satisfaction and retention, and to improve clinical and operational processes. In addition, North Shore-LIJ is making strategic investments in physicians who support key service lines and staff to support the growth in the ambulatory network and outpatient volume as well as various other service and quality initiatives. Management continues to monitor strategic capital needs in relation to operations, capital market conditions affecting investment returns, fundraising and debt capacity so that North Shore-LIJ can continue to invest in people, programs and facilities in order meet the healthcare needs of its patients, their families and the communities served.

Budgetary Process

The annual operating and capital budgets of the Health System are prepared by the finance office of the Health System in collaboration with the administrative leadership of each Member of the Obligated Group. The budgets are reviewed and approved by the Executive Leadership of the Health System and the Health System Board of Trustees. The operating budget sets the targeted gain from operations; however, there can be no assurance that this goal will be achieved in any year.

Reimbursement Methodologies

Medicare

Medicare covers hospital services for eligible individuals who are elderly, disabled or subject to certain chronic conditions. Medicare pays acute care hospitals, such as the Obligated Group hospitals, for most general medical/surgical services provided to eligible inpatients under a prospective payment system (“PPS”) known as “inpatient PPS.” Under the inpatient PPS, hospitals receive a predetermined payment amount for each Medicare discharge. This PPS payment is a standard national amount based on the diagnostic related group (“DRG”) for the discharge subject to a geographic adjustment that takes into account wage differentials. DRGs classify treatments for illnesses according to the estimated costs of hospital resources necessary to furnish care for each patient’s principal diagnosis. Hospitals are thus at financial risk for providing services to a patient at an actual cost greater than the applicable DRG payment. DRG rates are updated annually (the update factor) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the market basket). Historically, the increases to the DRG rates have often been lower than the percentage increases in the costs of goods and services purchased by hospitals. Under provisions of the ACA, there are further reductions in the market basket percentage increase, consisting of both a flat percentage reduction and an economic productivity adjustment. DRG weights are also recalibrated annually. Hospitals also receive additional payments for certain costs, such as new technology costs as well as atypical cases (known as outliers) and the costs of organ procurement. Hospitals also receive an additional per discharge payment based on a federal rate (with certain adjustments) to reimburse hospitals for capital costs. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services. Eligibility for the full increase is currently conditioned upon a hospital’s submission of quality data to Medicare. Furthermore, payments may be restricted for hospital acquired conditions.

Certain hospital inpatient facilities or units providing specialized services, such as rehabilitation or psychiatric units, are reimbursed under distinct reimbursement methodologies. In 2002, Medicare implemented a distinct PPS for inpatient rehabilitation services and reduced the number of diagnoses that qualify a patient to be treated in an inpatient rehabilitation unit. Patients receiving rehabilitation services are classified into case mix groups based upon impairment, age, co-morbidities and functional capability. Hospitals receive a predetermined amount per discharge based on the patient’s case mix group as adjusted for geographic area wage levels, low-income patients, hospital teaching status, rural areas and high-cost outliers. Medicare also adapted a distinct PPS for inpatient psychiatric services in 2005. Hospitals receive a predetermined per diem payment with adjustments for factors such as patient characteristics, DRG, hospital teaching status and geographic area wage levels. Rehabilitation and psychiatric PPS rates are also subject to updates. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services.

Most hospital outpatient services are also reimbursed on a PPS basis. Payments under the outpatient PPS (“OPPS”) are based upon ambulatory payment classification (“APC”) groups. An APC group includes various services and procedures determined to be similar. APC rates are adjusted annually and are subject to a geographic adjustment that takes into account wage differentials and the average amount of resources required to provide the service (e.g., visit, chest x-ray, surgical procedure). Hospitals are eligible to receive additional payments for certain new or high cost drugs and devices as well as

certain outlier payments. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services.

OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Outpatient services not covered by OPSS are reimbursed on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

Certain hospitals, including the Obligated Group hospitals, receive additional payments from Medicare to reimburse for providing care to a high level of Medicaid and uninsured patients (disproportionate share payments or DSH payments) and training physicians and other medical professionals (graduate medical education (“GME”) payments). There are two forms of payment for GME: Direct Graduate Medical Education (“DGME”) and Indirect Medical Education (“IME”) payments. DGME payments support the direct costs of training (e.g., resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and their extensive “stand-by” capabilities. DGME costs are reimbursed under a prospective methodology based on a hospital-specific approved amount per resident. Additional payments are available to PPS teaching hospitals for the IME costs attributable to their approved graduate medical education programs. The IME payment is an additional payment calculated as a percentage add-on to the inpatient DRG payment. The payment is based on a formula that incorporates the hospital’s ratio of residents to beds in use and total inpatient PPS revenue. DGME and IME reimbursement is subject to certain limitations, such as a cap on a hospital’s reimbursable residents based on the number of residents in a base year, and reductions for training taking place in non-hospital settings unless certain criteria are met. Congress has repeatedly sought to limit GME reimbursement.

Medicare Advantage plans (formerly known as Medicare+Choice Plans) are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program, these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the level of payment and rate of increase in the cost of the program. The most significant areas of concern for cuts to the Medicare program are IME and DSH payments. Another significant change to the inpatient PPS will come in federal fiscal year 2013. This change is referred to as “Pay for Performance” and incorporates either an increase or decrease to the Medicare base payment rate, based on the results of quality measures that a hospital must submit to Medicare. The intention of Pay for Performance is to reimburse for quality delivery of care, not simply quantity. It is likely that revisions will continue, some of which may adversely affect the Medicare reimbursement which Members of the Obligated Group receive.

Non-Medicare Reimbursement

As periodically updated and renewed, the New York State reimbursement methodologies govern non-Medicare payments to hospitals in New York State. Under the New York State reimbursement methodologies, hospitals and all non-Medicare payers, except Medicaid, workers’ compensation and no-fault insurance programs, negotiate hospitals’ payment rates. If negotiated rates are not established, payers are billed at hospitals’ established charges. Medicaid, workers’ compensation and no-fault payers pay hospital rates promulgated by DOH on a prospective basis. Every year, the Health System’s hospitals and nursing homes must have their Medicaid reimbursement rates certified for the forthcoming year by the New York State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. In addition, Medicaid rate methodologies are subject to approval

at the Federal level by CMS, which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Obligated Group is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for Medicaid will continue to be made in future years.

New York State reimbursement methodologies include a system of state-imposed assessments and surcharges on various categories of third party payers for healthcare services that fund annual state-operated pools for indigent care, healthcare initiatives, and professional education. In 2010, funds from the professional education pool were transferred to the indigent care pool and distributed to hospitals on a methodology utilizing uninsured patient volume. There will be continued changes in the methodology used to determine the amount of the distributions to be made to hospitals and in the methodology used to determine the cap on the amount of the distributions that are ultimately passed on to hospitals. These issues could negatively impact the Health System. Charity care has become an area of intense focus by both federal and state governments. The teaching component of Medicaid and managed Medicaid reimbursement which is distributed outside the pools is expected to continue to be paid by the State directly to the hospitals. Members of the Obligated Group receive significant payments from the indigent care pool, and no assurances can be given that substantial subsequent changes in these programs will not occur, nor that subsequent payments will remain at levels comparable to the present level.

In New York State, Medicaid is a jointly funded federal-state-county program administered by the State by which hospitals receive reimbursement for services provided to eligible infants, children, adolescents and indigent adults. Since its application for a federal Medicaid waiver under Section 1115 of the Social Security Act was first approved in 1997, the State of New York has mandated that a significant portion of its Medicaid population be assigned and enrolled into private managed care plans. Under the waiver, Medicaid recipients are required to enroll in one of several managed care options, unless they fall into an exempt or excluded category enumerated in the New York statute. Management of the Obligated Group believes that Medicaid fee-for-service payments will likely constitute a reduced percentage of the Obligated Group's inpatient revenue as Medicaid managed care plans contract with hospitals on a negotiated-rate basis. See "*Managed Care*" herein.

In 2011, the New York State Budget included further cuts to reimbursements to providers in a wide variety of areas. In addition, many modifications occurred as a result of the "Medicaid Redesign Team." One of the key provisions is an overall state spending cap, which if exceeded, will result in further reimbursement cuts. As of March 2012, the state of New York had not pierced the spending cap, however there are outstanding retroactive reimbursement issues that could result in the cap being pierced, which in turn, could lead to further rate cuts. There is a major change in the reimbursement methodology for outpatient psychiatry that is retroactive to October 2010. Reimbursement for outpatient mental health services will now be paid based on Ambulatory Patient Groups (APGs), which are case rates determined on the basis of resource utilization and intensity, rather than traditional fee-for-service reimbursement.

Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Obligated Group. Additionally, certain payers' payment rates for various years have been appealed by

certain members of the Obligated Group. If the appeals are successful, additional income applicable to those years might be realized.

Any future reductions could have a material adverse effect on the financial condition of the Members of the Obligated Group. See also “PART 8 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP –*State Budget*” and “*Legislative, Regulatory and Contractual Matters Affecting Revenue.*”

Managed Care

Managed care programs, which include various payment methodologies and utilization controls through the use of primary care physicians, case managers and other care coordinators are increasingly being offered by traditional insurance companies and managed care organizations in New York State. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. Managed care programs are expected to reduce significantly the utilization of health care services, and inpatient services in particular. In addition, some managed care organizations have been delaying reimbursements to hospitals thereby affecting institution cash flows. The Obligated Group’s financial condition may be adversely affected by these trends.

North Shore-LIJ has established relationships with most managed care companies in the market, and these contracts cover most products (HMO, point of service, PPO) and payer types (Medicare, Medicaid, commercial). The five managed care companies that represent the largest managed care patient volume within the Health System are Empire Health Choice/WellPoint, United HealthCare, Emblem Health, CIGNA and Aetna.

The hospitals of the Health System, including the Members of the Obligated Group, employ a multifaceted strategy for managed care contracting. The goal of the contracting effort is to create mutually beneficial arrangements with managed care payers that will enable the Health System to maintain and enhance the quality of care provided to patients. This strategy was implemented in an effort to allow the Health System to maintain stable compensation/revenue through a combination of price enhancements and increases in volume to its facilities. The contracting initiatives include unified system-wide contracting, payment assurances, limitations on payer denials, periodic interim payments (advances) with certain payers, preferred pricing and volume objectives, open panels for physicians and diversified contracting for various products offered by each carrier.

These efforts are taking place despite the increased strength of payers due to a number of factors. Payer consolidation in the marketplace would further disadvantage hospitals and result in a small number of managed care payers controlling the majority of discharges. Shifts between product types within a particular payer’s population may adversely affect expected compensation/revenue. In addition, managed care payers have also begun implementing disease management programs and carving out many services (such as Behavioral Health / Substance Abuse, Laboratory and Radiology services) to third parties, as well as creating sub-networks (“centers of excellence”) for high cost services such as cardiac care, bariatric surgery or bone marrow transplants, restricting the number of providers that may offer these services to their members in return for additional discounts or contract terms favoring the payer. In order to respond to these market shifts, the Health System has implemented a multi-year “payer parity” strategy, which includes relative price parity among payers for tertiary and community hospitals and a shift to severity-adjusted case rates. While these goals have largely been achieved, a focus has been placed on a move toward product parity so that shifts in product type or benefit design will not have an adverse impact on compensation/revenue. Examples of this include: provisions regarding volume channeling, more favorable payment terms, participation in “centers of excellence”, or the relative size of the payer in the marketplace.

The majority of managed care reimbursement is paid on either a discounted fee-for-service basis or case rate according to contracted rates. Financial terms are established based upon the size of health plan membership and the ability of the company to direct patients to the Health System. Separate rates are established for each product line (Medicare, Medicaid, Indemnity, HMO, and PPO). Most contracts are either on a DRG-based per case rate for all acute services or include per diem rates for general inpatient services and an extensive number of DRG-based case rates for tertiary and quaternary care. Psychiatric and Rehabilitation services are generally negotiated on a per diem basis. Global rates, which are composite rates that include hospital and physician services, have been established for select cardiac and transplant services. Outpatient services are reimbursed on a percent of charges or fixed fee schedule basis.

Most Medicaid managed care members are enrolled with Prepaid Health Services Plans (“PHSPs”). PHSPs are managed care companies that were enabled by New York State as part of the federal waiver it received to enroll Medicaid eligible patients in managed care. For several years, the Health System prepared for the implementation of mandatory Medicaid managed care enrollment in New York City and Nassau and Suffolk Counties, New York, through contracting initiatives and operational changes to ensure continued patient volume through outpatient clinics in the Health System. A major part of this initiative was purchasing an ownership interest in Healthfirst, a Medicaid HMO owned collectively by a consortium of hospitals in the region and one of the largest PHSPs in New York City.

See also “PART 8—RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP - *Medicare and Medicaid Managed Care.*”

Other Health System Entities

In addition to the Members of the Obligated Group, there are other entities that are part of the Health System and have NSLIJ HSI as their ultimate parent but are not Members of the Obligated Group (as previously defined, “Other North Shore-LIJ Health System Entities”).

The largest of these entities in terms of total operating revenue in 2011 were the North Shore Long Island Jewish Health System Laboratories, which had revenues of approximately \$209.7 million, including \$129.1 million for laboratory services provided to the Members of the Obligated Group, and also provides reference laboratory services for a broad number of providers throughout the service area, and The Feinstein Institute (see “*Research*”), which had revenues of \$76.7 million in 2011.

THE “OTHER NORTH SHORE-LIJ HEALTH SYSTEM ENTITIES” ARE NOT MEMBERS OF THE OBLIGATED GROUP AND, THEREFORE, ARE NEITHER OBLIGATED UNDER THE MASTER TRUST INDENTURE NOR RESPONSIBLE FOR PAYMENT OF THE DEBT SERVICE ON THE SERIES 2012A BONDS.

PART 8 - RISK FACTORS AND REGULATORY PROVISIONS WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP

The following discussion of risks to holders of the Series 2012A Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2012A Bonds, in addition to other risks described throughout this Official Statement.

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

General

The Series 2012A Bonds are not a debt or liability of the State of New York or any political subdivision thereof, but are special and limited obligations of the Authority payable solely from the Revenues which consist of payments payable by each Member of the Obligated Group, payments by the Obligated Group pursuant to the Series 2012A Obligation, the funds and accounts held by the Trustee pursuant to the Series 2012A Resolution (except the Arbitrage Rebate Fund) and certain investment income thereon. The Authority has no taxing power. No representation or assurance can be made that revenues will be realized from the Obligated Group in amounts sufficient to provide funds for payment of debt service on the Series 2012A Bonds when due and to make other payments necessary to meet the obligations of the Obligated Group. Further, there is no assurance that the revenues of the Obligated Group can be increased sufficiently to match increased costs that may be incurred.

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

Future revenues and expenses of the Obligated Group may be affected by events and economic conditions, which may include an inability to control expenses in periods of inflation, as well as other conditions such as demand for health care services; the capability of the management of Members of the Obligated Group; the receipt of grants and contributions; referring physicians' and self-referred patients' confidence in the Members of the Obligated Group; and increased use of discounted payment schedules through contracts with health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other payors. Other factors which may affect revenues and expenses include the ability of the Obligated Group to provide services required by patients; the relationship of the Obligated Group with physicians; the success of the Obligated Group's strategic plans; the degree of cooperation among and competition with other hospitals in the Obligated Group's area; changes in levels of private philanthropy; malpractice claims and other litigation; economic and demographic developments in the United States and in the service areas in which facilities of the Obligated Group are located; changes in interest rates that affect the investment results; and changes in rates, costs, third-party payments (including, without limitation, Medicare and Medicaid program reimbursement) and governmental regulations concerning payment. All of the above referred-to factors could affect the Obligated Group's ability to make payments pursuant to the respective 2012A Loan Agreement and under the Series 2012A Obligation. See "PART 7 – THE OBLIGATED GROUP" and "Appendix B - Audited Consolidated Financial Statements of North Shore-Long Island Jewish Health System, Inc. for the Years Ended December 31, 2011 and 2010 with Report of Independent Auditors."

Health Care Reform

As a result of the Patient Protection and Affordable Care Act, enacted in March 2010, as amended by the Health Care and Education Reconciliation Act (the "ACA"), substantial changes are anticipated in the United States health care system. Some of the provisions of the ACA took effect immediately, while others will take effect at later dates or will be phased in over time. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These provisions are slated to take effect at specified times over approximately the next decade, and, therefore, the full consequences of the ACA on the health care industry will not be immediately realized. Due to the complexity of the ACA, the ramifications of federal health care reform legislation may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the ACA may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding

the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

The changes in the health care industry brought about by the ACA will likely have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Obligated Group Members. For example, the projected increase in the number of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the mandate for individuals to purchase insurance could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. Substantial reductions in the rate of increase of Medicare "market basket" adjustments and in actual reductions in Medicare payments will likely result in a significant negative impact to the hospital industry overall. The legislation's cost-cutting provisions to the Medicare program include reduction in Medicare market basket updates to hospital reimbursement rates under the inpatient prospective payment system over the next ten years, as well as reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions.

Health care providers will likely be further subject to decreased reimbursement as a result of implementation of recommendations of the Independent Payment Advisory Board ("IPAB"), whose mandate is to reduce Medicare cost growth. There are numerous bills calling for the repeal of the IPAB's mandate, including legislation that has recently been passed in the U.S. House of Representatives. If the IPAB survives these attacks, the ACA directs it to propose recommendations to Congress for reducing the rate of growth of Medicare expenditures beneath a prescribed inflation rate beginning in 2014. The ACA provides for the IPAB's recommended cost reductions to be automatically implemented if Congress does not adopt alternative legislation that meets equivalent savings targets. Hospitals are not subject to cost reductions proposed by the IPAB until after 2019. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors.

The ACA likely will affect some health care organizations differently than others, depending, in part, on how each organization adapts to the legislation's emphasis on directing more federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. The ACA proposes a value-based purchasing system for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The legislation also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including "accountable care organizations" and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded, or their effect on health care organizations' revenues or financial performance cannot be predicted.

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases funding for enforcement and efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt compliance and ethics programs. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provide new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments.

Some of the specific provisions of the ACA that may affect the Obligated Group Members' operations, financial performance or financial condition are described below. *This listing is not intended to be, nor should be considered by the reader as comprehensive. The ACA is complex and comprehensive, and includes myriad new programs and initiatives and changes to existing programs, policies, practices and laws. The reader is encouraged to review the ACA, itself and/or more comprehensive summaries and analyses of the ACA available in the public media.*

Market Basket Reductions. Generally, Medicare payment rates to hospitals are adjusted annually based on a “market basket” of estimated cost increases, which have averaged approximately 2-4% annually in recent years. The ACA provides for three types of annual reductions in the market basket. The first is a general reduction of a specified percentage in each federal fiscal year beginning in 2010 and extending through 2019, increasing from 0.10% to 0.75 % each year. The second type of reduction is a “productivity adjustment” based on national economic productivity statistics. For federal fiscal year 2012, this adjustment resulted in a 1% reduction in the “market basket” update and is anticipated to result in similar reductions in future years.

The third type of reduction is in connection with Medicare’s value-based purchasing program. Beginning in federal fiscal year 2013, Medicare inpatient payments to hospitals will be reduced by 1%, progressing to 2% by federal fiscal year 2017. For each federal fiscal year, the total amount collected from these reductions will be pooled and used to fund payments to hospitals that meet “value-based purchasing” standards for treatment of certain conditions. While the reductions may be offset or recovered in full if a hospital satisfies the specified quality metrics, the recovery amounts may be delayed.

The Centers for Medicare and Medicaid Services’ (“CMS”) actuary projects that these combined general reductions and productivity adjustments to the market basket update will result in Medicare savings of approximately \$112 billion.

Hospital Acquired Conditions Penalty. Beginning in federal fiscal year 2015, Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain “hospital-acquired conditions” will be reduced by 1% for all discharges for the applicable federal fiscal year. In addition, the ACA provides that, as of July 1, 2011, CMS shall no longer provide federal funding to states for any amounts expended by providers in treating so-called provider-preventable conditions. CMS has also directed states to submit amendments to their Medicaid state plans to require payment denials for the cost of treating such conditions, consistent with the prohibition on federal reimbursement. The New York State Department of Health (“DOH”) issued an emergency regulation, effective December 6, 2011, that denied payment for several “potentially preventable negative outcomes,” retroactive to Medicaid discharges from July 1, 2011. The conditions included under this emergency regulation are far more extensive than those included in the Medicare “hospital-acquired conditions,” although New York State estimates that they are limited to less than 0.1% of Medicaid discharges.

Readmission Rate Penalty. Beginning in federal fiscal year 2013, Medicare inpatient payments to each hospital will be reduced based on the dollar value of that hospital’s percentage of preventable Medicare readmissions for certain medical conditions. For federal fiscal year 2013, a hospital’s payments can be reduced by a maximum of 1%, increasing to 3% by federal fiscal year 2015. In addition, the ACA allows for expansion of the conditions measured for readmission rate penalties beginning in federal fiscal year 2015.

DSH Funding. Beginning in federal fiscal year 2014, hospitals receiving supplemental disproportionate share hospital (“DSH”) payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicare beneficiaries) are slated to have their DSH payments reduced by potentially 75% (offset however, by the level of uninsured that remains). The base 25% will be supplemented by additional payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA go into effect. Separately, beginning in federal fiscal year 2014, Medicaid DSH allotments to each state also will be reduced, based on a methodology to be determined by the United States Department of Health and Human Services (“DHHS”), accounting for statewide reductions in uninsured and uncompensated care. See “Medicare and Medicaid Reimbursement – DSH Payments” herein for background about DSH funding.

Payments to Medicare Advantage Plans. Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to

Medicare Advantage plans. Payments to plans were frozen for fiscal year 2011. Beginning in fiscal year 2012, federal payments to Medicare Advantage plans are tied to the level of fee-for-service spending in the applicable county, resulting in a reduction below the fiscal year 2011 level for certain Medicare Advantage plans. These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

The ACA is highly politicized. Initiatives to repeal it in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been proposed. Over 20 challenges were filed by private and state parties challenging the ACA in federal district courts, and Supreme Court arguments were held from March 26th to 28th of 2012. The Supreme Court arguments focused on the constitutionality of the individual mandate, the ability of the individual mandate and other related provisions to be severed from the remainder of the ACA should it be found unconstitutional and whether the Medicaid expansions required of states are unconstitutionally coercive. The outcome of the ACA or in what form it will survive will not be known until June 2012, when the Supreme Court is expected to issue its decision. At this time it is unclear what further action, if any, Congress, the Presidential administration or the federal courts may take with respect to the ACA. In this volatile context, no projections can be made as to the future implementation or content of the ACA. Based upon all of the above, it is more difficult for Management of the Obligated Group to project future performance than it has been in the past.

Economic Turmoil

The current economic turmoil, including the downgrade of the long term credit rating of the United States by Standard & Poor's ("S&P"), has had and will continue to have negative repercussions upon the United States and global economies. In the last few years, this turmoil has particularly affected the financial sector, prompting a number of banks and other financial institutions to seek additional capital, to merge, and, in some cases, to cease operating. These events collectively have led to a scarcity of credit, lack of confidence in the financial sector, volatility in the financial markets, fluctuations in interest rates, reduced economic activity, increased business failures and increased consumer and business bankruptcies.

Hospitals are required to provide emergency care without regard to a patient's ability to pay. Poor economic conditions and increased unemployment can enlarge the population that does not have health care coverage and thus cannot pay for care out-of-pocket, which in turn can increase the uncompensated care that the Obligated Group Members provide. Tax-exempt hospitals, in particular, often treat large numbers of indigent patients who are unable to pay in full, or perhaps at all, for their medical care. In addition, poor economic conditions and increased unemployment can lead patients to postpone or forego elective procedures, thereby reducing volume and revenue.

If the current economic turmoil continues and the economy further weakens, health care providers could be materially and adversely impacted in a number of ways, including reduced investment income, reduced philanthropic donations, reduced access to the credit markets, difficulties in obtaining new liquidity facilities or extensions of existing liquidity facilities, significant draws on internal liquidity due to difficulties with remarketing existing variable rate bonds and commercial paper, increased risk of acceleration on variable rate bonds, increase in bad debt expense and charity care write-offs, and increased borrowing costs, any of which may negatively affect the operations or financial condition of a provider.

In 2009, President Obama signed into law economic recovery legislation, which was effective until June 30, 2011, that provided a temporary increase in federal Medicaid payments to the states, including New York, to enable states to maintain Medicaid benefits, as well as an increase in state DSH allotments allowing states to assist providers in continuing to care for the uninsured. The legislation also provided temporary federal subsidies to individuals who have lost their jobs to maintain their employer-based benefits through the Consolidated Omnibus Budget Reconciliation Act ("COBRA") program.

Legislative, Regulatory and Contractual Matters Affecting Revenue

The health care industry is heavily regulated by the federal and state governments. A substantial portion of revenue comes from governmental sources. Governmental revenue sources are subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors, and governmental payors and actions by, among others, the Joint Commission, CMS and other federal, state and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Obligated Group Members. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. See “Health Care Reform” and “Medicare and Medicaid Reimbursement – DSH Payments” herein for more information on current and proposed future changes in hospital reimbursement. No assurances can be given that further substantial changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Obligated Group cannot be predicted. The Obligated Group hospitals are exploring the possibility of forming accountable care organizations and health homes and entering into risk based (capitation) agreements, which would change the mentality of care delivery to one of promoting the wellness of a population of patients, rather than treating diseases and other conditions that result from poor health maintenance. The expectation of this evolving philosophy is to ultimately reduce the cost of health care and, therefore, benefit patients and providers alike.

The Obligated Group has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years’ payment rates, based on industry-wide and Obligated Group-specific data. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with government payors, have been settled through years ranging from 2000 to 2006. There is a moratorium on Medicare final settlements caused by a controversy involving the supplemental security income portion of the DSH calculation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Obligated Group is not aware of any allegations of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

Legislation is periodically introduced in Congress and in the New York Legislature that could result in limitations on the Obligated Group’s revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the Members of the Obligated Group. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide national health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. The effects of future reform efforts on the Obligated Group cannot be predicted.

State Budget

In January 2011, Governor Andrew M. Cuomo issued Executive Order No. 5 creating the Medicaid Redesign Team and setting in motion a process of substantial reform of New York’s Medicaid program. The Medicaid Redesign Team, comprised of health care professionals, stakeholders in the industry and legislators, was charged with reducing Medicaid costs and improving patient care. On February 24, 2011, the Medicaid Redesign Team issued a report containing findings and recommendations for cost reductions of over \$2.3 billion to the Governor for consideration in the budget negotiation process. The majority of these recommendations (so-called “Phase I” proposals) were included in the Final Budget for 2011-2012 and passed by the New York legislature on March 31, 2011.

The Final 2012-2013 Budget, passed by the New York legislature on March 30, 2012, included a number of Phase II proposals designed to continue the reformation of Medicaid within New York.

The 2011-2012 Final Budget included a series of changes and cost-containment measures such as programmatic reforms to Medicaid payments and program structures; the elimination of annual statutory inflation factors for hospitals, nursing homes and home and personal care providers (\$185 million); a 2% across-the-board rate reduction and other industry-specific measures (\$345 million); the acceleration of certain payments to take advantage of additional enhanced Federal Medical Assistance Percentage payments (\$66 million); mandatory managed care enrollment of previously exempt population; changes in the benefit package and reimbursement for certain overused benefits; and creation of new integrated care models anticipated to save Medicaid dollars in the long run by improving patient care. The 2012-2013 Final Budget continued the work of the Medicaid Redesign Team and included provisions calling for further redesign of the basic benefit package; additional initiatives to provide integrated care; and a state takeover of Medicaid administration from local governments.

The 2011-2012 and 2012-2013 Final Budgets assume a targeted growth rate for Medicaid equal to the ten-year average change in the medical component of the Consumer Price Index (currently four percent) and grant the Executive authority to hold Medicaid spending to this rate. If spending is projected to exceed the budget cap, DOH and the State Department of Budget have the authority to develop and implement a plan of action to bring spending in line with the cap, which could include modifying or reducing reimbursement methods or program benefits. This authority expires after the 2013-2014 budget year; however, the cap remains in place and the statutory authority likely will be extended in subsequent years. For 2011-2012, the budget cap requires DOH to achieve savings of \$2.2 billion, which grows to \$3.3 billion in 2012-2013. As of January 2012, spending was below the projected year-to-date amount, although higher-than-anticipated Medicaid enrollment threatens the ability of DOH to meet this ambitious savings goal.

Although the 2011-2012 and 2012-2013 Final Budgets contain the statutory tools necessary to implement the recommendations of the Medicaid Redesign Team, there can be no assurance that these proposals will achieve the level of gap-closing savings anticipated or limit the rate of annual growth in DOH State Funds Medicaid spending. In addition, many of the cost-saving initiatives are dependent upon timely federal approvals, appropriate amendments to the existing systems and processes and a collaborative working relationship with health care industry stakeholders.

The effect of the Medicaid redesign process on the Obligated Group Members will depend significantly on participation in new models of integrated care delivery, the ability to collaborate with different types of providers and relationships with Medicaid managed care plans, as those plans will play an increasingly larger role over the next several years.

Medicare and Medicaid Reimbursement

A portion of the Obligated Group's revenue is derived from the Medicare and Medicaid programs.

Medicare is a federal health benefits program administered by CMS, fiscal intermediaries and carriers. Available to individuals age 65 or over, and certain other classes of individuals, the Medicare program provides, among other things, health care benefits that cover, within prescribed limits, the major costs of most medically necessary care for such individuals, subject to certain deductibles and co-payments.

Medicare Part A covers inpatient services and certain other services, Medicare Part B covers certain outpatient services and physician services, and Medicare Part C covers services for persons enrolled in Medicare managed care organizations. Medicare pays most acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or

“PPS.” Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs are also paid on the basis of “reasonable cost.”

Medicaid is a federal health benefits program that is state administered. Medicaid is available only to certain low-income individuals and families who fit into an eligibility group that is recognized by federal and state law. DOH administers the New York Medicaid Program for the State. Services are provided through use of a Medicaid card or through a Medicaid managed care plan.

Health care providers have been and will likely continue to be affected significantly by changes in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “MMA”) contained many significant changes to the Medicare program, including the availability of prescription drug coverage. The Deficit Reduction Act of 2005 (the “DRA”) also contained significant changes including, among other things, various provisions to decrease spending growth in the Medicare program while increasing health care providers’ focus on quality and efficient delivery of health care services. The ACA has continued this trend toward greater cost containment and performance-based payments. See “Health Care Reform” herein. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in recent years. It is impossible to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on the operations of the Obligated Group.

Inpatient Operating Costs. Under PPS, acute care hospitals are paid a specified amount towards their operating costs based on the Medicare Severity Diagnosis Related Group (“MS-DRG”) to which each Medicare inpatient service is assigned, which is determined by the diagnoses, procedures and other factors for each particular inpatient stay. The amount paid for each MS-DRG is established prospectively by CMS as a part of each Obligated Group Member’s PPS, and is not related to a hospital’s actual costs. For each MS-DRG, CMS assigns a weighting factor that reflects the relative hospital resources used with respect to discharges classified within that group compared to discharges classified within other groups. Each MS-DRG weight represents the average resources required to care for cases in that particular MS-DRG, relative to the national average resources consumed per case by the “average” hospital. CMS is required to adjust, or recalibrate, on a budget-neutral basis, the MS-DRG weights annually to reflect changes in treatment patterns, new technologies and other factors affecting the use of hospital resources.

To calculate the payment for a particular discharge, the MS-DRG weight is multiplied by a “standardized amount” that reflects the operating and labor costs particular to the geographic region where each Obligated Group Member is located. The standardized amounts are adjusted annually based upon an annual update factor. The annual update factor is based on a hospital “market basket” index, or the percentage by which the cost of the mix of goods and services for the cost reporting period at issue will exceed the cost of such mix of goods and services for the preceding 12-month cost reporting period. Congress can apply (and has done so) a statutory adjustment to the market basket index for any given year. For every year since 1983, Congress has modified the increases and given substantially less than the increase in the market basket index. The ACA provides for additional reductions to the market basket update, as well as other payment adjustments, in future years. See “Health Care Reform – Market Basket Reductions.” There is, therefore, no assurance that future updates in MS-DRG payments will keep pace with the increases in providing inpatient hospital services. Additional payments are available, where applicable, for the direct and indirect costs of medical education, for hospitals serving a disproportionate share of patients subsidized by federal funds and for certain atypical or “outlier” cases. With the exception of outlier cases, PPS payments are not adjusted for actual costs or variations in service or length of stay. The PPS amount and adjustments described above are calculated using formulae established by CMS that are revised periodically pursuant to federal budgetary policy. There is no assurance that the Obligated Group Members will be paid amounts that adequately reflect the actual cost of providing health care or the cost of the health care technologies available to patients.

Outpatient Services. Under Section 1833(t) of the Social Security Act, hospital outpatient services, including hospital operating and capital costs, are reimbursed on a prospective basis under a methodology known as the outpatient prospective payment system (“OPPS”). Certain hospital supplier services, however, including certain physician and non-physician practitioner services, ambulance, physical and occupational therapy, and speech pathology services are reimbursed pursuant to fee schedules rather than pursuant to the hospital OPPS. Under hospital OPPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures, which are comparable clinically and in terms of resource use, into ambulatory payment classification (“APC”) groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Payment is made on the basis of the APC group rather than on the cost of the individual service.

Payments made under OPPS are adjusted annually based on the hospital inpatient market basket percentage increase. In addition, hospitals must submit specified quality data in order to receive the full market basket update in any given year. Failure to report such data results in a 2% reduction for all OPPS services for the subsequent year.

There can be no assurance that the hospital OPPS rate will be sufficient to cover the actual costs of the Obligated Group Members allocable to Medicare patient care. In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Medical Education Costs. Medicare pays for certain costs associated with both direct and indirect medical education (including portions of the salaries of residents and faculty and other overhead costs directly attributable to medical education programs for training residents, nurses and allied health professionals) under Section 1886(h) of the Social Security Act. Payment for direct graduate medical education (“DGME”) reimburses hospitals for the direct costs of their medical education programs, including faculty and resident salaries and other costs incurred directly and in support of the teaching programs. The payment amount for DGME costs for a cost reporting period is based on the hospital’s number of residents in that period and the hospital’s costs per resident in a base year, multiplied by the hospital’s Medicare “patient load.” Payment for the operating costs of indirect medical education is made as an adjustment to a hospital’s MS-DRG payment and based on a statutory formula determined in part by the ratio of a hospital’s number of full-time equivalent residents to its average number of staffed beds. There can be no assurance that payments to the Obligated Group Members for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

Physician Payments. Certain physician services are reimbursed on a national fee schedule called the “resource-based-relative-value scale” (“RB-RVS”). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The Sustainable Growth Rate (“SGR”), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates. Since 2003, Congress has passed legislation to delay application of the SGR. The latest legislative act postponing the implementation of SGR cuts, which averted an approximate 25% reduction to all physician payments reimbursed under fee schedules, is effective only until December 31, 2012. There can be no assurance that Congress again will intervene to prevent the SGR payment reduction or, if delayed again, when the SGR formula will take effect, if ever.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are paid exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the each Obligated Group Member.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Obligated Group Members allocable to Medicare patient stays or to provide adequate flexibility in meeting the Obligated Group Members' future capital needs.

DSH Payments. In addition to making payments for services provided directly to beneficiaries, Medicare makes additional payments to hospitals that treat a disproportionately large number of low-income patients. These DSH payments are determined annually based on certain statistical information submitted to DHHS and are applied as a percentage addition to MS-DRG payments. Hospitals receiving Medicare DSH payments may also receive Medicaid DSH payments. The federal government distributes federal Medicaid DSH funds to each state based on a statutory formula. The states then distribute DSH payments among qualifying hospitals.

Annual Cost Reports. All hospitals participating in the Medicare and Medicaid programs must meet specific financial reporting requirements, which involve submission of annual cost reports to identify expenses associated with the services provided to Medicare and Medicaid beneficiaries. These cost reports are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due in reimbursement. The audit process may be prolonged, and it may take several years to reach the final determination of allowable amounts.

Compliance and Reimbursement. Hospitals must comply with standards called "Conditions of Participation" to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under applicable Medicare rules, hospitals accredited by The Joint Commission are deemed to meet the Conditions of Participation. Failure to maintain The Joint Commission accreditation or to otherwise comply with the Conditions of Participation or other applicable state licensing requirements could have a material adverse effect on the revenues of the Obligated Group Members. There can be no assurance that the Obligated Group Members will continue to receive The Joint Commission accreditation in the future.

CMS also has announced an initiative to require all Medicare-certified providers, including hospitals, to revalidate their Medicare enrollment records by March 2015 in order for CMS to implement new screening criteria mandated by the ACA. Under this initiative, Medicare contractors will send mandatory revalidation requests to providers, who will have a limited time to respond to the requests. Failure to timely revalidate Medicare enrollment records for any hospital facility could result in deactivation or termination of a hospital's provider agreement, which could adversely affect the hospital's patient services revenues and financial performance.

Managed Care and Other Private Initiatives

Currently, the term "managed care" refers to all commercial relationships between payors and providers. The term covers the negotiated arrangement for prices and payment terms that a health care provider will accept from a payor on behalf of a covered individual. All prices and terms are carefully articulated in contracts between providers and payors. Prices and terms differ for each hospital and for each payor and, usually, for each product sold by each payor. For example, a payor may sell HMO, PPO, Medicare and Medicaid products to various populations. That payor will then have a unique price established with each individual hospital for every covered service offered for each product sold. The Health System has been working to achieve standardization in the terms and reasonable parity in prices among the System's hospitals.

Typical payment methodologies that have been established include severity-adjusted case neutral rates; per diem rates for stays in a Medical/Surgical Unit, Intensive Care Unit, and Cardiac Care Unit; case rates for obstetric deliveries, open heart surgeries and other tertiary level services; discounts from full charges; and set fees for outpatient services. Capitation and risk arrangements, which carry significant risk for providers, are not currently a material segment of Health System reimbursement. Management believes the hospitals of the Health System, on a yearly contracting basis, have developed equitable

pricing arrangements with most of the payors with which it contracts. As part of these negotiated contracts, the Health System has developed payment terms limiting the extent to which a payor may retroactively deny payments for services, which has been a common practice among managed care companies. The contracts also define requirements for insurers/managed care payors to conduct concurrent and prospective reviews. Some contracts contain provisions for advances and Periodic Interim Payments (PIP) as well as other terms that are financially acceptable to its hospitals. However, these contracts have finite terms and are subject to renegotiation, and managed care payors are expected to continue to seek ways to reduce the utilization of health care services. Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting cash flows. The Obligated Group's financial condition may be adversely affected by these trends.

Medicare and Medicaid Managed Care

The Medicare program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional fee-for-service Medicare system. Managed Medicare plans may be structured as HMOs, PPOs, private fee-for-service-plans or Provider Sponsored Organizations ("PSO").

The federal Medicare program pays each managed Medicare plan a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in the plan. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the plan pays for all the covered and medically necessary services delivered to the enrollee in the month. The plan is at full financial risk for costs incurred for caring for its enrollees in the given month, as described above.

The establishment of the Medicare Advantage program in 2003 increased reimbursement to managed Medicare plans, many of which in turn offered increased benefits coverage to beneficiaries. The ACA, however, provides for reductions to managed Medicare plan payments, with the intention of aligning managed Medicare per capita premium payments with expenditures in the traditional Medicare fee-for-service program.

The Members of the Obligated Group also participate in the federal and New York State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. The rules for the enrollment of Medicaid patients in managed care programs, premium payments to managed care organizations, and the resulting and potential financial risks to the Obligated Group are similar to those already discussed for Medicare managed care programs.

New York State's program for mandatory Medicaid managed care enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory Medicaid managed care enrollment programs were instituted throughout New York City, and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. Since 1997, the Partnership Plan 1115 Waiver has since been extended several times, most recently as of August 2011, effective through December 31, 2014, although the waiver authority for New York's Medicaid managed care program extends only through March 31, 2014. The latest amendments to the Partnership Plan 1115 Waiver have

further extended the groups eligible and required to enroll in Medicaid managed care, which will likely result in an increase in Medicaid managed care admissions.

The Health System has been attempting to retain volume and reasonable reimbursement through its ownership interest in Healthfirst and contracts with a few other large Medicaid managed care insurers. In particular, the Obligated Group is working with health plans, social service agencies and others to ensure that Medicaid patients currently cared for at Obligated Group hospitals will continue to have access to these facilities throughout the managed Medicaid enrollment process. Despite these efforts, Medicaid patient volume at Obligated Group hospitals may be reduced, partially attributable to competition from other health networks and the uncertainty relating to this historic change in the process for treating Medicaid. The teaching component of Medicaid and managed Medicaid reimbursement is expected to continue to be paid by the State directly to the hospitals.

See “PART 7 – THE OBLIGATED GROUP – *Managed Care.*”

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

Litigation and Claims

The Obligated Group Members are involved in litigation and claims which are not considered unusual to their business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the Obligated Group.

See “PART 7 – THE OBLIGATED GROUP – *Regulatory Reviews, Audits and Investigations.*”

Competition

Payments to the hospital industry have undergone rapid and fundamental change triggered by the deregulation of the acute care hospital reimbursement system and the requirement to negotiate all nongovernment contracts and prices. This may further increase competitive pressures on acute care hospitals, including the Members of the Obligated Group. The Obligated Group faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar health care services.

There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Obligated Group will occur.

Management believes that insurers will encourage competition among hospitals and providers on the basis of price, payment terms and quality. Payors have used the threat of patient steerage, restrictive physician contracting, carve outs, and network exclusion to drive provider prices lower. This may lead to increased competition among hospitals based on price where insurance companies attempt to steer patients to the hospitals that have the most favorable contracts.

Workforce Shortages

Workforce shortages are affecting health care organizations at the local, regional and national level. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Obligated Group’s ability to control costs and its financial performance.

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

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Obligated Group.

Multiemployer Pension Plans

Certain of the employees of Members of the Obligated Group are covered by defined benefit multiemployer pension plans (each, a "Plan") to which the Members of the Obligated Group make contributions pursuant to collective bargaining agreements. Each Plan covers employees of multiple unrelated employers, and employers do not typically have access to complete and current information concerning the funding status of a Plan. Plans carry with them the risk that benefit liabilities associated with one participating employer may, over time, be shouldered by other participating employers through increased contributions payable by them, for example where a participating employer is unable to make its required contributions (e.g., due to bankruptcy). Further, under pension regulations, all members of a "controlled group," including such a participating employer, determined under Internal Revenue Service rules, generally are jointly and severally liable together with such participating employer to make contributions to the Plan.

If a Member of the Obligated Group withdraws from a Plan in a complete or partial withdrawal, the Member and all members of such Member's "controlled group" may be jointly and severally liable for withdrawal liability to the Plan. Such withdrawal liability typically is in addition to the collectively bargained obligation to contribute and represents the Member's share, computed under rules established by the Plan pursuant to applicable law, of the aggregate unfunded vested benefit liabilities of the Plan.

Members of the Obligated Group that participate in a Plan, and members of such Members' "controlled groups" are subject to various risks, including but not limited to lack of transparency concerning the full extent of the funding status of the Plan; lack of transparency concerning creditworthiness of other employers participating in the Plan (and attendant risk liability for shortfalls in funding by such other employers); unpredictable spikes in pension cost upon renewal of collective bargaining agreements due to underfunding of the Plan resulting from failure by other employers to contribute to the Plan as required or other causes such as adverse investment results with respect to Plan assets or increases in Plan liabilities due to benefit increases or changes in actuarial assumptions; withdrawal liabilities as described above; and other factors which may be outside the knowledge or control of the Members of the Obligated Group.

Under current generally accepted accounting principles, the extent of any funding shortfall in a Plan is not recorded as a liability of a participating employer on its financial statements, although the amount of such funding shortfall which may be allocated to such participating employer may be material.

Changes in generally accounting principles taking effect for the Obligated Group's fiscal year ended December 31, 2011 require that an employer's financial statements reflect certain additional information concerning the extent of its participation in a Plan, the most recent certified funding "zone"

status of the Plan, and certain other information, not including the dollar amount of any current underfunding of such Plan (which, as noted above, is not generally known by the employers on a current basis). For further information, see footnote 10 to Audited Consolidated Financial Statements of North Shore-LIJ for the years ended December 31, 2011 and 2010 with the Report of Independent Auditors included as Appendix B to the Official Statement.

Federal “Fraud and Abuse” Laws and Regulations

The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, in return for or to induce business that may be paid for, in whole or in part, under a federal health care program including, but not limited to, the Medicare or Medicaid programs. The ACA amended the Anti-Kickback Law to provide that a claim that includes items or services resulting from a violation of the Anti-Kickback Law now constitutes a false or fraudulent claim for purposes of the False Claims Act. Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of \$25,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of Inspector General of the United States Department of Health and Human Services (the “OIG”), the enforcement arm of DHHS, can also initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$50,000 for each act in violation of the Anti-Kickback Law or damages equal to three times the amount of prohibited remuneration may be imposed and violation of this law also renders the violator civilly liable under the False Claims Act. The scope of prohibited payments in the Anti-Kickback Law is broad and includes many economic arrangements involving hospitals, physicians and other health care providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict due, in part, to government discretion in pursuing enforcement and the lack of significant case law.

Federal and State False Claims Acts

The federal criminal False Claims Act (“criminal FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The federal civil False Claims Act (“civil FCA”), is one of the government’s primary weapons against health care fraud. Under the civil FCA, those who knowingly submit, or cause another person or entity to submit, false claims for payment of government funds are liable for three times the government’s damages plus civil penalties of \$5,500 to \$11,000 per false claim. On May 20, 2009, the Fraud Enforcement and Recovery Act of 2009 (“FERA”) was signed into law. It included significant amendments to the civil FCA. Among other items, FERA expanded the scope of potential civil FCA liability, increased the Attorney General’s power to delegate authority to investigate a civil FCA case prior to intervening in a civil FCA action, and increased protections for whistleblower plaintiffs beyond employees.

The ACA also amended the civil FCA by expanding the numbers of activities that are subject to enforcement as violations of the civil FCA, including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due. The State of New York also has a False Claims Act which closely tracks the federal civil FCA. It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil federal and New York State FCA also permit individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government.

Under the civil federal and New York State FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund known overpayments. Civil federal and New York State FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil federal and New York State FCA. Other civil federal and New York State FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance and anti-kickback or self-referral violations are subject to prosecutions as false claims. If a provider is faced with a civil federal and New York State FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates.

Violations of the civil federal and New York State FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

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

The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits the referral of Medicare and Medicaid patients for certain “designated health services” to entities with which the referring physician (or an immediate family member of such physician) has a financial relationship. The statute also prohibits the entity furnishing the “designated health services” from billing the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services and supplies (not including nuclear medicine), durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), orthotic and prosthetic devices and supplies, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services (not including lithotripsy).

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

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as “Stark”), is defined as either an ownership or investment interest in the entity or a compensation arrangement between the practitioner (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services. Many ordinary business practices and economically desirable arrangements with physicians would constitute “financial relationships” within the meaning of Stark.

The Stark provisions provide certain exceptions to these restrictions, but these exceptions are narrow and an arrangement must fully comply with an exception. If the relationship (which would include compensation arrangements such as employment and other professional services relationships, and ownership or investment interests) between a physician/practitioner and the hospital cannot be made to fit within the exceptions, the hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship.

Violations of Stark can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may

also create liability under the FCA. Enforcement actions for any such violations could have a material adverse impact on the financial condition of a health care provider, including the Obligated Group Members.

Regulation of Patient Transfer

Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”) in response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient’s inability to pay for the services provided. EMTALA requires hospitals with emergency rooms, including the Obligated Group, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient’s emergency medical condition before releasing, discharging or transferring the patient to another hospital.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties of up to \$50,000 per violation. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Civil Monetary Penalty Act

The federal Civil Monetary Penalty Act (“CMPA”) provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as “gain sharing” by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider’s financial condition. The ACA also amended the CMPA laws to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

Exclusions from Medicare or Medicaid Participation

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

participation in Medicare and Medicaid, as well as to suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider.

Enforcement Activity

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

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

The ACA provides funding of health care fraud initiatives in the amount of \$10 million per year for fiscal years 2011-2020 and an additional \$250 million over fiscal years 2011-2016.

Increased Enforcement Affecting Academic Research

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

The American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”)

The Stimulus Act includes several provisions that are intended to provide financial relief to the health care sector, including \$86.6 billion in federal payments to states to fund the Medicaid program and \$24.7 billion to provide a 65% subsidy to the recently unemployed for health insurance premium costs. The Stimulus Act also includes: \$19 billion to establish a framework for the implementation of a nationally-based health information technology (“HIT”) program, including incentive payments to

hospitals commencing fiscal year 2011; \$10 billion for health research and construction of NIH facilities; and \$1 billion for prevention and wellness programs. As a component of the federal objective of implementing electronic health records (“EHRs”) for all Americans by 2014, the Health Information Technology for Economic and Clinical Health Act (“HITECH Act”) included in the Stimulus Act requires the development of regulations to establish HIT standards to which the Obligated Group physicians and acute care hospitals will be subject. Compliant physicians and acute care hospitals that are also “meaningful users” of EHRs were eligible for Medicare and Medicaid incentive payments beginning in fiscal year 2011. However, physicians must choose between receiving payments through the Medicare or Medicaid program, and hospital-based physicians are not eligible for the incentives. Hospitals and eligible physicians that do not comply will face Medicare penalties beginning in fiscal year 2015. The Members of the Obligated Group are participating in the EHR incentive programs; however, the effect of the Stimulus Act and any future regulatory actions on the Obligated Group cannot be determined at this time.

In addition, the Stimulus Act provided substantial assistance to Medicaid programs through enhanced federal medical assistance percentages, which determine the federal and state share of the Medicaid program. The expiration of the enhanced Medicaid funding at the end of June 2011 could have a significant adverse effect on the state’s fiscal status and Medicaid funding in the next years.

Department of Health Regulations

The Members of the Obligated Group are subject to regulations of DOH. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Obligated Group’s ability to add services or beds and to modify existing services materially is also subject to DOH review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Obligated Group’s ability to make changes to its service offerings and respond to changes in the environment may be limited.

New York State Executive Order

On January 18, 2012, Governor Andrew Cuomo signed an Executive Order limiting spending for administrative costs and executive compensation at state-funded service providers. Members of the Obligated Group that receive state Medicaid funding are subject to the limitations contained in the Executive Order. The Executive Order limits reimbursement with State funds for executive compensation to \$199,000 annually per executive and requires that 75% (increasing to 85% by April 1, 2015) of State-authorized payments be directed to direct care or services, rather than administrative costs. By April 17, 2012, each agency, including DOH, must promulgate regulations “to address the extent and nature of a provider’s administrative costs and executive compensation which shall be eligible to be reimbursed with State financial assistance or State-authorized payments for operating expenses.” At this time, it is impossible to predict what changes in accounting or practices might be required of the Obligated Group as a result of this Executive Order.

Other Governmental Regulation

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

Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include

affirmative activity or response by the Obligated Group. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Obligated Group's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

OIG and OMIG Compliance Guidelines

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

Since October 2009, hospitals in New York have been required by statute and regulation to have an effective compliance program. The compliance program must include, among other things, a chief compliance officer, written policies and the conduct of audits after the identification of risk areas. It is expected that the OMIG will conduct audits of compliance programs and assess their effectiveness. Under New York law, each year each Obligated Group Member must certify that it has a compliance program in place and that it has been effective, and management of each Obligated Group Member has advised that it will so certify this year.

Not-for-Profit Status

As a non-profit tax-exempt organization, each Member of the Obligated Group is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Members of the Obligated Group conduct large-scale complex business transactions and are significant employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead, in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. For example, in August of 2011, the real estate tax exemption of three Illinois-based hospitals was revoked for failing to provide sufficient charity care. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

Revision of IRS Form 990 for Not-for-Profit Corporations

The IRS Form 990 is used by 501(c)(3) not-for-profit organizations (including the Obligated Group Members) to submit information required by the federal government for tax exemption. The revised Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The revised form also requires the disclosure of a significantly greater amount of both hard data and anecdotal information on community benefit information on Schedule H to the Form, and establishes uniform standards for reporting of information relating to tax exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. The redesigned Form 990 is intended to result in enhanced transparency as to the operations of exempt organizations. It is also likely to result in enhanced enforcement, as the redesigned Form 990 will make a wealth of detailed information on compliance risk areas available to the IRS and other enforcement agencies. At this time it is difficult to predict the additional burden that completion of the revised Form 990 may place on the Obligated Group and its operations.

Internal Revenue Service Examination of Compensation Practices and Community Benefit

In 2004, the IRS began a new compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the “IRS Final Report”) that examined tax-exempt hospitals’ practices and procedures with regard to compensation and benefits paid to their officers and other defined “insiders.” The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations; and (2) in certain circumstances, may conduct further investigations or impose fines on such organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The most recent IRS report on this initiative determined that a lack of uniformity in definitions of community benefit used by reporting hospitals, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. The revised Form 990 includes a new schedule, Schedule H, which hospitals must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congressional committee to codify the requirements for hospitals’ tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care.

The ACA also contains new requirements for tax-exempt hospitals. Under the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital’s financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using “gross charges” when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital’s financial assistance policy. In addition, the Treasury Department is required to review information about each tax-exempt hospital’s community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that

Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

Internal Revenue Code Limitations

Private Inurement and Excess Benefit Transactions. The Internal Revenue Code (“Code”) contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of health care facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Obligated Group’s ability to finance its future capital needs and could have other adverse effects on the Obligated Group that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

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

Any suspension, limitation, or revocation of the tax-exempt status of the Members of the Obligated Group or assessment of significant tax liability could have a material adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Series 2012A Bonds.

Revocation of the tax-exempt status of the Members of the Obligated Group under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2012A Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Members of the Obligated Group.

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

members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person.

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

Charity Care. Hospitals are permitted to have tax-exempt status under the Code because the provision of health care historically has been treated as a “charitable” enterprise. This treatment arose before most Americans had health insurance, and when charitable donations were required to fund the health care provided to the sick and disabled. Some have posited that, with the onset of employer health insurance and government reimbursement programs, there is no longer any justification for special tax treatment for the not-for-profit health care sector, and the availability of tax-exempt status should be eliminated. Management of the Obligated Group cannot predict the likelihood for such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

Tax Audits

Taxing authorities historically have conducted tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. None of the Obligated Group Members are currently under audit.

Antitrust

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

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

of these contexts can be substantial, depending upon the facts and circumstances involved. There can be no assurance that a third party reviewing the activities of the Obligated Group would find such activities to be in full compliance with the antitrust laws.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) established civil and criminal sanctions for health care fraud which expanded upon prior health care fraud laws and applies to health care benefit programs.

HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including:

- standardized electronic transaction formats and code sets to allow standardized electronic transmission of health care claims and information;
- unique identifiers to support these standard transmissions;
- comprehensive privacy standards establishing a minimum threshold for determining when to allow access to or disclosure of personal health information (the “Privacy Rule”); and
- security mechanisms to guard against unauthorized access to health information (the “Security Rule”).

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 or imprisonment for up to 10 years if the information was for a violation of willful neglect or for a violation related to the intent to sell, transfer, or use the individually identifiable health information for commercial advantage, personal gain or malicious harm.

Compliance with HIPAA has required changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in monitoring of ongoing compliance with the various regulations. The Obligated Group has implemented HIPAA training and ongoing monitoring, which have been in place since April 2003. The financial cost of compliance with the “administrative simplification” regulations is substantial. Failure to achieve compliance with the transactions and code set standards could result in substantial payment delays, which could, in turn, have significant negative cash flow implications for the Obligated Group.

On February 17, 2009, President Obama signed into law the HITECH Act, which is part of the Stimulus Act. The HITECH Act expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving “unsecured” protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals’ rights with respect to protected health information, (v) increasing penalties for violations, and (vi) providing for enforcement of violations by State attorneys general. Many of the HITECH Act’s provisions became effective on February 17, 2010, but other provisions require implementing regulations and may become effective at some point in 2012 or thereafter. While the effects of the HITECH Act cannot be predicted at this time,

the obligations imposed thereunder could have a material adverse effect on the financial condition of the Obligated Group Members.

Security Breaches and Unauthorized Releases of Personal Information

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Environmental Matters

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

Affiliation, Merger, Acquisition and Divestiture

As part of its ongoing planning and property management functions, the Members of the Obligated Group review the use, compatibility and financial viability of many of their operations, and from time to time, may pursue changes in the use, or disposition, of their facilities. Likewise, the Health System may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the Health System in the future, or about the potential sale of some of the operations and properties of the Health System. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the Members of the Obligated Group, are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the Members of the Obligated Group may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

Insurance

The dollar amounts of patient damage recoveries remain potentially significant. A number of insurance carriers have withdrawn from this segment of the insurance market citing underwriting losses, and premiums have increased sharply in the last several years. The effect of these developments has been to significantly increase the operating costs of hospitals, including the Obligated Group.

The Obligated Group currently carries malpractice, directors' and officers' liability and general liability insurance, which management of the Obligated Group considers adequate, but no assurance can be given that the Obligated Group will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Obligated Group or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a discussion of the insurance coverage of the Obligated Group, see "PART 7 - THE OBLIGATED GROUP – *Risk Management and Commercial Insurance Program.*"

Certain Accreditations

The Members of the Obligated Group are subject to periodic review by the Joint Commission. The Members of the Obligated Group have each received accreditation from the Joint Commission. No assurance can be given as to the effect on future operations of existing, or subsequently amended, laws, regulations and standards for certification or accreditation.

In addition, the Members of the Obligated Group sponsor programs of graduate medical education ("GME Programs"), training residents and fellows, which programs are accredited by the Accreditation Council for Graduate Medical Education ("ACGME") (for medical programs) and by the American Dental Association ("ADA") (for dental programs). All GME Programs are subject to periodic review by the applicable specialty Residency Review Committee of the ACGME, or by the ADA, as appropriate. No assurance can be given as to (i) the outcome of future reviews of these GME Programs, (ii) such programs' continued accreditation, or (iii) the continuing eligibility of the costs associated therewith for graduate medical education reimbursement. See "PART 7 - THE OBLIGATED GROUP - *Licensure and Accreditation.*"

Increased Costs and State-Regulated Reimbursement

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

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2012A Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Obligated Group's capabilities and the financial conditions and results of operations of the Obligated Group.

Enforceability of Lien on Gross Receipts

Each 2012A Loan Agreement provides that the Obligated Group shall make payments to the Trustee sufficient to pay the Series 2012A Bonds and the interest thereon as the same become due. The obligation of the Obligated Group to make such payments is secured by the Series 2012A Obligation, which, in turn, is secured by, among other things, a security interest granted to the Master Trustee in the Gross Receipts of the Obligated Group. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A Bonds – The Master Trust Indenture – *Security Interest in Gross Receipts.*” The lien on Gross Receipts may become subordinate to certain Permitted Liens under the Master Indenture. Gross Receipts paid by the Members of the Obligated Group to other parties in the ordinary course might no longer be subject to the lien on the Master Indenture and might therefore be unavailable to the Master Trustee.

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

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

Pursuant to the New York Uniform Commercial Code, a security interest in the proceeds of Gross Receipts may not continue to be perfected if such proceeds are not paid over to the Master Trustee by a Member of the Obligated Group under certain circumstances. If any required payment is not made when due, the Members of the Obligated Group must transfer or pay over immediately to the Master Trustee any Gross Receipts with respect to which the security interest remains perfected pursuant to law. Any Gross Receipts thereafter received shall upon receipt by a Member of the Obligated Group be transferred to the Master Trustee without such Gross Receipts being commingled with other funds, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment. The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Bonds. See “PART 1 – INTRODUCTION – Security for the Series 2012A Bonds.”

Enforceability of the Master Indenture

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the security interest granted by a Member and the joint and several obligation of a Member to make payments due under an Obligation, including the Note, relating to bonds issued for the benefit of another Member, may be declared void in an action brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a Member

or a trustee in bankruptcy in the event of the bankruptcy of the Member from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of “fair consideration” or “reasonably equivalent value,” and (b) the obligation renders the obligor “insolvent,” as such terms are defined under the applicable statute. Interpretation by the courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, a Member’s joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be a “transfer” which makes such Member “insolvent” in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members may be deemed to have received less than “fair consideration” for such obligation because none or only a portion of the proceeds of the indebtedness are to be used to finance projects occupied or used by such Member. While the Members may benefit generally from the projects financed from the indebtedness for the other Members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Master Indenture.

In addition, the assets of any Member may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others if a Member has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such Member were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the Member was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of the State. In the absence of clear legal precedent in this area, the extent to which the assets of any Member can be used to pay Obligations issued by or on behalf of others cannot be determined at this time.

In addition, there exists common law authority and authority under state statutes for the ability of the state courts to terminate the existence of a not-for-profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation issued for the benefit of another Member of the Obligated Group would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which payment is requested.

Exercise of Remedies under Master Indenture

“Events of Default” under the Master Indenture include the failure of the Obligated Group to make payments on any Obligation Outstanding under the Master Indenture (such as the Series 2012A Obligation) and may include nonpayment related defaults under documents such as the 2012A Loan Agreement, the Resolution or the Mortgages. The Master Indenture provides that upon an “Event of Default” thereunder, the Master Trustee may in its discretion, by notice in writing to Members of the Obligated Group, declare the principal of all (but not less than all) Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately unless requested to do so by the holders of not less than 25% in aggregate principal amount of all Obligations then Outstanding under the Master Indenture. Consequently, upon the occurrence of an

“Event of Default” under the Resolution with respect to the Series 2012A Bonds and an acceleration of the maturity of the Series 2012A Bonds, the Master Trustee is not required to accelerate the maturity of all Obligations Outstanding under the Master Indenture upon direction from the Trustee unless (i) the principal amount of the Series 2012A Bonds Outstanding is at least equal to 25% of the principal amount of all Obligations Outstanding under the Master Indenture, or (ii) the Trustee and all other holders of Obligations requesting such acceleration hold at least 25% of all Obligations Outstanding under the Master Indenture.

Bankruptcy

The Series 2012A Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2012A Bonds described herein upon any default will depend upon the exercise of various remedies specified by the 2012A Loan Agreement, the Mortgages and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the 2012A Loan Agreement, the Mortgages and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinions to be delivered concurrently with the delivery of the Series 2012A Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors’ rights generally.

The rights and remedies of the holders of the Series 2012A Bonds are subject to various provisions of Title 11 of the United States Code (the “Bankruptcy Code”). If the Obligated Group were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Obligated Group and its property, including the commencement of foreclosure proceedings under the Mortgages. The Obligated Group would not be permitted or required to make payments of principal or interest under the 2012A Loan Agreement and the Obligation, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2012A Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Obligated Group, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Master Trustee’s continuing security interest in the Obligated Group’s Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Master Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Obligated Group under the Obligation, the Master Indenture, the Mortgages, and the 2012A Loan Agreement, and may adversely affect the Master Trustee’s or the Trustee’s ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

The Obligated Group could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against the Obligated Group provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired there under. Each class of claims has

accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired there under and does not discriminate unfairly.

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Resolution, the 2012A Loan Agreement and the Master Indenture permit the Members of the Obligated Group to incur additional indebtedness, including Additional Bonds. Such indebtedness would increase the Obligated Group's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2012A Bonds.

Risks Related to Interest Rate Swaps

The Obligated Group has entered into interest rate swap agreements related to indebtedness of the Obligated Group (the "Swaps"). The Swaps are and will be subject to periodic "mark-to-market" valuations and at any time may have a negative value to the Obligated Group. The Swaps counterparties may terminate the Swaps upon the occurrence of certain "termination events" or "events of default." The Obligated Group may terminate the Swaps at any time. If either the counterparty to one of the Swaps or the Obligated Group terminates any of the Swaps during a negative value situation, the Obligated Group may be required to make a termination payment to such Swaps counterparty, and such payment could be material.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Obligated Group, or the market value of the Series 2012A Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.
- Increased unemployment or other economic conditions in the service area of the Obligated Group, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- Reduced demand for the services of the Obligated Group that might result from decreases in population or innovations in technology.
- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Obligated Group, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Obligated Group's facilities.
- Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of

taxation, any of which might adversely affect the market value of the Series 2012A Bonds and the level of charitable donations to the Obligated Group.

PART 9 - THE AUTHORITY

Background, Purposes and Powers

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

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

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

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and

equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

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

At March 31, 2012, the Authority had approximately \$44.3 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

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

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at March 31, 2012 were as follows:

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Governance

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

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

The current members of the Authority are as follows:

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

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2013.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on June 20, 2007. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an

Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2013.

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

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President/Chief Operating Officer & Chief Financial Officer of Earl G. Graves, Ltd/Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund and a member of the Board of Directors at Ronald McDonald House of New York. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed the assets of the NY Common Retirement Fund, valued at \$120 billion, and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Earlier, Mr. Jiha served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expired on March 31, 2011 and by law he continues to serve until a successor shall be chosen and qualified.

CHARLES G. MOERDLER, Esq., New York.

Charles Moerdler was appointed as a Member of the Authority by the Governor on March 16, 2010. Mr. Moerdler is a founding partner in the Litigation Practice of the law firm Stroock & Stroock & Lavan LLP. His areas of practice include defamation, antitrust, securities, real estate, class actions, health care, international law, labor law, administrative law and zoning. By appointment of the Appellate Division, First Department, Mr. Moerdler serves as Vice Chair of the Committee on Character and Fitness and as a Member of the Departmental Disciplinary Committee. He served as Commissioner of Housing and Buildings of the City of New York, as a real estate and development consultant to New York City Mayor John Lindsay, as a member of the City's Air Pollution Control Board, and as Chairman and Commissioner of the New York State Insurance Fund. Mr. Moerdler currently serves on the Board of Directors of the New York City Housing Development Corporation as well as the Metropolitan Transportation Authority and is a member of the New York City Board of Collective Bargaining. He holds a Bachelors of Arts degree from Long Island University and a Juris Doctor degree from Fordham University. His current term expired on March 31, 2012 and by law he continues to serve until a successor shall be chosen and qualified.

BERYL L. SNYDER, J.D., New York

Ms. Snyder was appointed as a member of the Authority by the Governor on June 15, 2011. She is currently a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. Previously, she was Vice President, General Counsel and a Director of Biocraft Laboratories, Inc. and a Director of Teva Pharmaceuticals. Ms. Snyder serves as a Board member of the Beatrice Snyder Foundation, the Roundabout Theater, the Advisory Committee of the Hospital of Joint Diseases and the Optometric Center of New York, where she also serves on the Investment Committee. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expires on August 31, 2013.

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. Romski 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. Romski 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. Romski 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. Romski 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.

JOHN B. KING, JR., J.D., Ed.D., *Commissioner of Education of the State of New York*, Slingerlands; *ex-officio*.

Dr. John B. King, Jr., was appointed by the Board of Regents to serve as President of the University of the State of New York and Commissioner of Education on July 15, 2011. As Commissioner of Education, Dr. King serves as chief executive officer of the State Education Department and as President of the University of the State of New York, which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults

with disabilities. Dr. King is also responsible for licensing, practice and oversight of numerous professions. Dr. King previously served as Senior Deputy Commissioner for P-12 Education at the New York State Education Department. Prior thereto, Dr. King served as a Managing Director with Uncommon Schools. Prior to this, Dr. King was Co-Founder and Co-Director for Curriculum & Instruction of Roxbury Preparatory Charter School and prior to that, Dr. King was a teacher in San Juan, Puerto Rico and Boston, Massachusetts. He holds a Bachelor of Arts degree in Government from Harvard University, a Master of Arts degree in Teaching of Social Studies from Teachers College, Columbia University, a Juris Doctor degree from Yale Law School and a Doctor of Education degree in Educational Administrative Practice from Teachers College, Columbia University.

NIRAV R. SHAH, M.D., M.P.H., *Commissioner of Health, Albany; ex-officio.*

Nirav R. Shah, M.D., M.P.H., was appointed Commissioner of Health on January 24, 2011. Prior to his appointment he served as Attending Physician at Bellevue Hospital Center, Associate Investigator at the Geisinger Center for Health Research in central Pennsylvania, and Assistant Professor of Medicine at the NYU Langone Medical Center. Dr. Shah is an expert in use of systems-based methods, a leading researcher in use of large scale clinical laboratories and electronic health records and he has served on the editorial boards of various medical journals. He is a graduate of Harvard College, received his medical and master of public health degrees from Yale School of Medicine, was a Robert Wood Johnson Clinical Scholar at UCLA and a National Research Service Award Fellow at NYU.

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

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

The principal staff of the Authority is as follows:

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

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

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

PAUL W. KUTEY is the Chief Financial Officer of the Authority. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising the Authority's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company, where his responsibilities included finance, operations and facilities management. Prior to joining AYCO Company, he served as Corporate Controller and Acting Chief Financial Officer for First Albany Companies, Inc. From 1982 until 2001, Mr. Kutey held increasingly responsible positions with PricewaterhouseCoopers, LLP, becoming Partner in 1993. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

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 twenty 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.

The position of General Counsel is currently vacant.

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 2012 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, 2011. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 10 - LEGALITY OF THE SERIES 2012A BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2012A Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State

may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the Series 2012A Bonds.

PART 11 - NEGOTIABLE INSTRUMENTS

The Series 2012A Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolutions and in the Series 2012A Bonds.

PART 12 - 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 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is of the further opinion that interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2012A 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). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Series 2012A Bonds is less than the amount to be paid at maturity of such Series 2012A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012A 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 2012A 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 2012A Bonds is the first price at which a substantial amount of such maturity of the Series 2012A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriter, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012A Bonds accrues daily over the term to maturity of such Series 2012A 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 2012A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2012A Bonds. Beneficial Owners of the Series 2012A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2012A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2012A Bonds is sold to the public.

Series 2012A 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 2012A Bonds. The Authority and NSLIJ HCI, NSUH, GCH, PH, FHH, CECR and The Feinstein Institute for Medical Research (collectively, the “Organizations”) have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2012A 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 2012A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2012A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. The opinion of Bond Counsel also assumes that actions of the Organizations, the Authority and other persons taken subsequent to the date of issuance of the Series 2012A Bonds will not cause any of the Series 2012A Bonds to exceed the \$150,000,000 limitation on qualified 501(c)(3) bonds that do not finance hospital facilities, as set forth in Section 145(b) of the Code. 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 2012A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012A 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 Ropes & Gray LLP, counsel to the Obligated Group, regarding the current qualification of the Organizations as organizations described in Section 501(c)(3) of the Code and on the opinion of Hawkins Delafield & Wood LLP regarding the intended operation of the facilities to be financed and refinanced by the Series 2012A Bonds as substantially related to the Organizations’ charitable purpose under Section 513(a) of the Code. Such opinions are subject to a number of qualifications, limitations and exceptions. Furthermore, Ropes & Gray LLP and Hawkins Delafield & Wood LLP cannot give and have not given any opinion or assurance about the future activities of the Organizations, 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 (the “IRS”). Failure of any of the Organizations to be organized and operated in accordance with the IRS’s requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or to operate the facilities financed and refinanced by the Series 2012A Bonds in a manner that is substantially related to the Organizations’ charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2012A Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2012A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2012A 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 2012A 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.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012A Bonds to be subject, directly or indirectly, to federal income taxation, 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. As one example, the Obama Administration recently announced a legislative proposal which for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or

otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012A Bonds. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012A Bonds. Prospective purchasers of the Series 2012A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel is expected to express 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 2012A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Organizations, 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 and the Organizations have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2012A Bonds ends with the issuance of the Series 2012A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Organizations or the Beneficial Owners regarding the tax-exempt status of the Series 2012A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Organizations 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 Organizations legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012A 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 2012A Bonds, and may cause the Authority, the Organizations or the Beneficial Owners to incur significant expense.

PART 13 - STATE NOT LIABLE ON THE SERIES 2012A 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 Resolutions specifically provide that the Series 2012A Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 14 - 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 15 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2012A 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 2012A Bonds. The proposed form of Bond Counsel's opinion regarding the Series 2012A Bonds is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the Members of the Obligated Group by their counsel, Hawkins Delafield & Wood LLP, New York, New York, their disclosure counsel, Ropes & Gray LLP, Boston, Massachusetts, and their special real estate counsel, Kelley Drye & Warren LLP, New York, New York, and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2012A Bonds, neither questioning nor affecting the validity of the Series 2012A Bonds or the proceedings and authority under which they are to be issued.

PART 16 - UNDERWRITING

The Series 2012A Bonds are being purchased by Citigroup Global Markets 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 2012A Bonds from the Authority at an aggregate purchase price of \$55,659,093 (reflecting an Underwriters' discount of \$396,333 plus an original issue premium of \$7,125,426) and to make a public offering of the Series 2012A Bonds at prices that are not in excess of the public offering prices or yields indicated on the inside cover page of this Official Statement.

The Series 2012A Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters will be obligated to purchase all Series 2012A Bonds if any are purchased.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. ("Citigroup") and Morgan Stanley & Co. LLC, each an underwriter of the Series 2012A Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup and Morgan Stanley & Co. LLC 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, each of Citigroup and Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Series 2012A Bonds.

Citigroup, one of the underwriters of the Series 2012A Bonds, has entered into a master distribution agreement (the "Master Distribution Agreement") with TheMuniCenter L.L.C. ("TMC"), for the distribution to retail investors of certain municipal securities offerings at their original issue prices. TMC has established an electronic primary offering application platform through which certain TMC approved users that are also broker-dealers or municipal securities dealers can submit orders for and receive allocations of new issue municipal securities at the original issue price for their retail customers. Pursuant to the Master Distribution Agreement (if applicable for this transaction), Citigroup may share with TMC a portion of its underwriting compensation with respect to any Series 2012A Bonds that are allocated to a TMC user. The TMC users permitted to participate in the offering of the Series 2012A Bonds may also share a portion of the underwriting compensation received by Citigroup with respect to any Series 2012A Bonds allocated to such TMC user pursuant to the terms of a Member Addendum to the TMC user's Trading Authorization User Agreement with TMC. Citigroup Financial Products Inc., an affiliate of CGMI, owns a 31.35% equity interest in TheDebtCenter L.L.C., the parent company of TMC.

PART 17 - VERIFICATION OF MATHEMATICAL COMPUTATIONS

Chris D. Berens, CPA, P.C., a firm of independent public accountants, will deliver its report indicating that it has verified the mathematical accuracy of the computations in the schedules provided by the Underwriters. Included in the scope of its verification report will be a verification of the mathematical accuracy of (a) the computations of the adequacy of the cash, the maturing principal amounts and the interest on the Investment Securities deposited with the trustee for the refunding of the Refunded Bonds and paying of the interest and redemption price coming due on the Refunded Bonds on or prior to their respective redemption dates as described in “PART 4 –THE PLAN OF REFUNDING” and (b) the computations supporting the conclusion of the defeasance counsel that the Series 2012A Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder.

PART 18 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Authority, NSLIJ HCI and the Trustee have undertaken in a written agreement for the benefit of the Holders of the Series 2012A Bonds to provide to Digital Assistance Certification, LLC (“DAC”), on behalf of the Authority as the Authority’s disclosure dissemination agent, on or before 165 days after the end of each fiscal year of the Obligated Group Members, commencing with the fiscal year ending December 31, 2011, for filing by DAC with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access system for municipal securities disclosures on an annual basis, financial and operating information of the type hereinafter described included in this Official Statement referred to herein as “Annual Information,” together with the Health System’s Audited Consolidated Financial Statements, including the consolidated statements of financial position, the consolidated statements of operations, the consolidated statements of changes in net assets and the consolidated statements of cash flows, audited by an independent firm of certified public accountants and prepared in conformity with generally accepted accounting principles. The Audited Consolidated Financial Statements of the Health System shall also include the consolidating statement of financial position and the consolidating statement of operations from which the financial information relating solely to the Obligated Group Members may be derived for the same twelve-month period.

If, and only if, and to the extent that it receives the Annual Information, the annual financial statements described above and the notices described herein (the “Notices”) from NSLIJ HCI on behalf of the Obligated Group, DAC has undertaken in a written agreement for the benefit of the Holders of the Series 2012A Bonds, on behalf of and as agent for the Obligated Group, to provide such information and financial statements, as promptly as practicable but no later than three business days after receipt of the information by DAC from NSLIJ HCI on behalf of the Obligated Group with the MSRB. In addition, the Authority and the Trustee have undertaken, for the benefit of the Holders of the Series 2012A Bonds, to provide to DAC, in a timely manner, the Notices. Upon receipt of Notices, DAC will file the Notices to the MSRB, in a timely manner. With respect to the Series 2012A 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 Obligated Group 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 NSLIJ HCI on behalf of the Obligated Group, or the Authority, and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Obligated Group, the Holders of the Series 2012A 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 NSLIJ HCI on behalf of the Obligated Group, or the Authority, have complied with the Continuing Disclosure Agreement, and DAC may conclusively

rely upon certifications of NSLIJ HCI on behalf of the Obligated Group, and the Authority, with respect to their respective obligations under the Continuing Disclosure Agreement.

The Annual Information means annual information concerning the Obligated Group or the Health System, as applicable, which consists of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in “PART 7 - THE OBLIGATED GROUP” relating to the following: (a) utilization statistics of the type set forth under the headings “Utilization” and (b) sources of patient service revenue of the type set forth under the heading “Payer Mix”; (2) data demonstrating the Long-Term Debt Service Coverage Ratio for the preceding fiscal year of the Obligated Group; and (3) such narrative explanation, as may be necessary to avoid misunderstanding, and to assist the reader in understanding, the presentation of financial and operating data concerning the Obligated Group or the Health System, as the case may be, and in judging the financial and operating condition of the Obligated Group or the Health System, as the case may be.

The Notices include notices of any of the following events with respect to the Series 2012A Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (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, IRS notices or events affecting the tax-exempt status of the Series 2012A Bonds; (7) modifications to the rights of Holders of the Series 2012A Bonds, if material; (8) bond calls, if material; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2012A Bonds, if material; (11) rating changes; (12) tender offers; (13) bankruptcy, insolvency, receivership or similar event of the Obligated Person; (14) merger, consolidation or acquisition of the Obligated Person, if material; (15) appointment of a successor or additional trustee, or the change of name of a trustee, if material; and (16) failure to provide annual financial information as required. In addition, DAC will undertake, for the benefit of the Holders of the Series 2012A Bonds, to provide to the MSRB, in a timely manner, notice of any failure by NSLIJ HCI, on behalf of the Obligated Group, to provide the Annual Information and annual financial statements by the date required in the Obligated Group’s undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of NSLIJ HCI, DAC and/or the Authority, and no person, including any Holder of the Series 2012A Bonds, may recover monetary damages thereunder under any circumstances. DAC or NSLIJ HCI 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 under the Continuing Disclosure Agreement, by an owner of Outstanding Series 2012A Bonds or by the Trustee on behalf of the owners of Outstanding Series 2012A Bonds, or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the owners of Outstanding Series 2012A Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than 25% in aggregate principal amount of the Series 2012A Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolutions or the 2012A Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provisions of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided. These descriptions are not intended to state more than general categories of financial information and operating data. Where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without the consent of the Holders of the Series 2012A Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure

Agreement when executed by the parties thereto upon the delivery of the Series 2012A Bonds will be on file at the principal office of the Authority. For assistance accessing the information, please call DAC at (888) 824-2663.

PART 19 - RATINGS

Fitch, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., have assigned the Series 2012A Bonds ratings of "A-", "A3" and "A-", respectively. An explanation of the significance of such ratings may be obtained only from the rating agencies furnishing the same. Certain information and materials not included in this Official Statement were furnished to the rating agencies. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating agencies, if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market prices of the Series 2012A Bonds.

PART 20 - MISCELLANEOUS

Reference in this Official Statement to the Act, the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture and the Series 2012A Obligation do not purport to be complete. Investors should refer to the Act, the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture and the Series 2012A Obligation for full and complete details of their provisions. Copies of the General Resolution, the Series 2012A Resolution, the 2012A Loan Agreement, the Mortgages, the Master Trust Indenture, the Series 2012 Supplemental Indenture and the Series 2012A Obligation are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2012A Bonds are fully set forth in the General Resolution and the Series 2012A Resolution. Neither any advertisement of the Series 2012A Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2012A 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 Members of the Obligated Group, the Projects, the Refunded Bonds and the Health System was supplied by the Obligated Group. 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 system has been furnished by DTC. 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.

Appendix A – "CERTAIN DEFINITIONS," Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT," Appendix D – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS" and Appendix F – "PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL" have been prepared by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel.

Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE" has been prepared by Hawkins Delafield & Wood LLP, counsel to the Obligated Group.

The Consolidated Financial Statements of the Health System as of December 31, 2011 and 2010 and for the years then ended included in Appendix B have been audited by Ernst & Young LLP, independent auditors, as stated in their report therein.

The Members of the Obligated Group have reviewed the parts of this Official Statement describing the Obligated Group and the Health System under the headings, "INTRODUCTION," "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2012A BONDS," "THE SERIES 2012A BONDS," "THE PLAN OF REFUNDING," "ANNUAL DEBT SERVICE REQUIREMENTS," "ESTIMATED SOURCES AND USES OF FUNDS," "THE OBLIGATED GROUP," "RISK FACTORS AND REGULATORY PROVISIONS WHICH MAY AFFECT THE MEMBERS OF THE OBLIGATED GROUP" and "CONTINUING DISCLOSURE". The Members of the Obligated Group shall certify as of the date hereof and of delivery of the Series 2012A Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. NSLIJ HCI has also reviewed Appendix B – "AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NORTH SHORE-LONG ISLAND JEWISH HEALTH SYSTEM, INC. FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 WITH REPORT OF INDEPENDENT AUDITORS." NSLIJ HCI shall certify as of the date hereof and of delivery of the Series 2012A Bonds that such Appendices do not contain any untrue statement of a material fact and does not omit to state 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 Members of the Obligated Group have agreed to indemnify the Authority, the Underwriters, and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The Obligated Group has agreed to furnish, or cause to be furnished, pursuant to the Master Trust Indenture and the Series 2012 Supplemental Indenture:

(a) no later than sixty (60) days subsequent to the last day of each of the first three quarters in each Fiscal Year, provide to (1) the Authority (so long as any Related Bonds, including Series 2012A Bonds, are outstanding), and (2) the Municipal Securities Rulemaking Board, the following information: (A) the unaudited consolidated financial statements of the Health System, including the consolidated statements of financial position as of the end of such quarter, the consolidated statements of operations, the consolidated statements of changes in net assets, and the consolidated statements of cash flows, as well as the consolidating statement of financial position and the consolidating statement of operations from which the financial information relating solely to the Obligated Group Members may be derived; (B) utilization statistics of the Obligated Group, including aggregate discharges, patient days, average length of stay, average daily census, emergency room visits, and ambulatory surgery visits, or such other or different statistics as are appropriate at the time of calculation; and (C) the major payer mix of the Obligated Group by percentage of gross revenue; and

(b) no later than one-hundred twenty (120) days subsequent to the last day of each Fiscal Year, provide to each of the parties identified in clauses (1) and (2) of the foregoing paragraph, to the Trustee and to the applicable rating services, (1) copies of the Audited Consolidated Financial Statements of the Health System; (2) copies of the consolidating statement of financial position and consolidating statement of operations for the Health System from which the financial information relating solely to the Obligated Group Members may be derived; (3) utilization statistics of the Obligated Group, including aggregate discharges, patient days, average length of stay, average daily census, emergency room visits, and ambulatory surgery visits, or such other or different statistics as are appropriate at the time of calculation; (4) the major payer mix of the Obligated Group by percentage of gross revenue; and (5) such other statements, reports and schedules describing the finances, operation and management of the Obligated Group or the Health System, as the case may be, and such other information reasonably required by an Authorized Officer of the Authority.

Each of the foregoing requirements may be waived, modified or amended by the Authority in its sole and absolute discretion without notice to or consent of the Holders.

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: PAUL T. WILLIAMS, JR.
Authorized Officer

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APPENDIX A

CERTAIN DEFINITIONS OF THE RESOLUTIONS AND LOAN AGREEMENT

In addition to the other terms defined in this Official Statement, when used herein and in the summaries of the provisions of the General Resolution, the Series 2012A 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 Laws of New York 1973, as amended;

Annual Administrative Fee means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in the amount stated in the Loan Agreement;

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

Arbitrage Rebate Fund means the fund so designated and established by the Applicable 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 any body, agency or instrumentality of the State which will hereafter succeed to the rights, powers, duties and functions of the Authority;

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

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

Authorized Officer means (i) in the case of the Authority, the Chair, the Vice Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the Deputy

Executive Director, the Chief Financial Officer, the Managing Director, the Managing Director of Construction, the Managing Director of Portfolio Management, General Counsel and 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 an Institution, the person or persons authorized by a resolution or the by-laws of such Institution to perform any act or execute any document; and (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee;

Bonds or Series 2012A Bonds means the Series 2012A Bonds and any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution;

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

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

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

Bond Year means, as defined in the Series 2012A Resolution, a period of twelve (12) consecutive months beginning April 30 in any calendar year and ending on May 1 of the succeeding calendar year;

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

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

Construction Fund means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution;

Continuing Disclosure Agreement means the Continuing Disclosure Agreement with respect to the Series 2012A Bonds, by and among the Authority, the Institution and the Trustee;

Contract Documents means any general contract or agreement for the construction of the Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the Institution or a Member of the Obligated Group 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 Series of Bonds, which items of expense will include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and

charges for execution, transportation and safekeeping of such Bonds, premiums, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing;

Cost or Costs of the Project means, with respect to a Project, the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such 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 material men, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the 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 the Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of the Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution will be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the 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 the 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 the 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 or a Reserve Fund Facility;

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

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

Debt Service Fund means the fund so designated and established by the Series Resolution pursuant to the Resolution;

Debt Service Reserve Fund means the fund so designated, created and established pursuant to the Resolution. There will be no Debt Service Reserve Fund established with respect to the Series 2012A Bonds;

Defeasance Security means, unless otherwise provided in an Applicable Series Resolution (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), an obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America, which, in each case, is not subject to redemption prior to

maturity other than at the option of the holder thereof or which has been irrevocably called for redemption on a stated future date or (b) an Exempt Obligation (i) which 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) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or 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 (other than obligations the payment of the principal of which is not fixed as to amount or time of payment) 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 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) which are rated by Moody's and Standard & Poor's in the highest rating category of each such rating service for such Exempt Obligation; provided, however, that such term will not mean any interest in a unit investment trust or mutual fund;

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

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

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

Exempt Obligation means, as defined in the Series 2012A Resolution,

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

(ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(iii) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations;

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

Federal Agency Obligation means, as defined in the Series 2012A Resolution:

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

Fitch means, Fitch, Inc., its successors and assigns;

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

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

Institution means North Shore-Long Island Jewish Health Care, Inc., a New York not-for-profit corporation that is also a Member of the Obligated Group;

Interest Payment Date means each May 1 and November 1. If any such date is not a Business Day, the Interest Payment Date shall be the succeeding Business Day;

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

Loan Agreement means the Loan Agreement, dated as of February 29, 2012, between the Authority and the Institution;

Master Indenture means the Master Trust Indenture dated as of July 1, 1998, as amended and restated as of August 1, 2003, as further amended and restated as of September 1, 2011, and as further amended and supplemented as of April 1, 2012 including any other amendments or supplements thereto;

Master Trustee means The Bank of New York Mellon, New York, New York (as successor in interest to the United States Trust Company of New York), and its successors in the trusts created under the Master Indenture;

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

Mortgages means the Mortgages granted by each Member of the Obligated Group (except the Institution) to the Master Trustee on the Mortgaged Property, as security for the performance of the Institution's and the Obligated Group's obligations under all Obligations issued under the Master Indenture, as such Mortgages may be amended or modified from time to time;

Mortgaged Property means the real property, fixtures, personal property and other property interests described in and mortgaged pursuant to the Mortgages;

Obligated Group means, collectively, means, collectively, the Institution, North Shore University Hospital, Long Island Jewish Medical Center, Glen Cove Hospital, Plainview Hospital, Forest Hills Hospital, Stern Family Center for Extended Care and Rehabilitation, Lenox Hill Hospital, Staten Island University Hospital, Huntington Hospital Association d/b/a Huntington Hospital, Southside Hospital and Franklin Hospital, and such other organizations as may from time to time be added as members of such Obligated Group, and deleting such organizations as may from time to time withdraw as members of such Obligated Group, all as provided in the Master Indenture. Individually, each is referred to herein as a "Member";

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

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

Permitted Collateral means, as defined in the Series 2012A Resolution:

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

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

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

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

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

Permitted Encumbrances means (i) the Loan Agreement, (ii) the Resolution, (iii) the Mortgages, (iv) all Obligations entered into by the Obligated Group under the Master Indenture, (v) any other encumbrances or matters approved in writing by the Authority subject to compliance with applicable Governmental Requirements, (vi) those matters referred to in any title insurance policy, (vii) immaterial items appearing on title reports but omitted based on an undertaking of the Institution or a Member, (xiii) any Permitted Liens allowed under the Master Indenture subject to compliance with all applicable Governmental Requirements and the security interests provided for in the Loan Agreement, and (ix) the mortgages previously delivered by certain Members of the Obligated Group to the Authority to secure Bonds issued under the Resolution;

Permitted Investments means, as defined in the Series 2012A Resolution, any of the following:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

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

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

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

Project means any eligible hospital project, nursing home project or other project qualified under the Act or otherwise qualified for funding by the Authority through the issuance of obligations under the laws of the State of New York and with respect to the Series 2012A Bonds, the Project as set forth in the Loan Agreement;

Provider Payments means any payments made by a Facility Provider pursuant to its Reserve Fund Facility;

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

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

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

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

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

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

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

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

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

Refunding Bonds means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to the Resolution, and originally issued 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 or letter of credit which constitutes any part of the Debt Service Reserve Fund authorized to be delivered to the Trustee pursuant to the Resolution;

Resolution or General Resolution means the Supplemental Resolution adopted August 10, 2011 authorizing the Amendment and Restatement North Shore Health System Obligated Group Revenue Bond Resolution adopted on August 10, 2011, which amends and restates the Dormitory Authority North Shore Health System Obligated Group Revenue Bond Resolution, originally adopted by the Authority on June 24, 1998, which was previously amended by a Supplemental Resolution adopted on July 23, 2003, as further supplemented or modified pursuant to the terms thereof;

Revenues means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement and payments made under the Master Indenture or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation, which are assigned by the Resolution to the Trustee by the Authority and pursuant to the Loan Agreement and the Obligation are to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Arbitrage Rebate Fund);

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

Securities means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, as the time an investment therein is made or such security is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "Aa" or better by Moody's or "AA" or better by S&P or is rated which a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) with the consent of the Credit Facility Issuers, common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or its stock is deposited in any fund or account established hereunder, is rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "Aa" or better by Moody's or "AA" by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and the Credit Facility Issuer;

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

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

Series 2012A Bonds means the Bonds authorized by the Series 2012A Resolution;

Series 2012A Resolution means the Series 2012A Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Refunding Bonds, Series 2012A, adopted by the Authority on February 29, 2012;

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

State means the State of New York;

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

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

Trustee means a bank or trust company appointed as Trustee for a Series of the Bonds pursuant to the Applicable Series Resolution or the Bond Series Certificate delivered under the Resolution and having the duties, responsibilities and rights provided for in the Resolution with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution. The Trustee for the Series 2012A Bonds is The Bank of New York Mellon, a New York banking corporation and any successor to its duties under the Resolution.

APPENDIX B

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NORTH SHORE-LONG
ISLAND JEWISH HEALTH SYSTEM, INC. FOR THE YEARS ENDED DECEMBER 31, 2011
AND 2010 WITH REPORT OF INDEPENDENT AUDITORS**

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CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

North Shore-Long Island Jewish Health System, Inc.
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

North Shore-Long Island Jewish Health System, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2011 and 2010

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Report of Independent Auditors

The Board of Trustees
North Shore-Long Island Jewish Health System, Inc.

We have audited the accompanying consolidated statements of financial position of North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities (collectively, the “System”) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System’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 System’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 System’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 North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities at December 31, 2011 and 2010, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating and combining statements of financial position and consolidating and combining statements of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

As discussed in Note 2 to the accompanying consolidated financial statements, in 2011 the System changed its method of reporting estimated insurance claims receivables and estimated insurance claims liabilities with the adoption of the Accounting Standards Update No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*.

Ernst + Young LLP

March 30, 2012

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Financial Position

(In Thousands)

	December 31	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 474,738	\$ 410,253
Marketable securities and other investments	1,116,810	1,039,124
Accounts receivable for services to patients, net of allowance for doubtful accounts of \$241,861 in 2011 and \$204,467 in 2010	620,543	570,360
Accounts receivable for physician activities, net	53,428	45,392
Assets limited as to use, current portion	76,017	96,774
Pledges receivable, current portion	48,939	41,316
Insurance claims receivable, current portion	97,346	-
Other current assets	212,114	123,261
Total current assets	2,699,935	2,326,480
Assets limited as to use, net of current portion	805,632	792,663
Pledges receivable, net of current portion	111,866	120,150
Property, plant and equipment, net	3,104,120	2,674,349
Insurance claims receivable, net of current portion	372,243	-
Other assets	169,617	233,273
Total assets	\$ 7,263,413	\$ 6,146,915
Liabilities and net assets		
Current liabilities:		
Short-term borrowings	\$ 90,540	\$ 15,540
Accounts payable and accrued expenses	592,634	508,288
Accrued salaries and related benefits	466,667	369,976
Current portion of capital lease obligations	4,208	5,008
Current portion of long-term debt	46,656	48,899
Current portion of insurance claims liability	97,346	-
Current portion of malpractice and other insurance liabilities	47,130	39,352
Current portion of third-party payer structured liabilities	5,438	6,724
Current portion of estimated payable to third-party payers	288,029	254,500
Total current liabilities	1,638,648	1,248,287
Accrued retirement benefits, net of current portion	558,785	477,923
Capital lease obligations, net of current portion	81,790	85,400
Long-term debt, net of current portion	1,366,719	1,283,339
Insurance claims liability, net of current portion	372,243	-
Malpractice and other insurance liabilities, net of current portion	580,965	502,826
Third-party payer structured liabilities, net of current portion	29,248	34,592
Other long-term liabilities	445,055	409,703
Total liabilities	5,073,453	4,042,070
Commitments and contingencies		
Net assets:		
Unrestricted	1,735,798	1,677,074
Temporarily restricted	328,463	306,053
Permanently restricted	125,699	121,718
Total net assets	2,189,960	2,104,845
Total liabilities and net assets	\$ 7,263,413	\$ 6,146,915

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Operations
(In Thousands)

	Year Ended December 31	
	2011	2010
Operating revenue:		
Net patient service revenue	\$ 5,354,818	\$ 4,826,303
Physician practice revenue	671,917	490,904
Other operating revenue	245,585	250,567
Net assets released from restrictions used for operations	49,937	41,953
Total operating revenue	<u>6,322,257</u>	<u>5,609,727</u>
Operating expenses:		
Salaries	3,013,834	2,629,868
Employee benefits	861,052	747,258
Supplies and expenses	1,888,927	1,735,336
Bad debt expense	99,111	78,314
Depreciation and amortization	264,128	215,467
Interest	61,007	62,850
Total operating expenses	<u>6,188,059</u>	<u>5,469,093</u>
Excess of operating revenue over operating expenses	134,198	140,634
Non-operating gains and losses:		
Investment income	42,933	41,712
Change in net unrealized gains and losses and change in value of equity method investments	(24,307)	68,746
Change in fair value of interest rate swap agreements designated as derivative instruments	(14,909)	(7,338)
Loss on refunding of long-term debt	(12,589)	-
Contribution received in the acquisition of Lenox Hill Hospital and Subsidiaries	-	448,689
Medical resident tax recovery	1,794	40,867
Other non-operating gains and losses	12,011	9,135
Total non-operating gains and losses	<u>4,933</u>	<u>601,811</u>
Excess of revenue and gains and losses over expenses	139,131	742,445
Net assets released from restrictions for capital asset acquisitions	15,847	52,600
Contributions of long-lived assets	54,000	-
Change in fair value of interest rate swap agreements designated as cash flow hedges	(793)	(1,405)
(Loss) recovery of fair value of endowment corpus	(194)	792
Pension and other postretirement liability adjustments	(149,267)	(16,187)
Increase in unrestricted net assets	<u>\$ 58,724</u>	<u>\$ 778,245</u>

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2011 and 2010

(In Thousands)

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, January 1, 2010	\$ 1,230,749	\$ 898,829	\$ 238,606	\$ 93,314
Contributions and grants	126,118	–	120,673	5,445
Investment income	3,521	–	3,521	–
Change in net unrealized gains and losses and change in value of equity method investments	7,643	–	7,643	–
Contribution received in the acquisition of Lenox Hill Hospital and Subsidiaries	68,564	–	45,605	22,959
Excess of revenue and gains and losses over expenses	742,445	742,445	–	–
Net assets released from restrictions for:				
Capital asset acquisitions	–	52,600	(52,600)	–
Operations	(41,953)	–	(41,953)	–
Non-operating activities	(14,650)	–	(14,650)	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	(1,405)	(1,405)	–	–
Recovery of fair value of endowment corpus	–	792	(792)	–
Pension and other postretirement liability adjustments	(16,187)	(16,187)	–	–
Increase in net assets	874,096	778,245	67,447	28,404
Net assets, December 31, 2010	2,104,845	1,677,074	306,053	121,718
Contributions and grants	105,408	–	101,427	3,981
Investment income	7,869	–	7,869	–
Change in net unrealized gains and losses and change in value of equity method investments	(6,656)	–	(6,656)	–
Excess of revenue and gains and losses over expenses	139,131	139,131	–	–
Net assets released from restrictions for:				
Capital asset acquisitions	–	15,847	(15,847)	–
Operations	(49,937)	–	(49,937)	–
Non-operating activities	(14,640)	–	(14,640)	–
Contributions of long-lived assets	54,000	54,000	–	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	(793)	(793)	–	–
Loss of fair value of endowment corpus	–	(194)	194	–
Pension and other postretirement liability adjustments	(149,267)	(149,267)	–	–
Increase in net assets	85,115	58,724	22,410	3,981
Net assets, December 31, 2011	\$ 2,189,960	\$ 1,735,798	\$ 328,463	\$ 125,699

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2011	2010
Cash flows from operating activities		
Increase in net assets	\$ 85,115	\$ 874,096
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contribution received in the acquisition of Lenox Hill Hospital and Subsidiaries	–	(517,253)
Contributions of long-lived assets	(54,000)	–
Permanently restricted contributions	(3,981)	(5,445)
Depreciation and amortization	264,128	215,467
Net realized gains and losses, change in net unrealized gains and losses and change in value of equity method investments	14,393	(93,463)
Change in fair value of interest rate swap agreements	15,702	8,743
Loss on refunding of long-term debt	12,589	–
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	(50,183)	(60,821)
Accounts receivable for physician activities, net	(8,036)	5,685
Pledges receivable	2,490	(25,768)
Current portion of estimated payable to third-party payers	33,529	(4,365)
Accrued retirement benefits, net of current portion	80,862	(8,616)
Malpractice and other insurance liabilities	85,917	162,717
Net change in all other operating assets and liabilities	224,154	127,996
Net cash provided by operating activities	702,679	678,973
Cash flows from investing activities		
Capital expenditures	(622,107)	(415,313)
Proceeds from sale of property, plant and equipment	–	8,759
Net cash invested in marketable securities and other investments and assets limited as to use	(109,159)	(227,379)
Cash received in the acquisition of Lenox Hill Hospital and Subsidiaries	–	114,169
Net cash used in investing activities	(731,266)	(519,764)
Cash flows from financing activities		
Principal payments on long-term debt and capital lease obligations	(56,875)	(57,604)
Payments on refunded long-term debt	(306,177)	–
Payments on short-term borrowings	(77,380)	(60,863)
Payments on third-party payer structured liabilities	(6,630)	(6,132)
Proceeds from short-term borrowings	152,380	29,145
Proceeds from long-term debt, net of underwriter's discount	395,428	–
Payments for financing costs	(9,826)	–
Proceeds from permanently restricted contributions	2,152	669
Net cash provided by (used in) financing activities	93,072	(94,785)
Net increase in cash and cash equivalents	64,485	64,424
Cash and cash equivalents, beginning of year	410,253	345,829
Cash and cash equivalents, end of year	\$ 474,738	\$ 410,253
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 59,490	\$ 59,847
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	\$ 726	\$ 4,428
Contributions of long-lived assets	\$ 54,000	\$ –

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements

December 31, 2011
(In Thousands)

1. Organization and Principles of Consolidation

North Shore-Long Island Jewish Health System, Inc. and its member corporations and other affiliated entities (collectively, the “System”) is an integrated health care delivery system in the New York metropolitan area. Various entities within the System are exempt from Federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code (the “Code”) as organizations described in Section 501(c)(3), while other entities are not exempt from such income taxes. The exempt organizations also are exempt from New York State and local income taxes.

The accompanying consolidated financial statements include the accounts of the following principal operating organizations. All interorganization accounts and activities have been eliminated in consolidation.

Hospitals

- North Shore University Hospital (“NSUH”), including the accounts of Syosset Hospital (“Syosset”)
- Long Island Jewish Medical Center (“LIJMC”), including Long Island Jewish Hospital, Steven and Alexandra Cohen Children’s Medical Center of New York and Zucker Hillside Hospital
- Glen Cove Hospital (“Glen Cove”)
- Plainview Hospital (“Plainview”)
- Forest Hills Hospital (“Forest Hills”)
- Staten Island University Hospital (“Staten Island”)
- Huntington Hospital Association (“Huntington”)
- Franklin Hospital (“Franklin”), including the accounts of Orzac Center for Extended Care and Rehabilitation (“Orzac”)
- Southside Hospital (“Southside”)
- Lenox Hill Hospital

Other Entities

- North Shore-Long Island Jewish Health System, Inc. and North Shore-Long Island Jewish Health Care, Inc. (“NSLIJ HCI”) – parent holding companies
- North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation (“CECR”) – skilled nursing facility
- North Shore Health System Enterprises, Inc. and North Shore Health Enterprises, Inc. – holding companies for certain for-profit related entities
- RegionCare, Inc. – infusion therapy, diagnostic laboratory, nurse staffing and licensed home health agency services
- North Shore Community Services, Inc. – real estate holdings and related services
- North Shore-Long Island Jewish Health System Laboratories – laboratory services
- The Feinstein Institute for Medical Research – medical research
- North Shore-Long Island Jewish Health System Foundation, Inc. (“Foundation”) – fundraising
- Hospice Care Network, Inc. (“Hospice”) – hospice services
- Regional Insurance Company Ltd. (“Regional Insurance”) – captive insurance company providing excess professional and general liability insurance
- North Shore LIJ Physicians Insurance Company Risk Retention Group (“RRG”) – special purpose financial captive insurance company providing physician professional liability insurance

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

Other Entities (continued)

- North Shore University Hospital Housing, Inc., North Shore University Hospital at Glen Cove Housing, Inc. and Hillside Hospital Houses, Inc. – housing and auxiliary facilities for staff members, students and employees
- Regional Claims Recovery Service – billing and collection services
- Huntington Hospital Dolan Family Health Center – community health center
- Lenox Hill Physician Hospital Organization, Inc. and Lenox Hill consolidated professional corporations
- Staten Island consolidated professional corporations
- Chaps Community Health Center, Inc. (“Chaps”) – primary care diagnostic and treatment center

Lenox Hill Acquisition

On May 19, 2010 (the “Acquisition Date”), the System acquired Lenox Hill Hospital, a 652-bed, acute care hospital located in Manhattan, and its subsidiaries (collectively, “Lenox Hill”). The System acquired Lenox Hill by means of an inherent contribution where no consideration was transferred by the System. The System accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the Acquisition Date. The results of Lenox Hill’s operations have been included in the consolidated financial statements since the Acquisition Date.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date:

	May 19, 2010
Assets	
Cash and cash equivalents	\$ 114,169
Marketable securities and other investments	64,360
Accounts receivable for services to patients	68,527
Accounts receivable for physician activities	6,080
Other current assets	25,584
Assets limited as to use	72,381
Pledges receivable	4,353
Property, plant and equipment	701,740
Other assets	20,163
Total assets acquired	1,077,357
Liabilities	
Short-term borrowings	20,000
Accounts payable and accrued expenses	65,902
Accrued salaries and related benefits	22,217
Estimated payable to third-party payers	8,131
Accrued retirement benefits	127,243
Capital lease obligations	5,061
Long-term debt	159,077
Malpractice and other insurance liabilities	80,389
Other long-term liabilities	72,084
Total liabilities assumed	560,104
Excess of assets acquired over liabilities assumed	\$ 517,253
Net assets acquired	
Unrestricted	\$ 448,689
Temporarily restricted	45,605
Permanently restricted	22,959
	\$ 517,253

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

The following table summarizes amounts attributable to Lenox Hill from the Acquisition Date through December 31, 2010 that are included in the accompanying 2010 consolidated financial statements:

	Period from May 19, 2010 to December 31, 2010
Total operating revenue	\$ 424,704
Total operating expenses	422,396
Excess of operating revenue over operating expenses	2,308
Total non-operating gains and losses	8,546
Excess of revenue and gains and losses over expenses	\$ 10,854
Change in net assets:	
Unrestricted net assets	\$ (2,538)
Temporarily restricted net assets	(1,152)
Permanently restricted net assets	41
Total change in net assets	\$ (3,649)

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

The following table represents unaudited pro forma financial information, assuming the acquisition of Lenox Hill had taken place on January 1, 2010. The pro forma information includes adjustments for the amortization of intangible assets. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on January 1, 2010.

	Year Ended December 31, 2010
Total operating revenue	\$ 5,855,571
Total operating expenses	5,721,077
Excess of operating revenue over operating expenses	134,494
Total non-operating gains and losses	156,351
Excess of revenue and gains and losses over expenses	<u>\$ 290,845</u>
Change in net assets:	
Unrestricted net assets	\$ 334,438
Temporarily restricted net assets	19,909
Permanently restricted net assets	7,481
Total change in net assets	<u>\$ 361,828</u>

2. Summary of Significant Accounting Policies

Consolidated Statements of Operations

The accompanying consolidated statements of operations include the excess of revenue and gains and losses over expenses as the performance indicator. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses; peripheral or incidental transactions and unusual, nonrecurring items are reported as non-operating gains and losses.

Contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purpose of acquiring such assets), the change in fair value of interest rate swap agreements designated as cash flow hedges, the (loss) recovery of fair value of endowment corpus and pension and other postretirement liability adjustments are excluded from the System's performance indicator.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 reported amounts of assets, including accounts receivable for services to patients, and liabilities, including estimated payables to third-party payers, accrued retirement benefits and malpractice and other insurance liabilities, fair value determinations as of the Acquisition Date and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

During 2011 and 2010, the System revised estimates made in prior years to reflect the passage of time and the availability of more recent information. Changes in estimates primarily relate to estimates made by management for third-party payer liabilities and malpractice and other insurance liabilities. For the year ended December 31, 2011, the change in estimates for third-party payer liabilities related to prior years was not significant. For the year ended December 31, 2010, the estimates for third-party payer liabilities related to prior years increased by approximately \$29,600. For the years ended December 31, 2011 and 2010, the estimates for malpractice and other insurance liabilities related to prior years increased by approximately \$3,000 and \$49,000, respectively.

Cash and Cash Equivalents

The System considers all highly liquid financial instruments purchased with a maturity of three months or less, other than those held in the investment portfolio and assets limited as to use, to be cash equivalents. The System maintains cash on deposit with major banks and invests in money market securities with financial institutions which exceed federally-insured limits. Management believes the credit risk related to these deposits is minimal.

Accounts Receivable and Net Patient Service Revenue

Accounts receivable result from the health care services provided by the System and physicians of the clinical practices. Additions to the allowance for doubtful accounts result from the provision for uncompensated care. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health ("NYSDOH"). Effective December 1, 2009, the New York State prospective payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide rate, with retroactive adjustments for certain rate components paid concurrently with the settlement of the final rate. Prior to December 1, 2009, the retroactive adjustments were paid in future years as a component of the hospital-specific rate. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the System is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

Medicare Reimbursement

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

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The System has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and System-specific data. The current Medicaid, Medicare and other third-party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The System 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. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through years ranging from 2000 to 2006. Other years remain open for audit and settlement, as do numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that have been enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System. Additionally, certain payers' payment rates for various years have been appealed by certain members of the System. If the appeals are successful, additional income applicable to those years might be realized.

The System grants credit without collateral to its patients, most of whom are insured under various third-party agreements. Government payer programs account for a significant portion of net patient service revenue. For each of the years ended December 31, 2011 and 2010, revenue from the Medicare and Medicaid programs, including Medicare and Medicaid managed care programs, accounted for approximately 52% of the System's net patient service revenue.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The significant concentrations of gross accounts receivable for services to patients from third-party payers and patients at December 31, 2011 and 2010 are as follows:

	December 31	
	2011	2010
Medicare	30%	27%
Medicaid	20	20
Self-pay	9	8
Other third-party payers	41	45
	100%	100%

Charity Care

The System provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue. For patients who were determined by the System to have the ability to pay but did not, the uncollected amounts are recorded as bad debt expense. In distinguishing charity care from bad debt expense, a number of factors are considered, certain of which require a high degree of judgment.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$163,013 and \$153,030 for the years ended December 31, 2011 and 2010, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by hospital-specific data.

The estimated cost of charity care provided was \$128,108 and \$124,088 for the years ended December 31, 2011 and 2010, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

For the years ended December 31, 2011 and 2010, bad debt expense, at charges, was \$99,111 and \$78,314, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The NYSDOH Hospital Indigent Care Pool (the “Pool”) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended December 31, 2011 and 2010, the System received \$93,527 and \$96,220, respectively, in Pool distributions, of which approximately \$75,000 and \$76,000 was related to charity care. The System made payments into the Pool of \$36,557 and \$35,697 for the years ended December 31, 2011 and 2010, respectively, for the 1% assessment.

See Note 8 for additional disclosure for charity care relating to Staten Island’s settlement with the New York State Attorney General.

Pledges Receivable

Pledges (promises to give), less an allowance for uncollectible amounts, are recorded as receivables in the year made at net present value. Pledges receivable that are due more than one year from the balance sheet date are discounted to reflect the present value of future cash flows and are recorded as temporarily restricted net assets.

Marketable Securities and Other Investments

Marketable securities are classified as trading securities. Investments in debt securities, equity securities and mutual funds with readily determinable fair values are reported at fair value, based on quoted market prices.

The System has invested in investment funds of hedge funds (“funds of hedge funds”), hedge funds, private equity funds and private real estate funds, which are included in marketable securities and other investments and assets limited as to use in the accompanying consolidated statements of financial position. These System investments are not readily marketable; they are reported under the equity method of accounting, which approximates fair value. The equity method reflects the System’s share of the net asset value of the respective funds.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Individual investment holdings of the funds of hedge funds, hedge funds, private equity funds and private real estate funds may include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the System's holdings, may be determined by the investment managers or general partners. Values may be based on estimates that require varying degrees of judgment. Recorded estimates may change by a material amount in the near term. The investments may indirectly expose the System to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. However, the System's risk is limited to its amounts invested. The financial statements of the funds of hedge funds, hedge funds, private equity funds and private real estate funds are audited annually by independent auditors. At December 31, 2011, the System has future commitments of \$19,308 and \$4,039 to invest in private equity and private real estate funds for pension and restricted assets, respectively.

Other investments also include investments in commingled fixed income, equity and commodity funds. The individual investment holdings of these commingled funds are predominantly marketable securities. These investments are reported under the equity method of accounting, which approximates fair value. The equity method reflects the System's share of the net asset value of these investments. The financial statements of the commingled fixed income, equity and commodity funds are audited annually by independent auditors.

Investment income or loss (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses and change in value of equity method investments are included in the performance indicator, unless the income or loss is restricted by donor or law.

Assets Limited as to Use

Assets limited as to use include funds held pursuant to debt financing arrangements, medical malpractice claims trust agreements, internally designated funds, including internally designated malpractice and other self-insurance assets, deferred employee compensation plans and other temporarily and permanently restricted assets. Amounts required to meet current liabilities are reported as current assets.

Inventory of Supplies

Inventory, included in other current assets, is stated at the lower of cost (first-in, first-out method) or market.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Property, plant and equipment of Lenox Hill that existed at the Acquisition Date was recorded at fair value based upon an independent valuation. Depreciation and amortization of land improvements, buildings, fixed equipment and major movable equipment is computed by the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years.

Equipment under capital lease obligations and leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. During the period of construction of capital assets, interest costs are capitalized as a component of the cost of assets. When assets are disposed of, the carrying amounts of the assets and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is included in the performance indicator. When assets become fully depreciated, the carrying amounts of such assets and the related accumulated depreciation are removed from the accounts (see Note 6).

Long-Lived Assets

Gifts of long-lived assets are reported at fair value established at the date of contribution as changes in unrestricted net assets, excluded from the performance indicator, unless explicit donor stipulations specify how the donated asset must be used.

During 2011, the System received a gift of land and a building in Manhattan. The land and building were recorded at their estimated fair value of \$54,000, based upon an independent valuation. The gift is recorded within contributions of long-lived assets in the accompanying consolidated statements of operations.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Intangible Assets

In 2011, Staten Island purchased from Richmond University Medical Center (“RUMC”) the remainder interest in a joint venture between the hospitals for \$30,500. The purchase price was determined based upon an independent valuation, and as a result, an intangible asset was recorded for the purchase price and is being amortized over a five and one-half year useful life.

During 2010, upon acquisition of Lenox Hill, the System recorded an intangible asset for the Lenox Hill trade name. The trade name represents an indefinite-lived intangible asset of \$11,000 and is subject to impairment testing on an annual basis. The System determined that there has been no impairment of the trade name.

Intangible assets are included within other assets in the accompanying consolidated statements of financial position.

Deferred Financing Costs

Deferred financing costs, included in other assets, represent costs incurred to obtain financing for various System projects and initiatives. Amortization of these costs is provided over the term of the applicable indebtedness. Deferred financing costs, net of accumulated amortization, are \$36,058 and \$27,450 at December 31, 2011 and 2010, respectively. Amortization, included in interest expense in the accompanying consolidated statements of operations, is \$1,880 and \$1,951 for the years ended December 31, 2011 and 2010, respectively.

During 2011, the System refunded certain long-term debt and issued new debt (see Note 7). In connection with this transaction, \$2,515 of unamortized deferred financing costs was written off and is included within the loss on refunding of long-term debt in the accompanying consolidated statement of operations. Additionally, new deferred financing costs of \$13,003 were recorded as a result of this transaction.

Interest Rate Swap Agreements

Interest rate swap agreements are reported at fair value. Fair value is estimated using discounted cash flow analyses based on current interest rates with consideration of the risk of non-performance. Changes in fair value of interest rate swap agreements designated as derivative instruments are recognized in the System’s performance indicator. Changes in fair value of interest rate swap agreements designated as cash flow hedges are excluded from the performance indicator.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Other Long-Term Liabilities

Other long-term liabilities included in the accompanying consolidated statements of financial position primarily consist of the long-term portion of estimated payable to third-party payers, lease incentive obligations, deferred rent payable, asset retirement obligations, deferred revenue, the fair value of the interest rate swap agreements and, at December 31, 2010, the portion of the medical resident tax recovery owed to the System's medical residents.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted by donors or other external parties to be used for designated purposes or over specified time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income from these net assets is available to support certain teaching, research and training programs.

Donor Gifts

Gifts of cash and other assets, including unconditional promises to give cash and other assets (pledges), are reported at fair value when the gift is received (or promise is made). Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements.

The System receives conditional pledges, which are not reflected in the accompanying consolidated financial statements. The pledges primarily relate to the establishment of certain programs. As the conditions of the pledges are met, the pledges are recognized. At December 31, 2011 and 2010, \$4,425 and \$6,025, respectively, of conditional pledges have not been recognized in the consolidated statements of financial position.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Contributions and pledges raised through fundraising efforts for the years ended December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted	\$ 22,614	\$ 11,166
Unrestricted long-lived asset	54,000	–
Temporarily restricted	65,727	101,584
	<u>\$ 142,341</u>	<u>\$ 112,750</u>

Medical Resident Tax Recovery

In March 2010, the Internal Revenue Service (“IRS”) announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (“FICA”) taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest.

For the years ended December 31, 2011 and 2010, the System has recorded revenue of \$1,794 and \$40,867, respectively, related to FICA medical resident refund claims and related interest that are expected to meet the IRS requirements to be eligible for refunds. The System has recorded in the accompanying consolidated statements of financial position a receivable of \$79,891 and \$76,624, included in other current assets and other assets at December 31, 2011 and 2010, respectively. The System has recorded a liability related to the portion to be remitted to the medical residents of \$37,230 and \$35,757, included in accrued salaries and related benefits and other long-term liabilities at December 31, 2011 and 2010, respectively. The System has established these estimates based on information presently available, which are subject to change as the IRS adjudicates the claims.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

The System provides health care services to residents primarily within its geographic areas. Expenses related to providing these services pertain to the following functional categories for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Health care services	\$ 5,386,094	\$ 4,779,482
General and administrative	801,965	689,611
Total operating expenses	<u>\$ 6,188,059</u>	<u>\$ 5,469,093</u>

Tax Status

Certain organizations included in the System's consolidated financial statements are taxable entities under Federal or state laws. Generally accepted accounting principles require that the asset and liability method of accounting for income taxes be utilized by these organizations. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

The effect on deferred taxes of a change in tax rates is recognized in income in the period of enactment. At December 31, 2011 and 2010, the System has a deferred income tax asset which has been fully offset by a related valuation allowance. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Significant components of the deferred tax asset relate to the allowance for doubtful accounts receivable and net operating loss carryforwards. The System has net operating loss carryforwards of approximately \$113,555, which expire in varying amounts through 2031, and are available to offset future taxable income.

Recent Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* ("ASU 2010-07"), which provides guidance on accounting for combinations of not-for-profit entities. The guidance is effective for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The System adopted ASU 2010-07 effective January 1, 2010, and applied its provisions to the acquisition of Lenox Hill.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* (“ASU 2010-23”), which provides guidance on the required measurement basis for charity care disclosures. The guidance is effective for fiscal years beginning after December 15, 2010. The System adopted ASU 2010-23 effective January 1, 2011; however, the impact was not material to the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (“ASU 2010-24”). ASU 2010-24 clarifies that, for medical malpractice or similar contingent liabilities, a health care entity such as the System should not net insurance recoveries against related claims liabilities and that claims liabilities should be determined without consideration of insurance recoveries. Health care entities that are indemnified for these liabilities should recognize insurance receivables at the same time that they recognize the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. As a result of the adoption of ASU 2010-24 in 2011, the System recognized insurance claims receivable and insurance claims liability of approximately \$469,000 (\$97,000 current and \$372,000 long-term) in the accompanying consolidated statement of financial position at December 31, 2011. Such amounts represent the actuarially determined present value of medical malpractice and other insurance claims that are anticipated to be covered by insurance, discounted at a rate of 2.0%. As permitted, the System’s consolidated statement of financial position as of December 31, 2010 was not restated to reflect the adoption of this accounting pronouncement, which has no effect on the System’s net assets.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer’s Participation in a Multiemployer Plan* (“ASU 2011-09”), which requires additional disclosures about an employer’s participation in multiemployer pension plans. The guidance is effective for fiscal years ending after December 15, 2011. The System adopted ASU 2011-09 and applied its provisions to the consolidated financial statements. The System’s adoption of ASU 2011-09 did not have a material impact on the consolidated financial statements.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (“ASU 2011-07”). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2011. The System has determined that the effect of ASU 2011-07 on its consolidated financial statements will not be significant.

Reclassifications

Certain 2010 amounts in the accompanying consolidated financial statements have been reclassified from amounts previously reported to conform to the 2011 presentation. These reclassifications have no impact on the net assets previously reported.

3. Marketable Securities and Other Investments

Marketable securities and other investments, stated at fair value and under the equity method of accounting, consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and short-term investments	\$ 68,218	\$ 100,111
U.S. Government obligations	150,277	165,532
Corporate and other bonds	122,618	76,424
Fixed income mutual funds	303,551	261,798
Equity securities	98,943	93,947
Equity mutual funds	138,201	126,910
Commingled equity funds	115,639	93,128
Funds of hedge funds	116,892	87,901
Interest and other receivables	2,471	33,373
	<u>\$ 1,116,810</u>	<u>\$ 1,039,124</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Marketable Securities and Other Investments (continued)

Investment income and the change in net unrealized gains and losses and change in value of equity method investments are comprised of the following for the years ended December 31, 2011 and 2010:

	2011		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 32,515	\$ 1,717	\$ 34,232
Net realized gains and losses	10,418	6,152	16,570
	<u>\$ 42,933</u>	<u>\$ 7,869</u>	<u>\$ 50,802</u>

Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ (33,869)	\$ (4,369)	\$ (38,238)
Equity method investment gains and losses	(15,306)	(2,287)	(17,593)
Equity method investment gains – other assets	24,868	–	24,868
	<u>\$ (24,307)</u>	<u>\$ (6,656)</u>	<u>\$ (30,963)</u>

	2010		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 26,639	\$ 1,520	\$ 28,159
Net realized gains and losses	15,073	2,001	17,074
	<u>\$ 41,712</u>	<u>\$ 3,521</u>	<u>\$ 45,233</u>

Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 30,243	\$ 4,568	\$ 34,811
Equity method investment gains and losses	23,753	3,075	26,828
Equity method investment gains – other assets	14,750	–	14,750
	<u>\$ 68,746</u>	<u>\$ 7,643</u>	<u>\$ 76,389</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Assets Limited as to Use

Assets limited as to use, including marketable securities and other investments stated at fair value and under the equity method of accounting, consist of the following at December 31, 2011:

	2011			
	Bond Indenture, Third-party Agreements and Other	Malpractice and Other Self-Insurance Assets	Temporarily and Permanently Restricted Assets (Including Investment Return)	Total
Cash and short-term investments	\$ 67,014	\$ 25,696	\$ 20,277	\$ 112,987
U.S. Government obligations	348,060	39,508	5,232	392,800
Corporate and other bonds	2,221	33,370	3,807	39,398
Fixed income mutual funds	17,555	71,881	9,566	99,002
Commingled fixed income funds	-	-	3,384	3,384
Equity securities	238	25,155	18,649	44,042
Equity mutual funds	23,141	39,476	20,962	83,579
Commingled equity funds	-	19,616	20,901	40,517
Target-age mutual funds	5,629	-	-	5,629
Commingled commodity funds	-	-	1,202	1,202
Funds of hedge funds	-	30,876	22,224	53,100
Hedge funds	-	-	204	204
Private equity funds	-	-	2,137	2,137
Private real estate funds	-	-	1,718	1,718
Interest and other receivables	1,069	678	203	1,950
	<u>\$ 464,927</u>	<u>\$ 286,256</u>	<u>\$ 130,466</u>	<u>881,649</u>
Less current portion				<u>76,017</u>
				<u>\$ 805,632</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Assets Limited as to Use (continued)

Assets limited as to use, including marketable securities and other investments stated at fair value and under the equity method of accounting, consist of the following at December 31, 2010:

	2010			
	Bond Indenture, Third-party Agreements and Other	Malpractice and Other Self-Insurance Assets	Temporarily and Permanently Restricted Assets (Including Investment Return)	Total
Cash and short-term investments	\$ 101,740	\$ 24,383	\$ 20,938	\$ 147,061
U.S. Government obligations	317,371	39,093	12,630	369,094
Corporate and other bonds	5,077	25,261	27,143	57,481
Fixed income mutual funds	15,566	53,550	8,092	77,208
Equity securities	1,427	27,370	16,461	45,258
Equity mutual funds	21,157	53,144	19,143	93,444
Commingled equity funds	-	21,178	18,954	40,132
Target-age mutual funds	4,270	-	-	4,270
Commingled commodity funds	-	-	4,092	4,092
Funds of hedge funds	-	29,243	14,458	43,701
Hedge funds	-	-	4,284	4,284
Private equity funds	-	-	1,540	1,540
Interest and other receivables	1,347	407	118	1,872
	<u>\$ 467,955</u>	<u>\$ 273,629</u>	<u>\$ 147,853</u>	889,437
Less current portion				96,774
				<u>\$ 792,663</u>

Included in the bond indenture, third-party agreements and other funds above are depreciation funds and internally designated funds of approximately \$46,000 and \$52,000 at December 31, 2011 and 2010, respectively.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Pledges Receivable

Pledges receivable at December 31, 2011 and 2010 consist of the following:

	2011	2010
Amounts expected to be collected in:		
Less than one year	\$ 64,268	\$ 53,083
One to five years	101,154	108,294
More than five years	69,003	67,517
	234,425	228,894
Less:		
Discount to present value of future cash flows (discount rates ranging from 0.1% to 6.0%)	15,324	17,864
Allowance for uncollectible amounts	58,296	49,564
Current portion of pledges receivable	48,939	41,316
Pledges receivable, net of current portion	\$ 111,866	\$ 120,150

6. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation and amortization at December 31, 2011 and 2010 are summarized as follows:

	2011	2010
Land	\$ 563,363	\$ 517,063
Land improvements	13,481	13,674
Buildings and fixed equipment	2,326,015	2,197,526
Movable equipment	864,730	701,433
Leasehold improvements	22,801	9,703
	3,790,390	3,439,399
Less accumulated depreciation and amortization	1,293,250	1,149,267
	2,497,140	2,290,132
Construction-in-progress	606,980	384,217
	\$ 3,104,120	\$ 2,674,349

The System wrote off approximately \$103,000 and \$106,000 of fully depreciated assets in 2011 and 2010, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Property, Plant and Equipment (continued)

Net interest capitalized for the years ended December 31, 2011 and 2010 was approximately \$19,300 and \$14,700, respectively.

Certain leases are considered to be the equivalent of installment purchases for purposes of accounting presentation. The liabilities relating to these assets are included in capital lease obligations. The cost, less accumulated amortization, of these assets is included in property, plant and equipment at December 31, 2011 and 2010 as follows:

	2011	2010
Buildings and fixed equipment	\$ 78,000	\$ 78,000
Movable equipment	14,009	15,631
	92,009	93,631
Less accumulated amortization	26,843	22,732
	\$ 65,166	\$ 70,899

7. Debt

Long-Term Debt

Long-term debt at December 31, 2011 and 2010 consists of the following:

	2011	2010
Bonds payable at varying dates through May 2041 at variable and fixed interest rates ranging from 0.06% to 5.75%, issued through the Dormitory Authority of the State of New York ("DASNY"), and at December 31, 2010, the Industrial Development Agencies of New York City, the Town of Hempstead, the Town of Islip, Suffolk County and Nassau County	\$ 1,273,775	\$ 1,207,661
Other long-term debt payable at varying dates through December 2029 at fixed and floating interest rates ranging from 0.81% to 5.69%	129,090	123,479
Total long-term debt	1,402,865	1,331,140
Less current portion of bonds payable	29,785	38,125
Less current portion of other long-term debt	16,871	10,774
Less unamortized fair value adjustment	-	2,866
Add net unamortized bond premium	10,510	3,964
	\$ 1,366,719	\$ 1,283,339

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Annual aggregate principal payments applicable to long-term debt for years subsequent to December 31, 2011 are as follows:

	Bonds Payable	Other Long-Term Debt	Total
Year ended December 31:			
2012	\$ 29,785	\$ 16,871	\$ 46,656
2013	34,810	16,091	50,901
2014	37,195	15,718	52,913
2015	38,840	14,352	53,192
2016	39,805	9,897	49,702
Thereafter	1,093,340	56,161	1,149,501
	<u>\$ 1,273,775</u>	<u>\$ 129,090</u>	<u>\$ 1,402,865</u>

Most of the System's debt arrangements include security agreements of various types. The agreements may include the pledging as collateral of certain of the System's assets and revenues and limitations on the use of System assets, including restrictions on the transfer of assets to entities outside the System. At December 31, 2011 and 2010, substantially all of the System's assets were pledged as collateral under the terms of various debt agreements. In addition, certain debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage ratios and days cash on hand, and the maintenance of certain debt service and other reserve funds (assets limited as to use). At December 31, 2011 and 2010, the System was in compliance with the financial covenants.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Bonds Payable

Bonds payable consists of the following at December 31, 2011:

	Interest Structure	Final Maturity	Outstanding Principal
Series 2011 A	Fixed	2041	\$ 392,200
Series 2009 A	Fixed	2037	235,615
Series 2009 B	Variable	2039	50,000
Series 2009 C	Variable	2039	37,500
Series 2009 D	Variable	2039	37,500
Series 2009 E	Fixed	2033	60,890
Series 2007 A	Fixed	2037	150,495
Series 2007 B	Floating Rate Notes	2018	52,510
Series 2005 A	Fixed	2034	107,600
Series 2005 B	Fixed	2034	9,355
Series 2003	Fixed	2018	30,565
Series 1998	Fixed	2023	109,545
			\$ 1,273,775

In October 2011, certain members of the System (the “Obligated Group”) issued \$392,200 of revenue bonds through the DASNY Series 2011A bonds. In conjunction with this issuance, the Obligated Group, which previously consisted of NSUH, LIJMC, Glen Cove, Plainview, Forest Hills and CECR, was expanded to include Franklin, Huntington, Lenox Hill Hospital, Southside, Staten Island and NSLIJ HCI. The Series 2011A bonds bear interest at fixed interest rates, payable semi-annually with a final maturity date of May 1, 2041. The proceeds of the Series 2011A bonds were used to: (i) refund certain existing bonds of the new members of the Obligated Group, (ii) finance certain projects for the Obligated Group, (iii) fund the debt service reserve fund to secure the Series 2011A bonds, (iv) pay a portion of the interest on the Series 2011A bonds, and (v) pay costs of issuance incurred in connection with the issuance of the Series 2011A bonds. At the time of the issuance of the Series 2011A bonds, certain other bonds of the Obligated Group were cash defeased using sources other than the Series 2011A bond proceeds. A combined loss on refunding of long-term debt of \$12,589 resulted from the bond refunding and defeasance transactions.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

For certain existing bonds that were included in the System's refunding and defeasance transactions, funds were placed in escrow with a trustee to pay bondholders at future redemption dates. These funds and the liability for the corresponding bonds are excluded from the System's consolidated statement of financial position at December 31, 2011. Outstanding principal amounts to be paid from escrow to bondholders are comprised of the following at December 31, 2011:

	Date of Final Redemption	Outstanding Principal
Staten Island Series 2001 A,B Bonds	July 1, 2012	\$ 28,880
Staten Island Series 2002 C Bonds	July 1, 2012	15,645
Huntington Series 2002 B,C Bonds	November 1, 2012	33,960
Obligated Group Series 2001 D Bonds	November 1, 2012	2,335
Obligated Group Series 2003 Bonds	May 1, 2013	36,300
		<u>\$ 117,120</u>

The Obligated Group maintains approximately \$127,000 of irrevocable direct-pay letters of credit with three commercial banks which provide for the payment of the principal and interest of the Series 2009B – Series 2009D bonds. The reimbursement terms of the letters of credit are such that in the event a letter of credit is drawn upon due to a failed remarketing or because the letter of credit is not renewed, the amounts due under the letters of credit can convert to five-year term loans. The letters of credit are set to expire in September 2015.

In 2012, the Obligated Group intends to issue up to \$55,000 of revenue bonds through DASNY. The plan of financing has been approved by DASNY. Under the plan of financing, the 2012 bonds will bear interest at fixed interest rates, payable semiannually with a final maturity date of November 1, 2023. The proceeds from the 2012 bonds will be used to partially refund the Series 1998 bonds, pay for costs of issuance and fund a debt service reserve fund, if required.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Other Long-Term Debt

Other long-term debt consists of the following at December 31, 2011:

	Interest Structure	Final Maturity	Outstanding Principal
Staten Island Term Loan	Variable	2023*	\$ 46,000
Lenox Hill Hospital Mortgage Loan	Variable	2029	32,600
Staten Island Note Payable	Variable	2015	25,903
LIJMC Tax-Exempt Lease Financing	Fixed	2019	17,884
NSUH Term Loan	Variable	2014	5,500
Staten Island Tax-Exempt Lease Financing	Fixed	2012	1,203
			<u>\$ 129,090</u>

*A balloon payment of \$20,000 is due at maturity. Lender has an April 2018 call option.

In accordance with the terms of Staten Island's purchase of RUMC's remainder interest in their joint venture in 2011 (see Note 2), Staten Island recorded a note payable for the purchase price, to be paid through December 2015, with interest at the prime rate. At December 31, 2011, \$25,903 remained outstanding.

Interest Rate Swap Agreements

In May 2007, the Obligated Group entered into interest rate swap agreements ("2007 Swaps") with a financial institution, matched to the term and rate of the Series 2007B bonds. Under the terms of the agreements, the Obligated Group receives variable interest payments and pays fixed interest payments on the notional value of the 2007 Swaps. The notional value of the interest rate swap agreements amortize. The swap agreements fix the interest rate at a level viewed as acceptable by the Obligated Group. The terms of these swap agreements designate the 2007 Swaps as cash flow hedges under U.S. generally accepted accounting principles. Accordingly, changes in the fair value of the swap agreement are excluded from the performance indicator. The aggregate fair value of the 2007 Swaps is a liability of \$5,970 and \$5,177 at December 31, 2011 and 2010, respectively, and is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

The Obligated Group entered into interest rate swap agreements (“2009 Swaps”) with financial institutions related to the Series 2009B – Series 2009D bonds. Under the terms of the agreements, the Obligated Group receives variable interest payments and pays fixed interest payments on the notional value of the 2009 Swaps. The notional values of the interest rate swap agreements amortize. The swap agreements fix the interest rate at a level viewed as acceptable by the Obligated Group. The terms of these swap agreements designate the 2009 Swaps as derivative instruments under U.S. generally accepted accounting principles. Accordingly, changes in the fair value of the swap agreements are recognized in the performance indicator. At December 31, 2011 and 2010, the aggregate fair value of the 2009 Swaps is a liability of \$30,455 and \$16,638, respectively, and is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

In December 2008, Staten Island entered into interest rate swap agreements with financial institutions to fix the interest rate of its term loan at a level viewed as acceptable by Staten Island. Under the terms of the agreements, Staten Island will receive variable interest payments and pay fixed interest payments. The notional values of the interest rate swap agreements amortize. The System guarantees payments to the swap contract counterparties. The terms of these swap agreements designate them as derivative instruments under U.S. generally accepted accounting principles. Accordingly, changes in the fair value of the swap agreements are recognized in the performance indicator. The aggregate fair value of the swap agreements is a liability of \$3,125 and \$2,033 at December 31, 2011 and 2010, respectively, and is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

Swap agreements expose the System to credit risk in the event of nonperformance by the counterparties. The System believes that the risk of material impact to its consolidated financial position arising from nonperformance by the counterparties is low.

Capital Lease Obligations

The System has entered into various capital lease agreements for buildings and equipment. Capital lease obligations at December 31, 2011 and 2010 consist of the following:

	2011	2010
Minimum lease payments	\$ 262,748	\$ 278,468
Less executory costs	105,629	110,446
Less interest	71,121	77,614
Less current portion at net present value	4,208	5,008
Present value of net minimum long-term lease payments	<u>\$ 81,790</u>	<u>\$ 85,400</u>

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Debt (continued)

Future minimum lease payments under capital lease obligations as of December 31, 2011 are as follows:

Year ending December 31:	
2012	\$ 15,365
2013	14,729
2014	14,619
2015	13,324
2016	12,793
Thereafter	<u>191,918</u>
Total minimum lease payments	<u>\$ 262,748</u>

Short-Term Borrowings

The System has entered into several unsecured revolving credit facilities with commercial banks. Borrowings are primarily used to provide interim financing for capital improvement projects, with repayment to be provided from revenue bonds and the receipt of fundraising proceeds from capital campaigns. Additionally, amounts can be used to provide financing for the support of the certificate of need process as required by NYSDOH, short-term working capital to support the monthly operating cash conversion cycle and for other general corporate purposes. Interest options include prime-based rates, LIBOR-based rates and bank cost of funds rates. Total credit under such arrangements was \$266,000 and \$257,945 at December 31, 2011 and 2010, respectively. Balances outstanding from borrowings are \$90,540 and \$15,540 at December 31, 2011 and 2010, respectively. In March 2012, the System obtained an additional \$40,000 of unsecured revolving credit, increasing the total amount of credit to \$306,000.

8. Third-party Payer Structured Liabilities

On September 21, 1999, Staten Island agreed to settle an outstanding matter with the New York State Attorney General. This matter related to Staten Island receiving payments at various part-time clinics during the period January 1, 1994 through August 31, 1998 at an enhanced rate known as Products of Ambulatory Care. As a result of this matter, Staten Island agreed to remit to the State of New York (the "State") the gross sum of \$41,200 payable over an extended period. Payments commenced in November 1999 and are being made monthly, totaling \$2,000 per year for 20 years. Included in third-party payer structured liabilities is the present value of this agreement based upon a 6% discount factor. For 2011 and 2010, payments made under such arrangement totaled \$2,000 for each year, including \$807 and \$876 recorded as interest expense in the accompanying consolidated statements of operations for 2011 and 2010, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Third-party Payer Structured Liabilities (continued)

Additionally, in accordance with Staten Island's mission and commitment to provide uncompensated care, Staten Island agreed to continue to provide uncompensated care and services to individuals unable to pay for such services. Such uncompensated care and services shall have value, as defined in the agreement, of not less than \$1,950 per year for 20 years. As the provision of uncompensated care is not considered incremental to those uncompensated services already provided by Staten Island, no liability was recorded for such amounts. Staten Island was in compliance with such provision in 2011 and 2010.

In 2002, the Medicaid Fraud Control Unit of the New York State Attorney General's Office ("MFCU") served a grand jury subpoena duces tecum (a subpoena for production of documentation) on Chaps and Staten Island. On May 17, 2005, Staten Island agreed to settle an action commenced by the New York State Attorney General arising out of this investigation. The settlement related to the recovery of prior Medicaid payments to Chaps. Pursuant to the settlement, Staten Island agreed to remit to the State \$76,500. This amount includes approximately \$8,000 of Medicaid reimbursement previously withheld in 2004 by the State, in connection with its investigation of this matter. The remaining amounts are payable to the State over a 13-year period which began in 2005. Payments for years 2010 and 2011 were \$5,000 per year. The payments for years 2012 through 2014 are \$5,500 per year. In 2015 and 2016, payments are \$3,000 each year, and the required payment for 2017 is \$4,000. Staten Island has recorded the present value of these settlement payments based upon a 6% discount factor in the accompanying consolidated statements of financial position. Payments made under this settlement for 2011 and 2010 totaled \$5,000 for each year, including approximately \$1,536 and \$1,732 recorded as interest expense in the accompanying consolidated statements of operations for the years ended December 31, 2011 and 2010, respectively. As part of the 2005 settlement agreement, Staten Island adopted a number of managerial and operational reforms that will govern the conduct of Staten Island officers, employees and Board members. The amounts payable under the 2005 settlement agreement are in addition to the amounts which continue to be payable under the 1999 settlement discussed previously.

In September 2008, Staten Island executed a settlement with the United States Department of Health and Human Services, Office of the Inspector General (the "HHS-OIG") and the New York State Attorney General's Office ("NYSAG") with respect to various issues. In settlement of the HHS-OIG claims, Staten Island has made a one-time payment of \$76,513. Staten Island funded the amount with a bank loan of \$60,000 (see Note 7) and the balance from operating cash. With respect to the NYSAG claim, Staten Island has agreed to make payments totaling \$12,400. Staten Island paid a lump-sum payment of \$6,200 and the remaining balance of \$6,200 was paid in equal amounts over a three-year period, which ended in 2011.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Third-party Payer Structured Liabilities (continued)

In connection with the HHS-OIG and NYSAG settlement, Staten Island also entered into a five-year Corporate Integrity Agreement (“CIA”) with the HHS-OIG. This agreement obligates Staten Island to strengthen the current compliance program and implement certain management practices and initiatives. Such terms of this agreement include engaging an independent third party to act as an Independent Review Organization, enhancing the contract management policies and procedures, and expanding employee education. A material breach of the CIA could subject Staten Island to substantial monetary penalties and exclusion from participation in the Medicare and Medicaid programs. Management believes that Staten Island is in compliance with the terms and provisions of the CIA.

9. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, the System measures fair value based on 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. Fair value measurements are applied based on the unit of account from the System’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.

The System follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- 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.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments (continued)

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 System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

Financial assets and liabilities carried at fair value as of December 31, 2011 are classified in the following table in one of the three categories described previously:

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and short-term investments	\$ 655,943	\$ —	\$ —	\$ 655,943
Fixed income obligations:				
U.S. Government obligations	234,096	308,981	—	543,077
Corporate and other bonds	—	162,016	—	162,016
Fixed income mutual funds	402,553	—	—	402,553
Equity securities:				
Large cap	1,040	—	—	1,040
Small cap	18,801	—	—	18,801
International	3	—	—	3
Global	123,141	—	—	123,141
Equity mutual funds	221,780	—	—	221,780
Target-age mutual funds	5,629	—	—	5,629
Interest and other receivables	4,421	—	—	4,421
Liabilities				
Interest rate swap agreements	—	(39,550)	—	(39,550)
	<u>\$ 1,667,407</u>	<u>\$ 431,447</u>	<u>\$ —</u>	<u>\$ 2,098,854</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2010 are classified in the following table in one of the three categories described previously:

	2010			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and short-term investments	\$ 657,425	\$ —	\$ —	\$ 657,425
Fixed income obligations:				
U.S. Government obligations	378,649	155,977	—	534,626
Corporate and other bonds	—	133,905	—	133,905
Fixed income mutual funds	339,006	—	—	339,006
Equity securities:				
Large cap	38,831	—	—	38,831
Small cap	18,629	—	—	18,629
International	250	—	—	250
Global	81,495	—	—	81,495
Equity mutual funds	220,354	—	—	220,354
Target-age mutual funds	4,270	—	—	4,270
Interest and other receivables	35,245	—	—	35,245
Liabilities				
Interest rate swap agreements	—	(23,848)	—	(23,848)
	<u>\$ 1,774,154</u>	<u>\$ 266,034</u>	<u>\$ —</u>	<u>\$ 2,040,188</u>

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.

The amounts reported in the previous tables exclude investments reported under the equity method of accounting in the amounts of \$334,793 and \$274,778 at December 31, 2011 and 2010, respectively, (see Note 2) and assets invested in the System's pension plans (see Note 10).

The fair values and carrying values of the System's financial instruments that are not required to be carried at fair value are as follows at December 31, 2011 and 2010:

	2011		2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Debt (including short-term borrowings; excluding capital lease obligations)	\$ 1,546,039	\$ 1,503,915	\$ 1,329,907	\$ 1,347,778

The fair value of debt is estimated using discounted cash flow analyses or based on market prices, where available.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans

The System maintains several pension plans for its employees. The following are descriptions of such plans and the respective pension expense for the years ended December 31, 2011 and 2010.

Certain members of the System provide pension and similar benefits to their employees through defined contribution plans. Contributions to the defined contribution plans are based on percentages of annual salaries. It is the policy of these members to fund accrued costs under these plans on a current basis. Pension expense for 2011 and 2010 related to the defined contribution plans amounted to \$87,131 and \$73,869, respectively.

The System contributes to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover union-represented employees of Staten Island, LIJMC, Syosset, Forest Hills, Plainview, Franklin and Southside. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the System stops participating in any of its multiemployer plans, the System may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The System's significant participation in certain plans for the annual period ended December 31, 2011 is outlined in the following table. The following information for the 1199SEIU Health Care Employees Pension Fund (the "1199 Plan") and the New York State Nurses Association Pension Plan (the "NYSNA Plan") is included within the table:

- a. The "EIN/Pension Plan Number" column provides the plans' Employee Identification Number ("EIN") and the three-digit plan numbers.
- b. The "Pension Protection Act Zone Status" is based on information that the System received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded.
- c. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.
- d. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of the System		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		2011	2010		2011	2010		
1199 Plan (a)	13-3604862/ 001	Green	Red	Implemented	\$34,550	\$29,158	No	4/30/2015
NYSNA Plan (b)	13-6604799/ 001	Green	Green	No	\$7,887	\$5,829	No	10/13/2014, 12/31/2014

- (a) The 1199 Plan has implemented a rehabilitation plan for the period January 1, 2012 through December 31, 2024. In addition, in July 2009 wage concessions were agreed to, as well as an increase in annual contributions from contributing members.
- (b) Retroactive to 2009, the NYSNA Plan changed its asset valuation method to amortize 2008 losses over ten years as allowed under the Pension Relief Act of 2010.
- (c) System 2010 contributions represent more than 5% of total contributions to the plans for the plan year ended December 31, 2010. Comparable plan-level contribution information for the plan year ended December 31, 2011 was not yet available at the time of financial statement issuance.

In addition to the plans noted in the table above, the System also participates in several other multiemployer plans. Contributions for these other plans totaled \$555 and \$526 for the years ended December 31, 2011 and 2010, respectively.

Certain of the System's employees participate in deferred compensation plans. The liability for these plans totaled \$3,904 and \$5,119 at December 31, 2011 and 2010, respectively. In connection with these plans, the System deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, the System is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans, but may revert to the System under certain specified circumstances.

In addition, the System maintains various deferred compensation plans pursuant to Section 457(b) of the Code (the "457(b) Plans"). Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Non-elective employer contributions may also be made for some of the 457(b) Plans. Payments upon retirement or termination of employment are based on amounts credited to the individual accounts. The liability for the 457(b) Plans, included in accrued retirement benefits in the accompanying consolidated statements of financial position, totaled \$41,763 and \$36,980 at December 31, 2011 and 2010, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Certain employees, except for certain members of the medical staff and certain employees represented by collective bargaining agreements, are covered by noncontributory defined benefit plans (the “Plans”). Effective December 31, 2011, the Retirement Plan for Employees of Lenox Hill Hospital (the “Lenox Hill Plan”) was merged into the System Cash Balance Plan.

The System recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position.

The following tables provide a reconciliation of the changes in the Plans’ benefit obligations and fair value of plan assets for the years ended December 31, 2011 and 2010 and statements of the funded status of the Plans as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Reconciliation of the benefit obligation		
Obligation at January 1	\$ 1,302,959	\$ 793,143
Inclusion of obligation at Acquisition Date	–	385,881
Service cost	47,449	40,563
Interest cost	75,762	63,029
Plan amendments	19,184	1,900
Actuarial loss	82,104	62,241
Benefit payments	(52,662)	(43,798)
Obligation at December 31	<u>\$ 1,474,796</u>	<u>\$ 1,302,959</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	\$ 955,005	\$ 573,580
Inclusion of plan assets at Acquisition Date	–	257,625
Actual return on plan assets	2,698	79,669
Employer contributions	130,654	87,929
Benefit payments	(52,662)	(43,798)
Fair value of plan assets at December 31	<u>\$ 1,035,695</u>	<u>\$ 955,005</u>
Funded status		
Funded status at December 31	<u>\$ (439,101)</u>	<u>\$ (347,954)</u>
Accumulated benefit obligation	<u>\$ 1,371,148</u>	<u>\$ 1,217,740</u>

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The current portion of accrued retirement benefits related to the plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$1,467 at December 31, 2011.

Plan amendments in 2011 relate to the expansion of the System's Supplemental Executive Retirement Plans to cover additional employees.

Plan amendments in 2010 relate to a decrease in the eligibility age for Southside New York State Nurses Association ("NYSNA") participants and a change in the calculation of average pay used in the benefit formula for Southside NYSNA participants.

The actuarial loss in 2011 is primarily due to the decrease in the discount rate. The actuarial loss in 2010 is primarily due to the decrease in the discount rate, an increase in the assumed lump-sum conversion rate and experience losses derived from the actual census data.

Included in unrestricted net assets at December 31, 2011 and 2010 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2011		
	Defined Benefit Plans	Postretirement Benefit Plans (see Note 11)	Total
Unrecognized actuarial loss	\$ (349,711)	\$ (1,674)	\$ (351,385)
Unrecognized prior service (cost) credit	(25,925)	10,376	(15,549)
	<u>\$ (375,636)</u>	<u>\$ 8,702</u>	<u>\$ (366,934)</u>
	2010		
	Defined Benefit Plans	Postretirement Benefit Plans (see Note 11)	Total
Unrecognized actuarial loss	\$ (198,686)	\$ (22,381)	\$ (221,067)
Unrecognized prior service (cost) credit	(9,720)	13,120	3,400
	<u>\$ (208,406)</u>	<u>\$ (9,261)</u>	<u>\$ (217,667)</u>

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The following table provides the components of the net periodic benefit cost for the Plans for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 47,449	\$ 40,563
Interest cost on projected benefit obligation	75,762	63,029
Expected return on plan assets	(79,857)	(59,197)
Amortization of net loss	7,889	8,920
Amortization of prior service cost	3,328	1,729
Net periodic benefit cost	<u>\$ 54,571</u>	<u>\$ 55,044</u>

The net loss (gain) and prior service cost (credit) included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ended December 31, 2012 are as follows:

	<u>Defined Benefit Plans</u>	<u>Postretirement Benefit Plans (see Note 11)</u>	<u>Total</u>
Net loss (gain)	\$ 21,328	\$ (13)	\$ 21,315
Prior service cost (credit)	3,275	(1,735)	1,540
Increase (decrease) to net periodic benefit cost	<u>\$ 24,603</u>	<u>\$ (1,748)</u>	<u>\$ 22,855</u>

Assumptions

The measurement date for all plans is December 31. Prior service costs are amortized over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The range of weighted-average assumptions used in the measurement of the System's benefit obligations at December 31, 2011 and 2010 are shown in the following table:

	2011	2010
Discount rate	3.25% – 5.20%	3.25% – 6.00%
Rate of compensation increase	0.00% – 4.50%	0.00% – 4.50%

The range of weighted-average assumptions used in the measurement of the System's net periodic benefit cost for the years ended December 31, 2011 and 2010 are shown in the following table:

	2011	2010
Discount rate	3.25% – 6.00%	4.25% – 6.25%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	0.00% – 4.50%	0.00% – 4.50%

Estimated Future Benefit Payments

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

2012	\$ 59,401
2013	72,704
2014	81,831
2015	78,007
2016	85,991
2017 to 2021	493,478

Cash Flows

The System expects to make contributions of approximately \$84,000 to the Plans in 2012.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The fair values of the Plans' assets at December 31, 2011, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 48,844	\$ —	\$ —	\$ 48,844
Fixed income obligations:				
U.S. Government obligations	89,085	46,523	—	135,608
Corporate and other bonds	—	87,584	—	87,584
Fixed income mutual funds	69,155	—	—	69,155
Commingled fixed income funds	—	77,101	—	77,101
Equity securities:				
Large cap	47,542	—	—	47,542
Small cap	13,716	—	—	13,716
International	37,164	—	—	37,164
Global	86,522	—	—	86,522
Equity mutual funds	138,598	—	—	138,598
Commingled equity funds:				
Large cap	—	42,949	—	42,949
Small cap	—	13,831	—	13,831
International	—	26,764	—	26,764
Emerging markets	—	14,701	—	14,701
Commingled commodity funds	—	12,091	—	12,091
Alternative investments:				
Funds of hedge funds	—	151,430	—	151,430
Hedge funds	—	14,185	—	14,185
Private equity funds	—	—	8,645	8,645
Private real estate funds	—	—	5,658	5,658
Interest and other receivables	3,607	—	—	3,607
	\$ 534,233	\$ 487,159	\$ 14,303	\$ 1,035,695

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The fair values of the Plans' assets at December 31, 2010, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 74,581	\$ —	\$ —	\$ 74,581
Fixed income obligations:				
U.S. Government obligations	12,303	24,486	—	36,789
Corporate and other bonds	—	41,009	—	41,009
Fixed income mutual funds	89,612	—	—	89,612
Commingled fixed income funds	—	51,790	—	51,790
Equity securities:				
Large cap	47,277	—	—	47,277
Small cap	21,288	—	—	21,288
Global	62,920	—	—	62,920
Equity mutual funds	108,233	—	—	108,233
Commingled equity funds:				
Large cap	—	50,102	—	50,102
Small cap	—	15,046	—	15,046
International	—	46,458	—	46,458
Emerging markets	—	17,287	—	17,287
Commingled commodity funds	—	12,176	—	12,176
Alternative investments:				
Funds of hedge funds	—	102,141	—	102,141
Hedge funds	—	35,500	—	35,500
Private equity funds	—	—	6,404	6,404
Interest and other receivables	136,392	—	—	136,392
	<u>\$ 552,606</u>	<u>\$ 395,995</u>	<u>\$ 6,404</u>	<u>\$ 955,005</u>

Most investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. The classification of investments in the fair value hierarchy is not necessarily indicative of the investment risk associated with the underlying assets.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The following is a summary of assets in the Plans at December 31, 2011 (by asset category) with redemption restrictions:

	<u>Fair Value</u>	<u>Redemption Period (including Notice Period)</u>
Commingled fixed income funds	\$ 77,101	1 day to 5 days
Commingled equity funds	98,245	3 days to 51 days
Commingled commodity funds	12,091	11 days to 40 days
Funds of hedge funds	151,430	110 days to 299 days

Hedge fund investments of the Plans are in the process of being fully redeemed at December 31, 2011. Private equity and private real estate funds have long lifecycles with distributions not expected for several years. In the instance of certain redemptions, some investments noted above may require an extended waiting period to receive a remainder portion of the redemption.

The following table sets forth a summary of changes in the fair value of the Plans' Level 3 assets for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Fair value at January 1	\$ 6,404	\$ 3,221
Purchases	8,979	2,111
Sales	(1,226)	-
Net realized and unrealized gains and losses	146	732
Acquisition of Lenox Hill plan assets	-	340
Fair value at December 31	<u>\$ 14,303</u>	<u>\$ 6,404</u>

System Cash Balance Plan and Lenox Hill Plan

Basis Used to Determine the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based upon a long-term building-block approach adjusted for current market conditions. First, return expectations for each asset class are developed with economic and fundamental drivers such as inflation, dividends and real earnings growth for stocks and real yields, defaults and recoveries for bonds. These expectations assume that market levels at the beginning of the forecast period are in a state of equilibrium. With the understanding that markets are more often than not in some state of disequilibrium, the "next ten year" return forecasts are adjusted to reflect the starting point for inflation expectations, interest rate levels and market risk premiums relative to historically normal market levels.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The fundamental building blocks used to develop the long-term equilibrium return expectations are based on a combination of consensus forecasts and long-term historical averages. The historical data is adjusted to reflect any fundamental changes that have occurred in the relative markets.

Once long-term equilibrium forecasts are developed, returns are adjusted for the next ten years to reflect the current environment as it relates to the key economic variables that influence returns across the capital markets. In doing so, the expected path for breakeven inflation, real interest rates and investment grade corporate bond spreads are modeled for the next ten years. In this framework, the investment grade corporate spreads are used as a proxy for the risk premium priced broadly into all asset classes within the capital markets.

While the precise expected return derived using the above approach will fluctuate somewhat from year to year, the plans' policy is to hold this long-term assumption constant as long as it remains within a reasonable tolerance from the derived rate.

Description of Investment Policies and Strategies

The plans' overall investment strategy is to achieve wide diversification of asset types, fund strategies, and fund managers. Equity securities include investments in domestic, international, global and emerging markets equities. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, emerging markets debt and U.S. Treasuries. Other types of investments include investments in commingled commodity funds and alternative investments that follow several different strategies.

There are specific guidelines and diversification standards for each investment manager. Eligible investments are specifically outlined. Each manager must disclose its strategies and report that it abides by the Employee Retirement Income Security Act of 1974 ("ERISA") rules, where applicable.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

The plans' weighted average asset allocations at December 31, 2011 and 2010, by asset category, are as follows:

	2011	2010	Target Allocation
Cash and short-term investments	5.4%	8.4%	1.0%
Fixed income obligations	35.7	20.4	34.0
Equity securities, including commingled equity funds	36.7	34.1	40.0
Commingled commodity funds	1.4	1.6	3.0
Alternative investments	20.8	18.0	22.0
Other receivables	-	17.5	-
	100.0%	100.0%	100.0%

Target allocations generally have permitted variances of plus/minus 5 points.

Subsequent to the System's acquisition of Lenox Hill, the System began the process of aligning the Lenox Hill Plan's investment portfolio allocation to the System's target allocations noted above. At December 31, 2010, material amounts of the Lenox Hill Plan's assets were in the process of being redeemed and reinvested in a manner in which to more closely attain the above noted target allocation.

Huntington Plan

Basis Used to Determine the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities) and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets, i.e., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Pension Plans (continued)

Description of Investment Policies and Strategies

The investment strategy for the Huntington Plan is to seek long-term growth by maintaining a diverse, actively managed portfolio of equity and debt securities. Derivatives are not used. The Huntington Plan has an Investment Committee that monitors the performance of its investment managers and periodically uses outside analysts to analyze and comment on its investment strategy.

The Huntington Plan's weighted-average asset allocations at December 31, 2011 and 2010, by asset category, are as follows:

	2011	2010	Target Allocation
Cash and short-term investments	3.7%	6.0%	—%
Fixed income obligations	38.8	36.0	40.0
Equity securities, including commingled equity funds	57.5	58.0	60.0
Total	100.0%	100.0%	100.0%

11. Postretirement Benefits Other than Pensions

Certain employees are covered by the North Shore-Long Island Jewish Health System Retiree Medical and Life Insurance Plan (the "NS-LIJ Plan") and other postretirement benefit plans.

The NS-LIJ Plan is contributory with a 2% per year service subsidy up to 30 years (maximum 60%) for non-union employees hired prior to January 1, 2001. The subsidy for future retirees is as follows: for pre-65 retirees, a 2% per year service subsidy for years of service through 2000 and a 1% per year service subsidy for years of service for 2001 and thereafter, up to 30 years. For post-65 retirees, a 1% per year service subsidy for years of service through 2000 and a 0.5% per year service subsidy for years of service for 2001 and thereafter, up to 30 years. For non-union employees hired after January 1, 2001, the NS-LIJ Plan provides a defined dollar benefit subsidy of \$2,500 per year prior to age 65 and \$1,000 per year age 65 and later. To be eligible for the medical benefits, the employee must be at least 55 years old and be employed for at least fifteen years or after age 65, be employed for at least five years. Only pre-1994 retirees are eligible for the life insurance benefits. The life insurance benefit is not available to active employees. The NS-LIJ Plan is unfunded.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other than Pensions (continued)

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets for the years ended December 31, 2011 and 2010 and a statement of the funded status of the plans as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Reconciliation of the benefit obligation		
Obligation at January 1	\$ 90,513	\$ 100,749
Service cost	2,423	2,816
Interest cost	5,048	5,627
Plan participants' contributions	2,488	2,423
Plan amendments	1,018	-
Actuarial gain	(20,035)	(17,011)
Benefit payments	(3,806)	(4,488)
Federal subsidy on benefits paid	388	397
Obligation at December 31	<u>\$ 78,037</u>	<u>\$ 90,513</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	\$ -	\$ -
Employer contributions	1,318	2,065
Plan participants' contributions	2,488	2,423
Benefit payments	(3,806)	(4,488)
Fair value of plan assets at December 31	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Funded status at December 31	<u>\$ (78,037)</u>	<u>\$ (90,513)</u>

The current portion of accrued retirement benefits related to the plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$2,553 and \$2,643 at December 31, 2011 and 2010, respectively.

The actuarial gains in 2011 and 2010 are primarily due to decreases in the actuarial assumption for the medical plan participation rate for future retirees, combined with favorable demographic and claims experience, partially offset by decreases in discount rates.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other than Pensions (continued)

The following table provides the components of the net periodic benefit cost for the plans for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 2,423	\$ 2,816
Interest cost on projected benefit obligation	5,048	5,627
Amortization of net loss	758	1,682
Amortization of prior service credit	(1,841)	(1,841)
Net periodic benefit cost	<u>\$ 6,388</u>	<u>\$ 8,284</u>

Assumptions

The measurement date for the plans is December 31. The range of weighted-average discount rates used in the measurement of benefit obligations for the plans was 4.65% to 5.20% and 5.00% to 6.00% at December 31, 2011 and 2010, respectively. The range of weighted-average discount rates used in the measurement of net periodic benefit costs for the plans was 5.00% to 6.00% and 5.50% to 6.25% for 2011 and 2010, respectively.

Assumed Health Care Cost Trends

The assumed health care cost trend rates used in measuring the postretirement benefit obligation for the plans for 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Health care cost trend rate assumed for next year	8.00%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2018	2018

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other than Pensions (continued)

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 on the plans:

	2011		2010	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 466	\$ (391)	\$ 489	\$ (410)
Effect on the health care component of the postretirement benefit obligation	6,928	(5,822)	8,924	(7,471)

Estimated Future Benefit Payments

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

2012	\$ 3,080
2013	3,505
2014	3,931
2015	4,306
2016	4,602
2017 to 2021	26,620

Prescription Drug Benefits

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides for a prescription drug benefit under Medicare (“Medicare Part D”), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The expected subsidy reduced the accumulated postretirement benefit obligation at December 31, 2011 and 2010 by \$5,103 and \$6,033, respectively. The subsidy reduced the net periodic postretirement benefit cost for the 2011 and 2010 plan years by \$393 and \$874, respectively.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Postretirement Benefits Other than Pensions (continued)

Expected federal subsidies to be received in future years for the plans are as follows:

2012	\$	453
2013		555
2014		633
2015		214
2016		395
2017 to 2021		1,998

12. Malpractice and Other Insurance Liabilities

Malpractice

The System's hospitals provide for potential medical malpractice losses through a combination of a self-insurance program and purchased primary and excess insurance, on both a claims-made and occurrence basis, as follows:

Primary Insurance Coverage

Effective January 1, 2003, the System purchases primary malpractice insurance on an occurrence basis. The policy provides coverage with limits of \$1,000 per claim and a \$50,000 annual policy in the aggregate through 2009. Effective 2010, the program retained \$750 of the primary coverage per indemnity claim, while aggregate limits increased to \$60,000.

From January 1, 1997 to December 31, 2002, the System's hospitals primarily participated in a combined insurance program, which provided coverage on a claims-made basis. In December 2002, the System purchased a tail insurance policy to cover unreported occurrences from these prior claims-made policy periods.

The estimated undiscounted liability for the retained primary coverage and losses in excess of the primary aggregate at December 31, 2011 and 2010 is approximately \$272,022 and \$217,774, respectively. At December 31, 2011 and 2010, the liability is recorded at the actuarially determined present value of approximately \$244,992 and \$195,712, respectively, based on a discount rate of 2.0%.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Malpractice and Other Insurance Liabilities (continued)

Excess Insurance Coverage

Regional Insurance covers excess malpractice losses above the primary per claim limit, on a claims-made basis. Regional Insurance purchases reinsurance coverage for certain excess coverage layers. Reinsurance balances recoverable, included in other assets in the accompanying consolidated statements of financial position, are \$39,394 and \$39,645 at December 31, 2011 and 2010, respectively.

Regional Insurance's estimated undiscounted reserves for losses and loss expenses outstanding at December 31, 2011 and 2010 were approximately \$311,702 and \$272,547, respectively, and are recorded at the actuarially determined present value of approximately \$289,658 and \$255,818, respectively, based on a discount rate of 2.0%.

The estimated undiscounted incurred but not reported liability for claims in excess of primary layers at December 31, 2011 and 2010 was approximately \$85,442 and \$76,194, respectively, and is recorded at the actuarially determined present value of approximately \$73,699 and \$66,115, respectively, based on a discount rate of 2.0%.

Self-Insurance Coverage

For certain years, certain System hospitals were covered for malpractice claims under self-insured arrangements. For self-insured claims and incidents, the System has accrued \$1,100 and \$10,735 at December 31, 2011 and 2010, respectively, based on actuarial determinations and other analyses, as its best estimates of the ultimate cost of such losses.

RRG provides medical malpractice coverage to certain employed and voluntary physicians affiliated with the System. RRG's liability for insured losses and related expenses is \$7,168 and \$3,685 at December 31, 2011 and 2010, respectively. RRG purchases reinsurance for certain layers of coverage. Reinsurance balances recoverable, included in other assets in the accompanying consolidated statements of financial position, are \$3,347 and \$1,736 at December 31, 2011 and 2010, respectively.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Malpractice and Other Insurance Liabilities (continued)

Certain coverage for LIJMC has been provided through participation in a pooled program with certain other health care facilities. This participation is with captive insurance companies and commercial insurance companies. LIJMC previously retained ownership in the captive insurance companies associated with this program. Ownership interests ranged from 1.3% to 17.6% through December 31, 2010. LIJMC accounted for its interest primarily using the equity method of accounting. The carrying value of such interests, reported in other assets in the accompanying consolidated statements of financial position, was \$27,895 at December 31, 2010. In 2011, LIJMC sold its interest in these companies for approximately \$39,600, with approximately \$9,600 paid at the time of sale and the remaining amount to be paid in three equal, annual installments through June 2014, with interest at the prime rate. Amounts due to LIJMC, including accrued interest, are recorded within other current assets (\$10,271) and other assets (\$20,000) in the accompanying consolidated statement of financial position at December 31, 2011.

Malpractice claims have been asserted against System hospitals by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2011 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. It is the opinion of the System's management that adequate insurance, including self-insurance, and malpractice reserves are being maintained to cover potential malpractice losses.

Workers' Compensation

Lenox Hill has a self-insured program for workers' compensation claims since 1979 that includes excess insurance coverage for claims above certain amounts. At December 31, 2011 and 2010, the liability for the self-insured losses is recorded at the actuarially determined present value of approximately \$11,478 and \$10,113, respectively, based on a discount rate of 2.0%.

North Shore-Long Island Jewish Health System, Inc.
Notes to Consolidated Financial Statements (continued)

(In Thousands)

13. Other Operating Revenue

Other operating revenue consists of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Grants, contracts and other	\$ 85,944	\$ 117,117
Laboratory and other ancillary services	87,980	70,955
Capitation income	1,650	4,861
Miscellaneous	33,023	23,399
Rental income	14,945	13,150
Cafeteria sales and vending machines	14,000	13,193
Parking garage	3,955	4,065
Telephone and television	1,987	1,765
Resident rotation	2,101	2,062
	\$ 245,585	\$ 250,567

14. Net Assets

Temporarily restricted net assets at December 31, 2011 and 2010 are available for the following health care services:

	2011	2010
Teaching, research, training and other	\$ 143,572	\$ 149,727
Major modernization and purchases of equipment	184,891	156,326
	\$ 328,463	\$ 306,053

The System follows the requirements of the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) passed into law effective September 2010 as they relate to its permanently restricted endowments. Prior to the enactment of the law, the System followed the requirements of the Uniform Management of Institutional Funds Act (“UMIFA”). The System has interpreted NYPMIFA, which did not have a significant effect on the System’s endowment policies that were in effect prior to the enactment, as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment funds.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Net Assets (continued)

The System's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The System requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the System.

The System's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that expects to generate a return in excess of 5.0% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System 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 System targets a diversified asset allocation that consists of equities, fixed income and alternative investments.

The System has a policy of appropriating for distribution each year, no more than a 5% return on its endowment funds' corpus. In establishing this policy, the System considered the long-term expected return on its endowments.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Net Assets (continued)

For the years ended December 31, 2011 and 2010, the System had the following endowment-related activities:

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, beginning of year	\$ 9,724	\$ 121,216	\$ 130,940
Investment return:			
Investment income	2,068	–	2,068
Net depreciation	(3,263)	–	(3,263)
Loss of fair value of endowment corpus	–	(194)	(194)
Total investment return	(1,195)	(194)	(1,389)
Contributions	–	3,981	3,981
Amounts appropriated for expenditure	(3,190)	–	(3,190)
Net change in endowment funds	(4,385)	3,787	(598)
Endowment balance, end of year	\$ 5,339	\$ 125,003	\$ 130,342

	2010		
	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, beginning of year	\$ 3,736	\$ 92,020	\$ 95,756
Investment return:			
Investment income	3,419	–	3,419
Net appreciation	5,733	–	5,733
Recovery of fair value of endowment corpus	–	792	792
Total investment return	9,152	792	9,944
Contributions	–	5,445	5,445
Contribution received in the acquisition of Lenox Hill Hospital and Subsidiaries	564	22,959	23,523
Amounts appropriated for expenditure	(3,728)	–	(3,728)
Net change in endowment funds	5,988	29,196	35,184
Endowment balance, end of year	\$ 9,724	\$ 121,216	\$ 130,940

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are \$696 and \$502 as of December 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

15. Commitments and Contingencies

Litigation, Claims and Settlements

In 2008, prior to the System's acquisition of Lenox Hill, Lenox Hill received an administrative subpoena issued by the HHS-OIG, working in coordination with the Civil Division of the Office of the United States Attorney for the Southern District of New York (the "USAO/SDNY"). The subpoena seeks documents and other information relating to Medicare outlier payments received by Lenox Hill on Medicare claims submitted for the years 1997 to 2003. Lenox Hill has provided information as required by the subpoena and has executed a series of tolling agreements relating to this matter. In 2011, Lenox Hill was served with Civil Investigative Demands from the USAO/SDNY for the oral testimony of certain former Lenox Hill employees regarding the receipt of the outlier payments by Lenox Hill during the period under inquiry. The parties are engaged in settlement negotiations while the investigation is ongoing. The ultimate effect of this matter, if any, on the consolidated financial statements cannot currently be determined.

In 2010, NSUH, the System and certain of their employees received Civil Investigative Demands issued by the USAO/SDNY relating to NSUH's clinical documentation improvement ("CDI") program for the period from 2003 to the present. The CDI program relates to the method by which NSUH and certain other System hospitals seek to ensure compilation of clear, complete, accurate and timely inpatient medical records. The System has produced documents and provided witnesses as required by the Civil Investigative Demands. The ultimate effect of this matter, if any, on the consolidated financial statements cannot currently be determined.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Commitments and Contingencies (continued)

The System is involved in other litigation and claims which are not considered unusual to the System's business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the accompanying consolidated financial statements.

Operating Leases

The System leases certain office facility space, patient care facility space and equipment under operating leases that have initial or remaining noncancelable terms in excess of one year. Aggregate minimum operating lease payments are amortized on the straight-line basis over the terms of the respective leases. Rent expense under such leases is \$68,351 and \$68,476 for 2011 and 2010, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

2012	\$ 57,329
2013	49,004
2014	41,280
2015	37,945
2016	34,055
Thereafter	199,224

Collective Bargaining Agreements

At December 31, 2011, approximately 40% of the System's employees are union employees who are covered under the terms of various collective bargaining agreements. Certain collective bargaining agreements, which represent approximately 15% of union employees (6% of total employees), have expired, or will expire, within the next year and are currently being renegotiated.

North Shore-Long Island Jewish Health System, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Commitments and Contingencies (continued)

Other Commitments

In March 2008, Hofstra University (the “University”) and the System entered into a joint academic agreement to work in close collaboration in the development of a medical school at the University (the “Medical School”), while remaining as separate corporations with separate governance. In June 2010, the Medical School, known as the Hofstra North Shore-LIJ School of Medicine, received preliminary accreditation from the Liaison Committee on Medical Education, as well as final approval of its education program from the New York State Education Department Division of Professional Education. The Medical School began accepting applications in 2010, and an initial class of 40 students began their studies in August 2011. Through June 30, 2017, the System shall provide up to \$50,000 to the University as reimbursement for a portion of the Medical School’s annual costs. Reimbursement payments after June 30, 2017 will be a minimum of \$5,000 for each academic year, with amounts indexed to the Medical School tuition. Reimbursement payments are contingent upon annual approval by the boards of the System and the University. The System shall not advance funds to the University that have not yet been spent in connection with the Medical School. To date, the System has recorded approximately \$24,400 of costs related to the Medical School. The System also provides \$2,000 annually for funding of Medical School scholarships and \$2,000 annually for funding of student loans, with amounts indexed to the Medical School tuition.

In the normal course of business, the System enters into multi-year contracts with vendors, suppliers and service providers for goods or services to be provided to the System. Under the terms of such agreements, the System may be contingently liable for termination or other fees in the event of contract termination or default. The System does not believe that such contingent liabilities, should they become due, would have a material impact on the System’s consolidated financial position.

16. Subsequent Events

Management has evaluated the impact of subsequent events through March 30, 2012 representing the date at which the consolidated financial statements were issued. No events, aside from those mentioned in Note 7, have occurred that require disclosure in, or adjustment to, the consolidated financial statements.

Supplementary Information

North Shore-Long Island Jewish Health System, Inc.

Consolidating Statement of Financial Position

December 31, 2011
(In Thousands)

	North Shore- Long Island Jewish Health System, Inc.	Eliminations	North Shore- Long Island Jewish Obligated Group	Hospice Care Network, Inc.	The Feinstein Institute for Medical Research	North Shore- Long Island Jewish Health System Foundation, Inc.	North Shore- Long Island Jewish Health System Laboratories	Insurance Companies (Combined)	Dolan Family Health Center	Other Health System Entities
Assets										
Current assets:										
Cash and cash equivalents	\$ 474,738	\$ –	\$ 366,211	\$ 15,860	\$ –	\$ 39,761	\$ –	\$ 18,167	\$ 186	\$ 34,553
Marketable securities and other investments	1,116,810	–	1,042,276	3,814	32	13,376	–	56,667	645	–
Accounts receivable for services to patients, net of allowance for doubtful accounts	620,543	–	602,554	5,111	–	–	7,994	–	279	4,605
Accounts receivable for physician activities, net	53,428	–	39,462	–	–	–	–	–	–	13,966
Assets limited as to use, current portion	76,017	–	76,017	–	–	–	–	–	–	–
Pledges receivable, current portion	48,939	–	567	100	–	48,017	–	–	–	255
Insurance claims receivable, current portion	97,346	(24,691)	121,053	122	206	43	234	–	–	379
Other current assets	212,114	–	194,961	216	10,300	4	1,595	24	761	4,253
Total current assets	2,699,935	(24,691)	2,443,101	25,223	10,538	101,201	9,823	74,858	1,871	58,011
Due from affiliates, net	–	(269,595)	128,537	–	–	–	2,744	138,314	–	–
Assets limited as to use, net of current portion	805,632	(196,596)	832,483	1,727	54,695	36,310	–	66,023	5,078	5,912
Pledges receivable, net of current portion	111,866	–	932	554	–	108,855	–	–	–	1,525
Property, plant and equipment, net	3,104,120	–	2,984,422	1,234	66,156	1,616	7,406	–	677	42,609
Insurance claims receivable, net of current portion	372,243	(120,632)	488,751	512	863	181	979	–	–	1,589
Other assets	169,617	(49,335)	172,706	221	2,500	–	–	42,741	–	784
Total assets	\$ 7,263,413	\$ (660,849)	\$ 7,050,932	\$ 29,471	\$ 134,752	\$ 248,163	\$ 20,952	\$ 321,936	\$ 7,626	\$ 110,430
Liabilities and net assets (deficit)										
Current liabilities:										
Short-term borrowings	\$ 90,540	\$ –	\$ 90,540	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Accounts payable and accrued expenses	592,634	–	542,907	3,268	9,103	5,020	12,495	2,004	128	17,709
Accrued salaries and related benefits	466,667	–	446,707	2,021	4,536	794	4,558	–	409	7,642
Current portion of capital lease obligations	4,208	–	4,092	–	–	–	–	–	–	116
Current portion of long-term debt	46,656	–	46,656	–	–	–	–	–	–	–
Current portion of insurance claims liability	97,346	(24,691)	121,053	122	206	43	234	–	–	379
Current portion of malpractice and other insurance liabilities	47,130	(24,523)	39,648	–	–	–	–	32,005	–	–
Current portion of third-party payer structured liabilities	5,438	–	5,438	–	–	–	–	–	–	–
Current portion of estimated payable to third-party payers	288,029	–	286,617	–	–	–	500	–	95	817
Total current liabilities	1,638,648	(49,214)	1,583,658	5,411	13,845	5,857	17,787	34,009	632	26,663
Due to affiliates, net	–	(127,759)	–	40	9,005	7,031	–	–	7,945	103,738
Accrued retirement benefits, net of current portion	558,785	–	558,764	21	–	–	–	–	–	–
Capital lease obligations, net of current portion	81,790	–	81,609	–	–	–	–	–	–	181
Long-term debt, net of current portion	1,366,719	(6,725)	1,366,719	–	–	–	–	–	–	6,725
Insurance claims liability, net of current portion	372,243	(120,632)	488,751	512	863	181	979	–	–	1,589
Malpractice and other insurance liabilities, net of current portion	580,965	(119,812)	435,956	–	–	–	–	264,821	–	–
Third-party payer structured liabilities, net of current portion	29,248	–	29,248	–	–	–	–	–	–	–
Other long-term liabilities	445,055	–	439,119	440	104	4,231	51	–	–	1,110
Total liabilities	5,073,453	(424,142)	4,983,824	6,424	23,817	17,300	18,817	298,830	8,577	140,006
Net assets (deficit):										
Unrestricted	1,735,798	(39,099)	1,699,552	20,798	47,725	24,737	2,135	23,106	(6,029)	(37,127)
Temporarily restricted	328,463	(178,654)	312,807	1,871	26,795	157,417	–	–	676	7,551
Permanently restricted	125,699	(18,954)	54,749	378	36,415	48,709	–	–	4,402	–
Total net assets (deficit)	2,189,960	(236,707)	2,067,108	23,047	110,935	230,863	2,135	23,106	(951)	(29,576)
Total liabilities and net assets (deficit)	\$ 7,263,413	\$ (660,849)	\$ 7,050,932	\$ 29,471	\$ 134,752	\$ 248,163	\$ 20,952	\$ 321,936	\$ 7,626	\$ 110,430

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

North Shore-Long Island Jewish Health System, Inc.

Combining Statement of Financial Position – Obligated Group Only

December 31, 2011

(In Thousands)

	Total Obligated Group	Eliminations	North Shore-Long Island Jewish Health Care, Inc.	North Shore University Hospital	Long Island Jewish Medical Center	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Forest Hills Hospital	Franklin Hospital	North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation
Assets														
Current assets:														
Cash and cash equivalents	\$ 366,211	\$ –	\$ 90,842	\$ 83,521	\$ 77,518	\$ 108,905	\$ 2,309	\$ 17	\$ 2,617	\$ 66	\$ 56	\$ 35	\$ 7	\$ 318
Marketable securities and other investments	1,042,276	–	–	452,393	200,334	53,799	164,741	2,103	112,063	56,843	–	–	–	–
Accounts receivable for services to patients – hospital and nursing facilities, net of allowance for doubtful accounts	602,554	–	161	148,446	161,589	88,733	68,844	34,089	27,659	13,770	15,904	21,978	14,520	6,861
Accounts receivable for physician activities, net	39,462	–	–	22,698	16,458	–	–	298	–	8	–	–	–	–
Assets limited as to use, current portion	76,017	–	–	49,902	11,510	1,890	3,637	1,394	1,379	610	1,421	2,878	514	882
Pledges receivable, current portion	567	–	–	–	–	285	282	–	–	–	–	–	–	–
Insurance claims receivable, current portion	121,053	–	622	34,778	29,176	17,145	12,704	7,234	4,270	3,457	3,117	4,273	4,103	174
Other current assets	194,961	(3,000)	10,626	58,572	71,883	13,168	19,190	9,435	5,970	2,912	2,648	1,796	1,677	84
Total current assets	2,443,101	(3,000)	102,251	850,310	568,468	283,925	271,707	54,570	153,958	77,666	23,146	30,960	20,821	8,319
Due from affiliates, net	128,537	(62,437)	–	36,586	76,610	4,200	–	–	8,024	35,313	20,554	–	–	9,687
Assets limited as to use, net of current portion	832,483	–	39,669	160,870	440,247	58,299	57,539	19,206	22,723	6,525	2,090	3,596	7,354	14,365
Pledges receivable, net of current portion	932	–	–	–	–	218	91	–	623	–	–	–	–	–
Property, plant and equipment, net	2,984,422	–	198,440	479,171	890,992	226,592	767,255	109,980	121,332	50,999	35,807	48,613	42,431	12,810
Insurance claims receivable, net of current portion	488,751	–	2,606	143,160	123,113	70,137	39,990	29,816	17,714	14,124	12,682	17,853	16,828	728
Other assets	172,706	(532,622)	571,458	8,281	53,928	36,447	30,450	1,341	1,341	217	452	705	532	176
Total assets	\$ 7,050,932	\$ (598,059)	\$ 914,424	\$ 1,678,378	\$ 2,153,358	\$ 679,818	\$ 1,167,032	\$ 214,913	\$ 325,715	\$ 184,844	\$ 94,731	\$ 101,727	\$ 87,966	\$ 46,085
Liabilities and net assets (deficit)														
Current liabilities:														
Short-term borrowings	\$ 90,540	\$ –	\$ –	\$ 7,500	\$ 83,040	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Accounts payable and accrued expenses	542,907	–	84,136	123,969	124,338	48,327	60,158	28,866	19,883	14,434	13,182	9,900	13,549	2,165
Accrued salaries and related benefits	446,707	–	74,791	105,015	100,382	46,821	27,905	19,930	21,985	10,470	9,563	15,018	12,454	2,373
Current portion of capital lease obligations	4,092	(101)	1,478	486	73	1,515	641	–	–	–	–	–	–	–
Current portion of long-term debt	46,656	–	–	14,981	7,838	12,528	3,927	935	900	528	1,245	2,613	345	816
Current portion of insurance claims liability	121,053	–	622	34,778	29,176	17,145	12,704	7,234	4,270	3,457	3,117	4,273	4,103	174
Current portion of malpractice and other insurance liabilities	39,648	–	–	11,147	12,058	5,576	3,660	1,706	1,295	930	652	1,495	1,129	–
Current portion of third-party payer structured liabilities	5,438	–	–	–	–	5,438	–	–	–	–	–	–	–	–
Current portion of estimated payable to third-party payers	286,617	–	–	106,376	56,860	24,534	24,241	20,638	12,562	6,400	9,359	12,404	9,024	4,219
Total current liabilities	1,583,658	(101)	161,027	404,252	413,765	161,884	133,236	79,309	60,895	36,219	37,118	45,703	40,604	9,747
Due to affiliates, net	–	(187,116)	112,351	–	–	–	603	30,355	–	–	–	7,321	36,486	–
Accrued retirement benefits, net of current portion	558,764	–	66,621	91,275	59,580	2,616	162,820	31,972	105,992	12,793	16,506	1,487	3,053	4,049
Capital lease obligations, net of current portion	81,609	(19,898)	73,720	5,671	14,227	3,679	4,210	–	–	–	–	–	–	–
Long-term debt, net of current portion	1,366,719	–	–	223,082	711,304	123,205	141,173	42,798	43,738	9,637	19,593	29,125	15,848	7,216
Insurance claims liability, net of current portion	488,751	–	2,606	143,160	123,113	70,137	39,990	29,816	17,714	14,124	12,682	17,853	16,828	728
Malpractice and other insurance liabilities, net of current portion	435,956	–	–	125,036	113,873	56,844	58,448	19,767	13,877	11,280	8,558	14,994	13,279	–
Third-party payer structured liabilities, net of current portion	29,248	–	–	–	–	29,248	–	–	–	–	–	–	–	–
Other long-term liabilities	439,119	–	810	85,726	128,190	39,631	83,922	19,903	14,715	9,910	18,252	21,348	15,825	887
Total liabilities	4,983,824	(207,115)	417,135	1,078,202	1,564,052	487,244	624,402	253,920	256,931	93,963	112,709	137,831	141,923	22,627
Net assets (deficit):														
Unrestricted	1,699,552	(322,380)	428,725	543,097	414,092	178,520	452,772	(54,715)	64,196	82,580	(18,388)	(36,281)	(55,368)	22,702
Temporarily restricted	312,807	(45,605)	45,605	39,178	166,856	12,570	66,726	15,708	3,425	5,603	410	177	1,398	756
Permanently restricted	54,749	(22,959)	22,959	17,901	8,358	1,484	23,132	–	1,163	2,698	–	–	13	–
Total net assets (deficit)	2,067,108	(390,944)	497,289	600,176	589,306	192,574	542,630	(39,007)	68,784	90,881	(17,978)	(36,104)	(53,957)	23,458
Total liabilities and net assets (deficit)	\$ 7,050,932	\$ (598,059)	\$ 914,424	\$ 1,678,378	\$ 2,153,358	\$ 679,818	\$ 1,167,032	\$ 214,913	\$ 325,715	\$ 184,844	\$ 94,731	\$ 101,727	\$ 87,966	\$ 46,085

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

North Shore-Long Island Jewish Health System, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2011

(In Thousands)

	North Shore- Long Island Jewish Health System, Inc. Total	Eliminations	North Shore- Long Island Jewish Obligated Group	Hospice Care Network, Inc.	The Feinstein Institute for Medical Research	North Shore- Long Island Jewish Health System Foundation, Inc.	North Shore- Long Island Jewish Health System Laboratories	Insurance Companies (Combined)	Dolan Family Health Center	Other Health System Entities
Operating revenue:										
Net patient service revenue	\$ 5,354,818	\$ (6,249)	\$ 5,278,805	\$ 47,176	\$ 369	\$ –	\$ –	\$ –	\$ 3,920	\$ 30,797
Physician practice revenue	671,917	–	517,217	–	–	–	–	–	–	154,700
Other operating revenue	245,585	(410,692)	245,674	–	53,836	–	209,746	66,019	2,622	78,380
Net assets released from restrictions used for operations	49,937	–	25,676	866	22,540	–	–	–	39	816
Total operating revenue	6,322,257	(416,941)	6,067,372	48,042	76,745	–	209,746	66,019	6,581	264,693
Operating expenses:										
Salaries	3,013,834	(59,659)	2,826,888	16,939	42,153	–	41,735	–	3,683	142,095
Employee benefits	861,052	(10,070)	809,217	4,071	12,644	–	11,211	–	1,148	32,831
Supplies and expenses	1,888,927	(338,661)	1,866,532	23,616	27,949	–	143,941	64,864	2,251	98,435
Bad debt expense	99,111	(10)	98,116	125	–	–	622	–	4	254
Depreciation and amortization	264,128	–	251,845	417	5,337	–	1,569	–	50	4,910
Interest	61,007	–	60,833	–	–	–	–	–	–	174
Total operating expenses	6,188,059	(408,400)	5,913,431	45,168	88,083	–	199,078	64,864	7,136	278,699
Excess (deficiency) of operating revenue over operating expenses	134,198	(8,541)	153,941	2,874	(11,338)	–	10,668	1,155	(555)	(14,006)
Non-operating gains and losses:										
Investment income	42,933	–	39,332	127	39	288	–	3,097	39	11
Change in net unrealized gains and losses and change in value of equity method investments	(24,307)	12,202	(30,776)	(116)	(30)	(813)	–	(4,680)	(94)	–
Change in fair value of interest rate swap agreements designated as derivative instruments	(14,909)	–	(14,909)	–	–	–	–	–	–	–
Loss on refunding of long-term debt	(12,589)	–	(12,589)	–	–	–	–	–	–	–
Medical resident tax recovery	1,794	–	1,794	–	–	–	–	–	–	–
Other non-operating gains and losses	12,011	5,312	10,379	595	–	(4,129)	–	–	68	(214)
Total non-operating gains and losses	4,933	17,514	(6,769)	606	9	(4,654)	–	(1,583)	13	(203)
Excess (deficiency) of revenue and gains and losses over expenses	139,131	8,973	147,172	3,480	(11,329)	(4,654)	10,668	(428)	(542)	(14,209)
Net assets released from restrictions for capital asset acquisitions	15,847	–	11,866	13	3,957	–	–	–	11	–
Contributions of long-lived assets	54,000	–	54,000	–	–	–	–	–	–	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	(793)	–	(793)	–	–	–	–	–	–	–
Loss of fair value of endowment corpus	(194)	–	(171)	–	–	(23)	–	–	–	–
Transfers (to) from affiliates	–	5,609	(42,289)	–	40,381	–	(7,113)	2,001	–	1,411
Pension and other postretirement liability adjustments	(149,267)	–	(149,267)	–	–	–	–	–	–	–
Increase (decrease) in unrestricted net assets	\$ 58,724	\$ 14,582	\$ 20,518	\$ 3,493	\$ 33,009	\$ (4,677)	\$ 3,555	\$ 1,573	\$ (531)	\$ (12,798)

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

North Shore-Long Island Jewish Health System, Inc.
Combining Statement of Operations – Obligated Group Only

Year Ended December 31, 2011
(In Thousands)

	Total Obligated Group	Eliminations	North Shore-Long Island Jewish Health Care, Inc.	North Shore University Hospital	Long Island Jewish Medical Center	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Forest Hills Hospital	Franklin Hospital	North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation
Operating revenue:														
Net patient service revenue	\$ 5,278,805	\$ –	\$ –	\$ 1,369,435	\$ 1,203,279	\$ 745,357	\$ 627,551	\$ 298,416	\$ 269,803	\$ 169,506	\$ 178,328	\$ 203,049	\$ 166,633	\$ 47,448
Physician practice revenue	517,217	–	–	242,672	177,137	–	–	27,909	13,341	18,909	12,912	13,208	11,129	–
Other operating revenue	245,674	(544,935)	501,266	109,518	64,251	46,760	10,342	24,434	2,346	7,010	8,487	7,212	8,484	499
Net assets released from restrictions used for operations	25,676	–	–	14,707	9,512	1,065	–	13	379	–	–	–	–	–
Total operating revenue	6,067,372	(544,935)	501,266	1,736,332	1,454,179	793,182	637,893	350,772	285,869	195,425	199,727	223,469	186,246	47,947
Operating expenses:														
Salaries	2,826,888	(184,132)	177,299	782,982	675,450	385,547	298,787	165,015	129,460	94,576	90,974	98,199	88,153	24,578
Employee benefits	809,217	(40,831)	46,310	208,667	185,351	116,488	70,894	54,543	43,011	27,288	30,789	31,531	27,723	7,453
Supplies and expenses	1,866,532	(305,257)	225,981	551,286	480,834	223,098	234,803	110,108	82,356	60,531	67,629	67,147	59,749	8,267
Bad debt expense	98,116	(7,926)	–	39,794	19,656	5,800	13,972	6,904	5,904	3,258	2,445	5,272	2,749	288
Depreciation and amortization	251,845	–	42,099	68,006	42,724	22,800	30,576	11,186	13,047	5,472	4,213	6,119	4,404	1,199
Interest	60,833	(1,783)	5,689	12,953	15,585	9,175	8,704	2,867	2,182	849	1,200	1,864	1,054	494
Total operating expenses	5,913,431	(539,929)	497,378	1,663,688	1,419,600	762,908	657,736	350,623	275,960	191,974	197,250	210,132	183,832	42,279
Excess (deficiency) of operating revenue over operating expenses	153,941	(5,006)	3,888	72,644	34,579	30,274	(19,843)	149	9,909	3,451	2,477	13,337	2,414	5,668
Non-operating gains and losses:														
Investment income	39,332	(27)	32	17,536	10,345	1,970	4,207	552	2,058	2,004	78	161	126	290
Change in net unrealized gains and losses and change in value of equity method investments	(30,776)	9,630	(21,757)	(20,497)	6,704	1,711	(3,747)	(169)	(95)	(2,257)	(43)	(106)	(70)	(80)
Change in fair value of interest rate swap agreements designated as derivative instruments	(14,909)	–	–	–	(13,817)	(1,092)	–	–	–	–	–	–	–	–
Loss on refunding of long-term debt	(12,589)	–	–	(105)	–	(3,070)	(4,168)	(1,300)	(3,199)	(239)	–	–	(508)	–
Medical resident tax recovery	1,794	–	–	98	177	1,306	16	196	–	–	–	1	–	–
Other non-operating gains and losses	10,379	–	–	9	4,516	(4,621)	3,407	7,469	(479)	–	77	–	1	–
Total non-operating gains and losses	(6,769)	9,603	(21,725)	(2,959)	7,925	(3,796)	(285)	6,748	(1,715)	(492)	112	56	(451)	210
Excess (deficiency) of revenue and gains and losses over expenses	147,172	4,597	(17,837)	69,685	42,504	26,478	(20,128)	6,897	8,194	2,959	2,589	13,393	1,963	5,878
Net assets released from restrictions for capital asset acquisitions	11,866	–	–	1,165	3,044	1,912	189	352	571	3,798	–	–	834	1
Contributions of long-lived assets	54,000	–	–	–	–	–	54,000	–	–	–	–	–	–	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	(793)	–	–	(336)	(457)	–	–	–	–	–	–	–	–	–
Loss of fair value of endowment corpus	(171)	–	–	(87)	(37)	–	–	–	–	(47)	–	–	–	–
Transfers (to) from affiliates	(42,289)	3,575	(1,271)	(27,828)	(18,364)	–	–	–	1,599	–	–	–	–	–
Pension and other postretirement liability adjustments	(149,267)	–	(17,550)	(7,102)	(2,253)	(33)	(62,449)	(7,624)	(41,812)	(2,842)	(3,638)	(550)	(2,443)	(971)
Increase (decrease) in unrestricted net assets	\$ 20,518	\$ 8,172	\$ (36,658)	\$ 35,497	\$ 24,437	\$ 28,357	\$ (28,388)	\$ (375)	\$ (31,448)	\$ 3,868	\$ (1,049)	\$ 12,843	\$ 354	\$ 4,908

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

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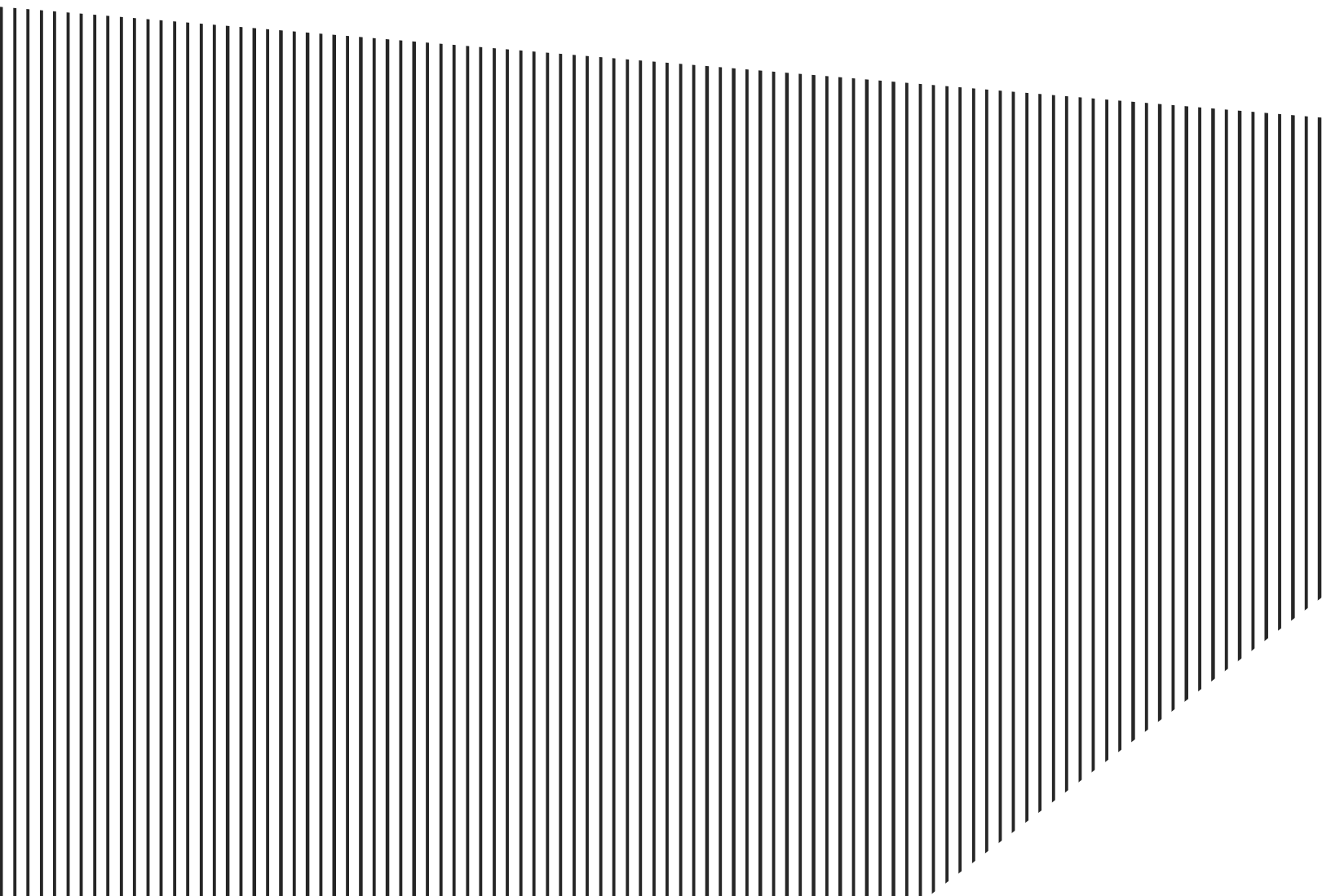
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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement. Such summary does not purport to be complete or definitive and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Unless otherwise indicated, references to section numbers in this summary refer to sections in the Loan Agreement. Defined or definitive terms used herein have the meanings ascribed to them in Appendix A.

Termination

The Loan Agreement will remain in full force and effect until no Series 2012A Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution have been made or provision made for the payment thereof; *provided, however*, that the provisions found under the caption "Arbitrage" and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the Loan Agreement will nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority will deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of its duties under the Loan Agreement, including the release or surrender of any security interests granted by the Institution to the Authority pursuant to the Loan Agreement.

(Section 39)

Project Financing

The Authority agrees to use its best efforts to issue and deliver the Series 2012A Bonds. The proceeds of the Series 2012A Bonds will be applied as specified in the Resolution, the Series Resolution or the Bond Series Certificate relating to the Series 2012A Bonds.

(Section 4)

Construction of 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 under the Loan Agreement, the Institution will complete or cause to be completed the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of the Project in connection with which the Authority has issued Bonds, substantially in accordance with the Contract Documents relating thereto. 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 and the Department of Health, which approval will not be unreasonably withheld. The Authority shall have no obligation to issue Additional Bonds or provide additional funds other than the moneys available to the Institution under the provisions of the Resolution or under the Loan Agreement.

The Institution may, with the consent of both the Authority and the Department of Health, amend the Project budget to provide that moneys previously allocated to a portion of the Project owned by one

Member will instead be expended for a portion of the Project at a different Member as long as such property is eligible to be financed or refinanced with proceeds of the Series 2012A Bonds.

(Section 5)

Amendment of the Project; Sale or Conveyance of the Project; Closure of Facilities; Additional Bonds

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

Except as provided in the Loan Agreement, the Institution covenants that it will not, nor will it permit the Members, to transfer, sell, encumber or convey any interest in the Project or any part thereof or interest therein, including development rights, without complying with Governmental Requirements and obtaining the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Institution to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the change will not adversely affect the exclusion from gross income of the interest on the Series 2012A Bonds for federal income tax purposes under Section 103 of the Code. 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. In addition, the Institution may or permit the Members to remove, transfer, sell or convey equipment, furniture or fixtures in the Project, or which comprise a part of the Project, provided that, unless otherwise approved by the Authority and the Department of Health, the Institution substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced. The Institution may also, as permitted in the Master Indenture, subject to compliance with all applicable Government Requirements, transfer any equipment, furniture and fixtures at any time to Members and Non-Members of the Obligated Group and the Institution may permit the Members to do the same. Notwithstanding the foregoing, in all cases, such transfers may be made only if they will not adversely affect the tax-exempt status of the Series 2012A Bonds.

The Institution covenants that it will not close or permit the closure of any facility of the Obligated Group that at the time of closure constitutes core Health Care Facilities of the Obligated Group under the Master Indenture without prior notice to the Authority and compliance with all Government Requirements in connections with such closure.

The Authority, upon the request of the Institution, may, but is 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 account in the Construction Fund. Nothing contained in the Loan Agreement or in the Resolution is to be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent to reserve to the Authority full and complete discretion to decline to issue such Bonds.

(Section 6)

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

- Except to the extent that moneys are available therefor under the Resolution or under the Loan Agreement, including moneys in the Debt Service Fund, and excluding interest accrued but unpaid on investments held in the Debt Service Fund, the Institution unconditionally 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, including payments to be made under the Master Indenture:

- On or before the date of delivery of the Series 2012A Bonds, payment of the Authority Fee and the Department of Health fee, if applicable;

- On or before the date of delivery of the Series 2012A 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 such Bonds, and other costs in connection with the issuance of such Bonds;

- With respect to Bonds the interest on which is paid semi-annually, on the first (1st) day of each month commencing on the first (1st) day of the sixth (6th) month immediately preceding the date on which such interest on the Series 2012A Bonds becomes due, one-sixth (1/6) of the interest coming due on the Bonds on the immediately succeeding Interest Payment Date for such Bonds; provided, however, that, if there are less than six (6) such payment dates prior to the first such interest payment date on the 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 the Bonds;

- On the first (1st) day of each month commencing on the first (1st) day of the twelfth month immediately preceding the May on which the principal or a Sinking Fund Installment of Bonds becomes due, one-twelfth (1/12) of the principal and Sinking Fund Installments on the Bonds coming due on such May 1; *provided, however*, that, if there are less than twelve (12) such payment dates prior to the May 1 on which principal or Sinking Fund Installments come due on the Bonds, on each payment date prior to such May 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 May 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 May 1;

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

- On December 10 of each Bond Year, commencing December 10, 2012, one-half (1/2) of the Annual Administrative Fee payable, in arrears, during such Bond Year in connection with the Series 2012A Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year;

- Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i)

for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement, the Resolution, the Master Indenture, the Series 2012A Obligation and any other Obligations issued under the Master Indenture securing any Bonds in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorneys fees in connection with performance of their duties under the Resolution, and (v) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of the Project;

- Promptly upon demand by an Authorized Officer of the Authority (a copy of which will be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to the provisions described under the caption “Defaults and Remedies” below;

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

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

- On June 10, 2012 and on the tenth (10th) day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee (as set forth in a schedule to the Loan Agreement), if applicable, as described in the regulations of the Department of Health.

Subject to the provisions of the Resolution and the Loan Agreement, the Institution will 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 Sinking Fund Installments on the next succeeding May 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such May 1. The amount of the credit will be equal to the principal amount of the Bonds so delivered.

The Authority directs the Institution, and the Institution agrees, to make the payments required by paragraphs (c), (d), (e), (h) and (j) above directly to the Trustee for deposit and application in accordance with the Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in a Construction Fund or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraph (a) above directly to the Authority, and the payments required by paragraph (k) above, directly to the Commissioner of Health.

The Institution agrees that it is also obligated to make all payments when due on the Series 2012A Obligation to the holders of such Series 2012A Obligation, and that the applicable holders will be entitled to so receive all payments when due on the Series 2012A Obligation, it being the intention of the parties to the Loan Agreement that the Series 2012A Obligation and the Loan Agreement are separate (but not duplicative) obligations of the Institution (and, to the extent provided in the Series 2012A

Obligation, of the Obligated Group), that payments by the Institution (or the Obligated Group) to the Trustee pursuant to the Series 2012A Obligation relating to the Series 2012A Bonds, will serve as a credit against amounts due from the Institution to the Authority pursuant to the Loan Agreement with regard to the Series 2012A Bonds and that payments by the Institution to or upon the order of the Authority pursuant to the Loan Agreement will serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the Series 2012A Obligation.

The Institution further agrees that it is to make equity contributions as are required in connection with the issuance of the Series 2012A Bonds and the completion of the Project, which amounts are set forth in the Loan Agreement.

2. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in this subdivision), all moneys paid by the Institution to the Trustee pursuant to the Loan Agreement or otherwise held by the Trustee will 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 Resolution. Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in this subdivision), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (c), (d), (e), (h) and (j) in the preceding paragraph 1. (other than moneys received by the Trustee pursuant to the section of the Resolution pertaining to compensation of the Trustee, which will be retained and applied by the Trustee for its own account) will be received by the Trustee as agent for the Authority in satisfaction of the Institution's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (e) of this subdivision) held by it in the Construction Fund to the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution will be deemed, upon such transfer, receipt by the Authority from the Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee will hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of the Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of the Bonds.

3. The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement will be complete and unconditional and the amount, manner and time of making such payments will 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 Bondholder 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 or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; *provided, however*, that nothing in the Loan Agreement will 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 fails 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 has 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 available in the Construction Fund established for such Project.

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

4. The Authority has the right in its sole discretion to make on behalf of the Institution any payment required pursuant to the provisions described under this caption “Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments” which has not been made by the Institution when due. No such payment by the Authority will limit, impair or otherwise affect the rights of the Authority under the provisions found under the caption “Defaults and Remedies” below arising out of the Institution’s failure to make such payment and no payment by the Authority will be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

5. The Institution, if it is not then in default under the Loan Agreement, will have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid will be deposited in accordance with the directions of an Authorized Officer of the Authority in the Debt Service Fund or held by the Trustee for the payment of Bonds in accordance with the Resolution. Upon any voluntary payment by the Institution or upon any deposit in the Debt Service Fund 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 Resolution with respect to such Series of 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 agrees, 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)

Consent to Pledge and Assignment by the Authority; Covenants, Representations and Warranties

The Institution consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Trustee of the Authority’s rights to receive the payments required to be made pursuant to paragraphs (c), (d), (e), (h), and (j) of paragraph 1 under the above caption “Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments” and any or all security interests granted by the Institution under the Loan Agreement, including without limitation, the Series 2012A Obligation. The Government Obligations, Exempt Obligations and other Securities pursuant to the provisions of subdivision 1 under the above caption “Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments” and all funds and accounts established by the Resolution and pledged thereby in each case to secure any payment or the performance of any obligation of the 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 will be specifically assigned by the Authority to the Trustee. The Institution further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority’s rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the provisions under this caption “Consent to Pledge and Assignment by the Authority,” 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 will 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.

The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its charter and by-laws or resolutions duly adopted pursuant thereto to enter into the Loan Agreement, the Master Indenture and the Continuing Disclosure Agreement, to incur the indebtedness contemplated in the Loan Agreement and to pledge, grant a security interest in and assign to the Authority and the Trustee for the benefit of the Holders of the Bonds, the Government Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement in the manner and to the extent provided in the Loan Agreement and in the Resolution, subject to federal and State laws and regulations which limit security interests in Medicaid and Medicare receivables. The Institution further covenants, warrants and represents that except with respect to Additional Bonds, any and all pledges, security interests in and assignments made or to be made pursuant to the Loan Agreement are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, other than the Permitted Encumbrances, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant to the Loan Agreement (subject, however, to federal and State laws and regulations which limit security interests in Medicaid and Medicare receivables), and that all corporate action on the part of the Institution to that end has been duly and validly taken. The Institution further covenants that the provisions of the Loan Agreement are and will be valid and legally enforceable obligations of the Institution in accordance with their terms. The Institution further covenants that it will at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Government Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement and all of the rights of the Authority under the Loan Agreement and the Holders of Bonds under the Resolution against all claims and demands of all persons whomsoever. The Institution further covenants, warrants and represents that the execution and delivery of the Loan Agreement, and the consummation of the transaction contemplated in the Loan Agreement and compliance with the provisions of the Loan Agreement, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Exempt Obligations and Securities delivered to the Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or by-laws of the Institution or any indenture or mortgages, or any trusts, endowments or other commitments or agreements to which the Institution is a party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institution or any of its properties.

(Section 12)

Tax-Exempt Status

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that (a) it will not perform any act or enter into any agreement which will adversely affect such federal income tax status and will conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal

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

(Section 13)

Maintenance of Corporate Existence

The Institution covenants that, except as permitted under the Master Indenture, it will maintain its corporate existence, will continue to operate as a not-for-profit organization as set forth in its certificate of incorporation, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institution as an institution as set forth in its certificate of incorporation, providing such services as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; *provided, however*, that if no Event of Default has occurred and is continuing and prior written notice has been given to the Authority and the Trustee, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; *provided, however*, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of Bond Counsel adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution under the Loan Agreement, under the Continuing Disclosure Agreement and furnishes to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation will be in compliance with each of the provisions of the Loan Agreement and will meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, will provide the Authority with such other certificates and opinions as may reasonably be required by the Authority.

(Section 15)

Use of Project

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

(Section 17)

Restrictions on Religious Use

The Institution agrees that with respect to the Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or portion thereof will 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 will not prohibit the free exercise of any religion; and *provided, further*, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof to be used without regard to the above stated restriction, said restriction will not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as an Authorized Officer of the Authority deems necessary to determine whether the Project or any portion thereof financed by Bonds is being used for any purpose proscribed by the Loan Agreement. The Institution agrees that prior to any disposition of any portion of the Project for less than fair market value, it will 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) will 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 will 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 will 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 will 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 the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction will be without any force or effect. For the purposes of the provisions under this caption "Restrictions on Religious Use," an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, will be considered a sale for the fair market value thereof.

(Section 18)

Maintenance, Repair and Replacement

The Institution agrees that, throughout the term of the Loan Agreement, it will or cause the applicable Member to, at its own expense, hold, operate and maintain the Project in a careful, prudent and economical manner, and keep the same, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and will from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of the Project may be properly and advantageously conducted. The Institution will have the right to and allow the applicable Member to remove or replace any type of fixtures, furnishings and equipment in the Project which may have been financed by the proceeds of the sale of Bonds provided the Institution or Member substitutes for any removed or replaced fixtures, furnishings and equipment, additional fixtures, furnishings and equipment having equal or greater value and utility than the fixtures, furnishings and equipment so removed or replaced. With regard to equipment, furniture and fixtures that has not been financed by the proceeds of the Series 2012A Bonds, the Member may convey any such equipment, furniture and fixtures outside of the Obligated Group as permitted by the Master Indenture. As permitted in the Master Indenture, subject to compliance with all applicable Government Requirements, the Institution may or may permit the Members to transfer any equipment, furniture and fixtures at any time to any other Member of the Obligated Group. In all cases, such transfers may be made only if they will not adversely affect the tax-exempt status of the Bonds.

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

(Section 20)

Damage or Condemnation

In the event of a taking of the Project or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of such Project, which substantially impairs the use of such Project or part thereof for its intended purpose, or which results in the receipt by the Institution of insurance, condemnation or eminent domain proceeds that, pursuant to the Master Indenture, are required to be applied to repair or replace the Project, then and in such event the entire proceeds of any insurance, condemnation or eminent domain award will be paid upon receipt thereof by the Institution or the Authority to the Trustee for deposit in the Construction Fund established in connection with such Project, and

1. if within 120 days from the receipt by the Authority of actual notice or knowledge of the occurrence, the Institution and the Authority agree in writing that the Project or the affected portion thereof will be repaired, replaced or restored and a certificate of an Authorized Officer of the Institution, which certificate has been reviewed by the Authority, stating that adequate resources are available to comply with the covenants and provisions of the Master Indenture after such repair, replacement or restoration is undertaken, the Institution will proceed to repair, replace or restore the Project or the affected portion thereof, including all fixtures, furniture, equipment and effects, to its original condition, insofar as possible with such changes and additions as will be appropriate to the needs of the Institution and approved in writing by the Authority. The funds required for such repair, replacement or restoration will be paid from time to time as the work progresses, subject to such conditions and limitations as the Authority may reasonably impose, from the proceeds of insurance, condemnation or eminent domain awards received by reason of such occurrence and, to the extent such proceeds are not sufficient, from funds to be provided by the Institution; or

2. if no agreement for the repair, restoration or replacement of the Project or the affected portion thereof will be reached by the Authority and the Institution within such 120-day period, all respective proceeds (other than the proceeds of builders' risk insurance which will be deposited pursuant to the Resolution and the applicable Series Resolution or Bond Series Certificate) will be delivered to the Trustee for deposit to the Debt Service Fund for application at the direction of the Authority in accordance with the Resolution.

(Section 22)

Taxes and Assessments

The Institution will pay when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon any Member of the Obligated Group or any of its property. The Institution will file or cause to be filed exemption certificates as required by law. The Institution agrees to exhibit to an Authorized Officer of the Authority within ten (10) days after written demand by such Authorized Officer, certificates or receipts issued by the appropriate authority showing full payment of all taxes, assessments, water and sewer charges and other impositions; *provided, however*, the good faith contest of such impositions and deposits with the Authority of the full amount of such impositions will be deemed to be complete compliance with the requirement. Notwithstanding the foregoing, the Authority in its sole discretion, after notice in writing to the Institution, may pay any charges, taxes and assessments which may be levied or assessed upon a Project and which are not paid by the Institution when due, unless the imposition of such charges, taxes or assessments are being contested in good faith and the Institution has deposited with the Authority the full amount of such charges, taxes or assessments. The Institution agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made

by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Applicable Debt Service Fund on the date such payment was made by the Authority.

(Section 23)

Defaults and Remedies

1. As used in the Loan Agreement the term “Event of Default” means:

- the Institution defaults in the timely payment of any amount payable pursuant to the Loan Agreement or in the delivery of Securities or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement or with the Resolution, and such default continues for a period in excess of seven (7) days;

- 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 has been given by the Authority or the Trustee, provided that, if, in the determination of the Authority, such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it will not constitute an Event of Default if corrective action is instituted by the Institution within such period and is diligently pursued until the default is corrected;

- as a result of any default in payment or performance required of the Institution or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority will 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) has been declared under the Resolution so long as such default or Event of Default remains uncured or the Trustee or Holders of the Series 2012A Bonds will be seeking the enforcement of any remedy under the Resolution as a result thereof;

- the Obligated Group will be in default under the Master Indenture or under any Obligation issued under the Master Indenture, and in either case such default continues beyond any applicable grace period;

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

- a court or governmental authority of competent jurisdiction will 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 will 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 will be filed against the Institution and such petition will not be dismissed within ninety (90) days;

- the charter of the Institution will be suspended or revoked;

- a petition to dissolve the Institution will be filed by the Institution with the Secretary of State of the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Institution;

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

- a petition is filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution which petition will remain undismitted or unstayed for an aggregate of ninety (90) days;

- an order of a court having jurisdiction is made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order will remain undismitted or unstayed for the earlier of (x) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order will have been entered; or

- a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Series 2012A Bonds is rendered against the Institution and at any time after forty-five (45) days from the entry thereof, (i) such judgment will not have been discharged, or (ii) the Institution will 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 will have been granted or entered, and will 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.

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

- (a) declare all sums payable by the Institution under the Loan Agreement relating to the Series 2012A Bonds immediately due and payable;

- (b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Series 2012A Bonds or any 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 or under any Obligation or against any or all members of the Obligated Group under the Master Indenture or the Series 2012A Obligation to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement, the Master Indenture or the Series 2012A Obligation; and

(e) to the extent permitted by law, (i) enter upon the Project and complete the construction of the Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Project, all at the risk, cost and expense of the Institution, consent to such entry being given by the Institution pursuant to the Loan Agreement, (ii) 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, (iii) 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 (iv) in connection with the construction of the Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) 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 the 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 the Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution will be liable to the Authority for all sums paid or incurred for construction of the Project whether the same will 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 will be paid by the Institution to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the Institution 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.

3. 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 will effect a waiver of the Authority's right to exercise such remedy thereafter.

4. At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to subdivision 2 of this caption "Defaults and Remedies" and its consequences if such Events of Default will be cured. No such annulment will extend to or affect any subsequent default or impair any right consequent thereto.

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

(Section 27)

Arbitrage

The Institution covenants that it will not take any action or inaction, nor fail to take any action or permit any action to be taken, if any such action or inaction would adversely affect the exclusion from

gross income for federal income tax purposes of the interest on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Institution covenants that it will comply with the instructions and requirements of the Tax Certificate and Agreement, which is incorporated in the Loan Agreement as if set forth fully in the Loan Agreement, unless otherwise advised by Bond Counsel. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) will not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority. The Institution will, on a timely basis, provide the Authority with all necessary information and, to the extent of the Institution's share of any rebate requirement or yield reduction payment (each as referred to in the Tax Certificate and Agreement) required to be paid, funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution.

(Section 32)

Amendments to Loan Agreement

The Loan Agreement may be amended only in accordance with the Resolution and each amendment will be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which will be filed with the Trustee; *provided, however*, that no amendment or waiver of any provisions of the Loan Agreement may be made without the prior written consent of the [Department] Commissioner of Health.

(Section 38)

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Amended and Restated Resolution, adopted by the Authority on August 10, 2011 (the “Resolution”). Such summary does not purport to be complete or definitive and reference is made to the Resolution for full and complete statements of each provision. Unless otherwise indicated, references to section numbers in this summary refer to sections in the Resolution. Defined terms herein have the meaning ascribed to them in Appendix A.

Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts

The Resolution authorizes the Authority to issue its Bonds in one or more Series, each such Series to be authorized by a separate Applicable Series Resolution and, *inter alia*, to be separately secured from each other Series of Bonds. Each such Series of Bonds will be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series will not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the Applicable Series Resolution authorizing such Series of Bonds. With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued under the Resolution and under the Applicable Series Resolution by those who will hold or own the same from time to time, the Resolution and the Applicable Series Resolution will be deemed to be and will constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of an Applicable Series, and the pledge and assignment made and the covenants and agreements set forth to be performed by or on behalf of the Authority will be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issue or maturity, will be of equal rank without preference, priority or distinction of any Bonds of a Series over any other Bonds of such Series except as expressly provided in the Resolution or permitted by the Resolution or by the Applicable Series Resolution.

(Section 1.03)

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

As security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, Outstanding Bonds of a Series and for the performance of each other obligation of the Authority under the Resolution, the Authority may grant, pledge and assign to the Applicable Trustee all of the Authority’s estate, right, title, interest and claim in, to and under the Applicable Loan Agreement, or Applicable Obligation, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under such Loan Agreement or Obligation, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the Resolution) all Applicable Revenues, Gross Receipts, insurance proceeds, sale proceeds and other payments and other security now or hereafter payable to or receivable by the Authority under such Loan Agreement or Obligation, and the right to make all waivers and agreements in the name and on behalf of the Authority, as Trustee for the benefit of the Applicable Bondholders, and to perform all other necessary and appropriate acts under the Applicable Loan Agreement or Obligation, subject to the following conditions: (a) that, unless and until the Authority grants, pledges or assigns such rights under the Loan Agreement or the Obligation to the Trustee, the Authority may, in its sole discretion, unless the consent of the Applicable Credit Facility Issuer is required, and without consent of the Trustee or Bondholders modify, amend or release any provisions of such Loan Agreement or the

Obligation as provided in the Resolution; (b) that the Holders of the Applicable Bonds, if any, will not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; and (c) that, unless and until the Applicable Trustee will, in its discretion when an "Event of Default" (as defined in "Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS -- Defaults and Remedies") under the Applicable Loan Agreement has occurred and is continuing, so elect, by instrument in writing delivered to the Authority and the Applicable Institution (and then only to the extent that the Trustee will so elect), the Trustee will not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions contained in the Loan Agreement to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision); the Authority, however, is to remain liable to observe and perform all the conditions and covenants, in the Loan Agreement to be observed and performed by it; provided, however, that any grant, pledge and assignment by the Authority of moneys, revenues, accounts, rights or other property of the Applicable Institution made with respect to the Loan Agreement pursuant to this paragraph will secure, in the case of the Applicable Loan Agreement, only the payment of the amounts payable under such Loan Agreement.

Notwithstanding the foregoing, upon any occurrence of a withdrawal from the Debt Service Reserve Fund which has not been restored within thirty (30) days from the date of such withdrawal, the Authority, upon the request of one or more Credit Facility Issuers, if any, or upon the request of the Holders of not less than 25% in principal amount of the Outstanding Bonds of an Applicable Series which are not secured by a Credit Facility, is obligated to assign to the Trustee: (i) its interest in the Applicable Loan Agreement, and (ii) the Applicable Obligation.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in this Section, the Trustee will accept such grant, pledge and assignment which acceptance will be evidenced in writing and signed by an Authorized Officer of the Trustee.

(Section 1.04)

Refunding Bonds

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

The proceeds, including accrued interest, of such Refunding Bonds will be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or determined in accordance with the Series Resolution authorizing such Refunding Bonds.

(Section 2.04)

Additional Obligations

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

(Section 2.06)

Pledge of Revenues

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

(Section 5.01)

Establishment of Funds

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

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

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

There will be no Debt Service Reserve Fund established in connection with the Series 2012A Bonds

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

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

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

(Section 5.03)

Application of Moneys in the Construction Fund

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

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

3. Payments for Costs of an Applicable Project will be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates 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. Such certificate or certificates will be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Institution, 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 the Applicable Series of Bonds will 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 Applicable Construction Fund to the Applicable Debt Service Fund.

4. Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or an Institution with respect to an Applicable Project will be deposited in the appropriate account in the Applicable Construction Fund and, if necessary, such fund may be reestablished for such purpose and if not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Fund for the redemption of the Applicable Series of Bonds in accordance with the Loan Agreement.

5. An Applicable Project will be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Institution which certificate will be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Institution and the Trustee of a certificate of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate will 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, and, in the case of a certificate of an Authorized Officer of such Institution, will specify the date of completion, or if any portion of the Project has been abandoned and will not be completed, will so state.

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

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

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

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

(Section 5.04)

Enforcement of Obligations, Deposit of Revenues and Allocation Thereof

1. To the extent an Applicable Institution fails to make any timely payment under the Applicable Loan Agreement, which payment would constitute a credit for payment of the Applicable Obligation in accordance with the terms thereof, the Trustee will promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

2. The Applicable Revenues, including all payments received under the Applicable Loan Agreement, Master Indenture and the Obligations, will be deposited upon receipt by the Trustee to the appropriate account of the Applicable Debt Service Fund in the amounts, at the times and for the purposes specified in the Applicable Series Resolution or Loan Agreement. To the extent not required to pay the interest, principal, Sinking Fund Installments and moneys which are required or have been set aside for

the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund will be paid by the Trustee on or before the business day preceding each Interest Payment Date as follows and in the following order of priority:

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

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

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

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

3. After making the payments required by subdivision 1 of this Section, the balance, if any, of the Revenues then remaining will, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Applicable Construction Fund or the Applicable Debt Service Fund, or paid to the Applicable 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. The Trustee will notify the Authority and the Institution promptly after making the payments required by subdivision 1 of this Section, of any balance of Revenues then remaining.

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

(Section 5.05)

Debt Service Fund

1. The Trustee will on or before the business day preceding each Interest Payment Date pay, from the Applicable Debt Service Fund, to itself and any other Paying Agent:

(a) the interest due on all Outstanding Bonds of the Applicable Series on such Interest Payment Date;

(b) the principal amount due on all Outstanding Bonds of the Applicable Series on such Interest Payment Date;

(c) the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series on such Interest Payment Date; and

(d) moneys required for the redemption of Bonds of the Applicable Series in accordance with the Resolution.

The amounts paid out pursuant to this Section will be irrevocably pledged to and applied to such payments.

2. In the event that on the fourth business day preceding any Interest Payment Date the amount in the Applicable Debt Service Fund will be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such Interest Payment Date or for the payment of the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee will withdraw from the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments. The Trustee will notify the Authority, the Applicable Facility Provider, Credit Facility Issuer, Master Trustee, Obligated Group Representative and each Member of the Obligated Group of a withdrawal from the Applicable Debt Service Reserve Fund.

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

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

(Section 5.06)

Arbitrage Rebate Fund

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

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

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

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if, upon the computation of assets of an Applicable Debt Service Fund and the Debt Service Reserve Fund pursuant to the Resolution, the amounts held in the appropriate accounts in the Applicable Debt Service Fund and the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds be redeemable, the Trustee will so notify the Authority and the Applicable Institution. Upon receipt of such notice, the Authority may request the Trustee to redeem all such Outstanding Bonds. The Trustee will, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by the Applicable Series Resolution as provided in the Resolution.

(Section 5.09)

Investment of Funds Held by the Trustee

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

2. In lieu of the investments of money in obligations authorized in the above paragraph, the Trustee will, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest money in the Construction Fund in any Permitted Investment; provided, however, that each such investment will permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes of the Resolution, provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment will 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 will 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 will be free and clear of claims of any other person.

3. Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held by the Trustee will be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof will be retained in, credited or charged to, as the case may be, such fund or account unless otherwise provided in a Series Resolution.

4. In computing the amount in any fund or account held by the Trustee, each Permitted Investment will be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in a Debt Service Reserve Fund will be valued at the market value thereof, plus accrued interest and except that Investment Agreements will be valued at original cost, plus accrued interest.

5. The Authority, in its discretion, may direct the Trustee to, and the Trustee will, sell, or present for redemption or exchange any investment held by the Trustee under the Resolution and the proceeds thereof may be reinvested as provided in the Resolution. Except as otherwise provided in the Resolution, the Trustee will sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it will be necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee will 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 and of the details of all investments held for the credit of each fund in its custody under the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments will 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 will also describe all withdrawals, substitutions and other transactions occurring in each such fund in the previous month.

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

(Series Resolution per Section 6.02)

Enforcement of Duties and Obligations of the Institution

The Authority will take all legally available action to cause an Institution to perform fully all duties and acts and comply fully with the covenants of such Institution required by the Applicable Loan Agreement in the manner and at the times provided in such Loan Agreement; provided, however, that the Authority may delay, defer or waive enforcement of one or more provisions of said Loan Agreement (other than provisions requiring the payment of moneys or the delivery of Securities to the Trustee for

deposit to any fund or account established under the Resolution) if the Authority determines such delay, deferment or waiver will not materially adversely affect the interests of the Holders of the Bonds of an Applicable Series.

(Section 7.06)

Deposit of Certain Moneys in the Construction Fund

In addition to the proceeds of Bonds of an Applicable Series to be deposited in the Applicable Construction Fund, any moneys paid or letter of credit or other security payable to the Authority for the acquisition, construction, reconstruction, renovation or equipment of an Applicable Project and any moneys received in respect of damage to or condemnation of such Project will be deposited in the Applicable Construction Fund.

(Section 7.07)

Amendment of Loan Agreements or Obligations

Subject to the provisions of the Resolution, an Applicable Loan Agreement may be modified so long as the Applicable Institution will be obligated to make all payments required thereunder such that the Trustee can comply with the payment terms of the Resolution, as amended, and the payment terms of the Applicable Series Resolution, as amended. Principal payments of an Applicable Loan Agreement may not be deferred without delivery of a certificate of an Authorized Officer of the Trustee stating that such deferral or extension will not adversely affect the Authority's ability to pay interest coming due or principal at maturity of the Applicable Series of Bonds. Any Obligation may be amended or modified in the manner provided in the Master Indenture.

(Section 7.10)

Notice as to Event of Default Under Loan Agreement

The Authority will notify the Applicable Trustee in writing that an "Event of Default" under a Loan Agreement, as such term is defined in such Loan Agreement, has occurred and is continuing, which notice will be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Tax Exemption: Rebates

Except as otherwise provided in a Series Resolution, in order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Applicable Series, the Authority will comply with the provisions of the Code applicable to the Bonds of each Applicable Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Receipts of each Applicable Series of Bonds, reporting of earnings on the Gross Receipts of each Applicable Series of Bonds, and rebates of Excess Earnings to the Department of the Treasury of the United States of America. Except as provided in the Resolution, the Authority will comply with the letter of instructions as to compliance with the Code with respect to each such Series of Bonds, to be delivered by Bond Counsel at the time the Bonds of an Applicable Series are issued, as such letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority will not take any action or fail to take any action, which would cause the Bonds of an Applicable Series to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

Notwithstanding any other provision of the Resolution to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds of an Applicable Series will not entitle the Holder of Bonds of any other Applicable Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions of this Section or of the Code.

(Section 7.12)

Modification and Amendment Without Consent

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

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

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

(c) 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;

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

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

(f) 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 of the Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, provided that such modification will

not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(Section 9.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

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

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority which will be deemed to affect an Applicable Series of Bonds and of the Holders of the Bonds of such Applicable Series under the Resolution, in any particular, may be made by an Applicable Supplemental Resolution, with the written consent given as hereinafter provided in the Resolution, (i) of the Holders of at least two-thirds (2/3) in principal amount of the Bonds Outstanding of an Applicable Series at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two-thirds (2/3) in principal amount of the Bonds of the Applicable Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of an Applicable Series or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or will reduce the percentages or otherwise affect the classes of Bonds of an Applicable Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, an Applicable Series will be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of an Applicable Series or maturity would be affected by any modification or amendment of the Resolution and any such determination will be binding and conclusive on the Authority and all Holders of Bonds of an Applicable Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of an Applicable Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds of an Applicable Series under the Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of such

Supplemental Resolution certified by the Authority and the consent of the Holders of all of the Bonds then Outstanding of the Applicable Series, such consent to be given as provided in the Resolution, except that no notice to such Bondholders either by mailing or publication will be required.

(Section 10.03)

Events of Default

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

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

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

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

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

(e) The Authority has 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 has occurred and is continuing and all sums payable by the Institution under the Loan Agreement have been declared to be immediately due and payable, which declaration has not been annulled.

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

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified above under the caption “Events of Default”, other than an event of default specified in paragraph (c) above under the caption “Events of Default,” then and in every such case the Trustee may, and, upon the written request of (i) the Applicable Credit Facility Issuer, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of an Applicable Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Applicable Outstanding Bonds due upon the acceleration thereof, upon the request of the Credit Facility Issuer or Credit Facility Issuers making such deposit, will, (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable immediately and (B) request that the Master Trustee declare all applicable Outstanding Obligations (as defined in the Master Indenture) to be immediately due and payable. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest will become and be immediately due and payable, anything in the Resolution or in any Series Resolution or in the Bonds to the contrary notwithstanding. In the event that a Credit Facility Issuer will make any payments of principal of or interest on any Bonds pursuant to a Credit Facility and the Bonds are accelerated, such Credit Facility Issuer may at any time and at its sole option, pay to the Bondholders all or such portion of amounts due under such Bonds prior to the stated maturity dates thereof. At any time after the principal of the Bonds has 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 will, with the written consent of the Credit Facility Issuers which have issued Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Bonds not then due by their terms and then Outstanding, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, with the written consent of the Applicable Credit Facility Issuers, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last Interest Payment Date); (ii) moneys have accumulated and are available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this Section) have been paid or a sum sufficient to pay the same have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in the Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this Section) have been remedied to the satisfaction of the Trustee. No such annulment will 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 Resolution, then and in every such case, the Trustee may proceed, and upon the written request of the Applicable Facility Provider or Facility Providers, if any, of not less than twenty-five per centum (25%) of the aggregate principal amount of Reserve Fund Facilities, or of the Applicable Credit Facility Issuers which have issued Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, or of the Holders of not less than twenty-five per centum (25%) in

principal amount of the Applicable Outstanding Bonds with the consent of the Credit Facility Issuers, if any, or, in the case of a happening and continuance of an event of default specified in paragraph (c) of the above caption "Events of Default," upon the written request of the Applicable Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, will proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under the Applicable Series Resolution or in aid or execution of any power in the Resolution or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee will deem most effectual to protect and enforce such rights.

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

(Section 11.04)

Priority of Payments After Default

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

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

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

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which will have become due

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

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

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose will constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Authority, to any Holder of Bonds of any Applicable Series or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions hereof as may be applicable at the time of application by the Trustee. Whenever the Trustee will exercise such discretion in applying such moneys, it will fix the date (which will be on an Interest Payment Date unless the Trustee will deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the fixing of any such date.

(Section 11.05)

Limitation of Rights of Individual Bondholders

No Holder nor the Credit Facility Issuer of a Credit Facility of any of the Bonds of an Applicable Series will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder or Credit Facility Issuer previously will have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the Consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) under the caption "Events of Default," the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series with the consent of the Applicable Credit Facility Issuer, will have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there will 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 will have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and thereunder. It is understood and intended that no one or more of the Credit Facility Issuers or Holders

of the Bonds of an Applicable Series secured by the Resolution and by an Applicable Series Resolution will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity will be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of an Applicable Series will have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right will not be impaired without the consent of such Holder.

(Section 11.08)

Defeasance

1. If the Authority will pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Applicable Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Applicable Loan Agreement, and the Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, will release the lien of the Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and securities provided for the payment of such Bonds, and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and will turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; provided that if any of such Bonds are to be redeemed prior to the maturity thereof, the Authority will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice will have been given to the Applicable Trustee.

2. Bonds of an Applicable Series for which moneys will have been set aside, will be held in trust by the Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of this Section. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in the Resolution, notice of redemption on said date of such Bonds, (b) there will have been deposited with the Trustee either moneys in an amount which will be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to, maturity other than at the option of the Holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay

when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority will have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with 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 such Bonds. The Authority will give written notice to the Trustee of its selection of the maturity for which payment will be made in accordance with this Section. The Trustee will select which Bonds of such Series and which maturity thereof will be paid 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 will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in the Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, will, to the extent certified by the Trustee to be in excess of the amount required by the Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, as directed by the Authority and any such moneys so paid by the Trustee will be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

3. Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of an Applicable Series which remain unclaimed for three (3) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, will 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 will thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series will 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 will be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

4. No principal or Sinking Fund Installment of or installment of interest on a Bond will be considered to have been paid, and the obligation of the Authority for the payment thereof will continue,

notwithstanding that a Credit Facility Issuer pursuant to the Credit Facility issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

5. Prior to any defeasance becoming effective under the Resolution, each Applicable Credit Facility Issuer will have received (a) the final official statement delivered in connection with the refunding of Bonds, if any, (b) a copy of the accountants' verification report, (c) a copy of the escrow deposit agreement or letter of instructions in form and substance acceptable to such Credit Facility Issuer and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to such Credit Facility Issuer, to the effect that such Bonds have been paid within the meaning and with the effect expressed in the Resolution and the Series Resolution, and that the covenants, agreements and other obligations of the Authority to the Holders of such Bonds have been discharged and satisfied.

(Section 12.01)

Holders of Bonds Deemed Holders of the Obligation; Authority to Act as Holder of the Obligation

In the event that any request, direction or consent is required or permitted by the Master Indenture to be given by the Holders of any Obligations issued thereunder, with respect to an Obligation issued thereunder to secure any Bonds, the Authority or its successor or assign will be the Holder of the Applicable Obligation for such Series of Bonds for the purpose of any such request, direction or consent. To the extent any such Obligation will secure a Series of Bonds that is secured by a Credit Facility, the written consent of the Applicable Credit Facility Issuer, unless a Credit Facility Default has occurred and be continuing, will also be required for any such request, direction or consent. To the extent any such Obligation will secure a Series of Bonds that is not secured by a Credit Facility, the Authority may only give such request, direction or consent if the Rating Services providing a rating on the Applicable Series of Bonds confirms that such ratings on the Applicable Series of Bonds will not change as a result of the request, direction or consent.

(Section 13.02)

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2012 SUPPLEMENTAL INDENTURE

The Master Trust Indenture contains terms and conditions relating to the issuance of Obligations under the Master Trust Indenture, including various financial covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Master Trust Indenture and the Series 2012 Supplemental Indenture, and reference is made to such Master Trust Indenture and the Series 2012 Supplemental Indenture, copies of which are available from the Authority or the Master Trustee. This summary uses various terms defined in the Master Trust Indenture and the Series 2012 Supplemental Indenture and such terms as used in the Master Trust Indenture and the Series 2012 Supplemental Indenture will have the same meanings as so defined.

MASTER TRUST INDENTURE

Certain Definitions (Section 1.01)

When used in this summary of the provisions of the Master Trust Indenture and the Series 2012 Supplemental Indenture, the following terms have the meanings ascribed to them below.

“Additional Indebtedness” means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the Series 2012 Obligation under the Master Trust Indenture or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

“Affiliate” means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by any Member or the Obligated Group Representative or their respective successors or assigns or by any Person which directly or indirectly controls a Member or the Obligated Group Representative and any joint ventures in which any of the Members or the Obligated Group Representative participates. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

“Audited Consolidated Financial Statements” means the Health System Financial Statements for a twelve-month period, or for such other period for which an audit has been performed, which have been audited and reported upon by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Representative, prepared in conformity with generally accepted accounting principles. Such Audited Consolidated Financial Statements shall include consolidated statements of financial position, consolidated statements of operations, consolidated statements of changes in net assets and consolidated statements of cash flows, and shall also include the consolidating statement of financial position and the consolidating statement of operations from which the financial information relating solely to the Obligated Group Members may be derived for the same twelve-month period.

“Authority” means the Dormitory Authority of the State of New York, and any successor thereto.

“Authorized Representative” means, with respect to the Obligated Group Representative, the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel, and, with respect to each Member of the Obligated Group, the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel, or any other person or persons designated an Authorized Representative of such Member by an Officer’s Certificate of the Obligated Group Representative or such Member of the Obligated Group, respectively, signed by the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel and filed with the Master Trustee.

“Balloon Long-Term Indebtedness” means Long-Term Indebtedness other than a Demand Obligation 25% or more of the principal amount of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

“Book Value” when used in connection with Property, Plant and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

“Capital Addition” means any addition, improvement or extraordinary repair to or replacement of any Property of a Member of the Obligated Group, whether real, personal or mixed, the cost of which is properly capitalized under generally accepted accounting principles.

“Code” means the Internal Revenue Code of 1986, as amended.

“Consultant” means a firm or firms selected by the Obligated Group Representative which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant or investment banking firm or other financial institution of national repute for having the skill and experience necessary to render the particular report required by the provision of the Master Trust Indenture in which such requirement appears and which is not unacceptable to (i) the Master Trustee and (ii) so long as any Related Bonds are Outstanding, the Related Bond Issuer and the Related Credit Facility Issuer.

“Control Agreement” means any agreement whereby the Obligated Group, a secured party and a banking institution have agreed in an authenticated record (such as a signed writing) that the banking institution will comply with instructions originated by the secured party directing disposition of the funds in a deposit account held by such banking institution as security for the benefit of the secured party without further consent by the Obligated Group.

“Credit Facility” means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness to provide credit or liquidity support for such Indebtedness.

“Credit Facility Issuer” means the firm, association, corporation or other Person, if any, which has issued a Credit Facility that provides credit or liquidity support with respect to Indebtedness or Related Bonds.

“Cross-over Date” means, with respect to Cross-over Refunding Indebtedness, the last date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

“Cross-over Refunded Indebtedness” means Indebtedness refunded by Cross-over Refunding Indebtedness.

“Cross-over Refunding Indebtedness” means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or dates or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on such refunding Indebtedness or refunded Indebtedness until the Cross-over Date.

“Days Cash On Hand” means, for the Obligated Group, as of any date, the product of 365 times or 180 times, as the case may be, (i) the unrestricted cash and cash equivalents plus unrestricted marketable securities and other investments (in accordance with generally accepted accounting principles) as reflected in the financial statements of the Obligated Group as derived from the Audited Consolidated Financial Statements of the Health System, at December 31, and as reflected in the unaudited interim consolidated financial statements of the Obligated Group as derived from the unaudited financial statements of the Health System, at June 30, in each case plus board and management designated assets and interest funds in any trusteed funds which are to be applied to the current year’s interest expense, divided by (ii) the operating and non-operating expenses of the Obligated Group for the twelve or six months, as the case may be, excluding from such expenses: (a) depreciation and amortization of debt and bond issuance costs, (b) any amount included in the operating and non-operating expenses representing bad debt expense, and (c) any extraordinary or non-recurring item.

“Defeasance Obligations” means, unless modified by the terms of a particular Supplement, (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) Defeased Municipal Obligations, (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, and (v) stripped securities where the principal-only and interest-only strips of noncallable obligations are issued by the U.S. Treasury or Resolution Funding Corp. or securities stripped by the Federal Reserve Bank of New York.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers rated the highest rating by S&P, Fitch or Moody’s, respectively, provision for the payment of the principal of and interest on which shall have been made by irrevocable deposit with a trustee or escrow agent of (i) noncallable, nonprepayable Government Obligations or (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, shall provide

sufficient money to pay the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

“Defeased Obligations” means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to the terms of such Supplement.

“Demand Obligation” means any Indebtedness the payment of all or a portion of which is subject to the demand of the holder thereof.

“Derivative Agreement” means, without limitation,

(a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;

(b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;

(c) any contract to exchange cash flows or payments or series of payments;

(d) 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

(e) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, or minimize investment risk or to protect against any type of financial risk or uncertainty.

“Derivative Period” means the period during which a Derivative Agreement is in effect.

“Escrowed Interest” means amounts of interest on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the “Escrowed Interest Deposit”) which Escrowed Interest Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Interest.

“Escrowed Principal” means amounts of principal on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the “Escrowed Principal Deposit”) which Escrowed Principal Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Principal.

“Event of Default” means any one or more of those events set forth in the Master Trust Indenture.

“Excluded Property” means any Property that is not Health Care Facilities of the Obligated Group.

“Fiscal Year” means the fiscal year of each Member of the Obligated Group, which will be the period commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year will be the period set forth in such notice.

“Fitch” means Fitch, Inc., its successors and their assigns, and, if such entity will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

“Governing Body” means, when used with respect to any Member of the Obligated Group and the Obligated Group Representative, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such Member of the Obligated Group or the Obligated Group Representative are exercised.

“Government Obligation” means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America is pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export-Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Company; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, and (j) upon the approval of the Authority and all Applicable Credit Facility Issuers, (A) an obligation of any federal agency and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or (B) an obligation of any other agency or instrumentality of the United States of America created by Act of Congress, provided such obligation is rated at least “A” by S&P and Moody’s at all times.

“Governmental Restrictions” means federal, state or other applicable governmental laws, regulations, rulings, judgments, court orders or consent decrees affecting any Member of the Obligated Group and its health care facilities including (a) Articles 28 and 28-B of the Public Health Law, and (b) those placing restrictions and limitations on (i) the fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (ii) the amount or timing of the receipt of such fees or charges.

“Gross Receipts” means all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment on tangibles, contract rights, general intangibles, healthcare insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, however, Gross Receipts will not include (x) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, and any income derived therefrom to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Loan Agreement; (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group or (z) all receipts, revenues, income

and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, contract rights, payment on tangibles, general tangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property which constitutes real property.

“Gross Receipts Revenue Fund” means the fund established pursuant to Section 403 of the Master Trust Indenture.

“Guaranty” means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master Trust Indenture. For the purposes of the Master Trust Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group will have executed and delivered its Guaranty will, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to 20% of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty will have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Ratio), provided that if there will have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made will be taken into account.

“Health Care Facilities” means the Mortgaged Property and any other Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance, diagnosis and treatment of patients or to otherwise provide health care services. Any Property whose primary function or functions is other than the care, maintenance, diagnosis and treatment of patients and which has incidental health care services provided on its premises, will not be deemed to be Health Care Facilities.

“Health System” means the group of entities comprised of all Obligated Group Members and all of their Affiliates.

“Health System Financial Statements” means the consolidated financial statements prepared in conformity with generally accepted accounting principles, including financial information of the Obligated Group Members and of all of their Affiliates whose financial information is required by generally accepted accounting principles to be consolidated within such financial statements.

“Holder” means an owner of any Obligation issued in other than bearer form.

“Income Available for Debt Service” means, with respect to the Obligated Group, as to any period of twelve (12) consecutive calendar months, its excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; *provided, however*, that (1) no determination thereof will take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) unrealized gains and losses on investments (including “other than temporary impairment of marketable securities”), (c) the termination value of, as well as unrealized gains and losses on,

Derivative Agreements of a Member of the Obligated Group, or (d) any extraordinary or non-recurring item, including payments on a called Guaranty, and (2) revenues will not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

“Indebtedness” means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by any Member of the Obligated Group and, (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness will not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

“Insurance Consultant” means a firm or Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health related facilities and services and organizations engaged in such operations and which is selected by the Obligated Group Representative and is not unacceptable to the Master Trustee; provided that, except with respect to the review of self-insurance programs, the term “Insurance Consultant” will include qualified in house risk management officers employed by any Member of the Obligated Group or an Affiliate.

“Lien” means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

“Loan Agreement” means a Loan Agreement by and between a Member of the Obligated Group and the Authority relating to the loan of proceeds of Related Bonds of the Authority.

“Long-Term Debt Service Coverage Ratio” means for any period of time the ratio determined by dividing the Income Available for Debt Service by Maximum Annual Debt Service.

“Long-Term Debt Service Requirement” means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, also taking into account:

- (i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof (a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof a period of thirty (30) years on a level debt service basis at an interest rate equal to the rate borne by such Indebtedness on the date calculated, except that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity will be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank rated at least “A” by Moody’s, Fitch or S&P, or insured by an insurance policy issued by any insurance company rated at least “A” by Alfred M. Best Company or its successors in Best’s Insurance Reports or its successor publication, nominally due in the last Fiscal Year in

which such Indebtedness matures may, at the option of the Member of the Obligated Group which issued such Indebtedness, be treated as if such principal payments or deposits were due as specified in any loan or reimbursement agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year will be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

- (ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness will be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness (and the incurrence thereof) the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued and thereafter will be calculated as set forth above;
- (iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility will not be included in the Long-Term Debt Service Requirement;
- (iv) with respect to any guaranties, in accordance with the Definition of “Guaranty” in the Master Trust Indenture;
- (v) with respect to Indebtedness for which a Member of the Obligated Group will have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness, the principal or notional amount of such Derivative Agreement will be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder will be calculated by adding (a) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued), and (b) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement), and subtracting (c) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement); provided, however, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of

interest payable by the Member of the Obligated Group will be the interest calculated as if such Derivative Agreement had not been executed; and

- (vi) with respect to a Derivative Agreement that does not relate to underlying Indebtedness which has been entered into by any Member of the Obligated Group, the principal or notional amount of such Derivative Agreement will be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, will be calculated by taking (a) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (b) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement;

provided, however, that Escrowed Interest and Escrowed Principal will be excluded from the determination of Long-Term Debt Service Requirement; provided, further, however, that in connection with the calculation of “Long-Term Debt Service Requirement”, in no event will any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once.

“Long-Term Indebtedness” means all Indebtedness having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including:

- (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;
- (ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;
- (iii) installment sale or conditional sale contracts having an original term in excess of one year;
- (iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and
- (v) the current portion of Long-Term Indebtedness.

“Master Trust Indenture” means the Master Trust Indenture dated as of July 1, 1998, as amended and restated as of August 1, 2003, including any other amendments or supplements thereto, by and among the Members of the Obligated Group and the Master Trustee.

“Master Trustee” means The Bank of New York Mellon, New York, New York, and its successors in the trusts created under the Master Trust Indenture.

“Maximum Annual Debt Service” means the highest Long-Term Debt Service Requirement for the current or any succeeding Fiscal Year.

“Member of the Obligated Group” or **“Member”** means each of North Shore-Long Island Jewish Health Care, Inc., North Shore University Hospital, Long Island Jewish Medical Center, Glen Cove Hospital, Plainview Hospital, Forest Hills Hospital, North Shore University Hospital Stern Family Center for Extended Care and Rehabilitation, Franklin Hospital, Lenox Hill Hospital, Southside Hospital, Huntington Hospital Association d/b/a Huntington Hospital and Staten Island University Hospital, and any other Person becoming a Member of the Obligated Group pursuant to the Master Trust Indenture.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

“Mortgaged Property” means any and all Property, whether real, personal or mixed, and all rights and interests in and to the Property, which is subject to the liens and security interests created pursuant to the Mortgages.

“Mortgages” means the Mortgages granted and to be granted by a Member of the Obligated Group to the Master Trustee, or assigned by a Person to the Master Trustee, on the Mortgaged Property, as security for the performance of the Members’ obligations under the Master Trust Indenture, as such Mortgages may be amended or modified from time to time, and includes any future mortgages from a Member of the Obligated Group to the Master Trustee, executed and delivered in each case in order to secure, *pari passu*, all Obligations issued and to be issued under the Master Trust Indenture.

“Non-Recourse Indebtedness” means any Indebtedness incurred to finance the purchase of Property secured exclusively by a Lien on such Property or the revenues or net revenues produced by such Property or both, the liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

“Obligated Group” means, collectively, the Members of the Obligated Group.

“Obligated Group Representative” means North Shore-Long Island Jewish Health Care, Inc., and its legal successors, and thereafter any Person as may be designated as such pursuant to written notice to the Master Trustee by the Members of the Obligated Group.

“Obligation” means the evidence of particular Indebtedness issued under the Master Trust Indenture as a joint and several obligation of each Member of the Obligated Group. “Obligation” may also include the evidence or a particular obligation of each Member of the Obligated Group under a Derivative Agreement.

“Officer’s Certificate” means a certificate signed by the Authorized Representative of such Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer’s Certificate presented pursuant to the Master Trust Indenture will state that it is being delivered pursuant to (and will identify the section or subsection of), and will incorporate by reference and use in all appropriate instances all terms defined in, the Master Trust Indenture. Each Officer’s Certificate will state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered or will state in reasonable detail the nature of any non compliance and the steps being taken to remedy such non compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

“Operating Assets” means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by a Member of the Obligated Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities and other Property held for investment purposes.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds and who is acceptable to the Master Trustee and each Related Bond Issuer.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Obligated Group Representative or any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

“Outstanding” means, as of any date of determination, (i) when used with reference to Obligations, all Obligations theretofore issued or incurred and not paid and discharged other than (A) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (B) Defeased Obligations and (C) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, and (ii) when used with reference to Indebtedness other than Indebtedness evidenced by an Obligation, all Indebtedness theretofore issued or incurred and not paid and discharged, other than Indebtedness deemed paid and no longer outstanding under the documents pursuant to which such Indebtedness was incurred; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Trust Indenture, Obligations or Related Bonds that are owned by the Obligated Group Representative or any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member or the Obligated Group Representative will be deemed not to be Outstanding, provided further, however, that for the purposes of determining whether the Master Trustee will be protected in relying on any such direction, consent, or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned will be deemed to be not Outstanding.

“Permitted Liens” shall have the meaning given to such term found in the summary of Section 3.05 of the Master Trust Indenture under the heading “Limitations on Creation of Liens”.

“Permitted Release” means a release from the Liens of the Mortgages of real property, fixtures, equipment, personal property or other property subject to the Mortgages implemented in accordance with the provisions of Section 3.13 of the Master Trust Indenture.

“Permitted Modification” means a modification or amendment of a Mortgage implemented in accordance with the provisions of Section 3.13 of the Master Trust Indenture.

“Person” means an individual, association, unincorporated organization, limited liability company, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

“Property” means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

“Property, Plant and Equipment” means all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

“Related Bond Indenture” means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“Related Bond Issuer” means the issuer of any issue of Related Bonds.

“Related Bonds” means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (*i.e.*, a “Related Bond Issuer”) (“governmental issuer”), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Obligated Group Representative or a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer.

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture.

“Related Credit Facility Issuer” means the Credit Facility Issuer with respect to any issue of Related Bonds.

“Related Loan Agreement” means any loan agreement, lease agreement or any similar instrument relating to the loan of proceeds of Related Bonds to a Member of the Obligated Group.

“Required Ratios” means a Long-Term Debt Service Coverage Ratio and Days Cash on Hand level, as required by Section 14 of the Series 2012 Supplemental Indenture.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

“Semi-Annual Testing Date” means, for purposes of Section 14 of the Series 2012 Supplemental Indenture, each June 30 and December 31 of each year.

“Series 2012 Bonds” means the Series 2012 Bonds of the Authority issued on behalf of the Obligated Group.

“Series 2012 Obligation” means the Obligation issued pursuant to the Master Trust Indenture and the Series 2012 Supplemental Indenture and designated as “North Shore-Long Island Jewish Health Care System Obligation No. 40 for Series 2012A”.

“Series 2012 Supplemental Indenture” means the Supplemental Indenture for Obligation No. 40, dated as of April 1, 2012, by and among the Members of the Obligated Group and the Master Trustee, pursuant to which the Series 2012 Obligation will be issued to secure the Series 2012 Bonds.

“Short-Term Indebtedness” means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group, including:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(iii) installment purchase or conditional sale contracts having an original term of one year or less.

“Subordinated Debt” means Indebtedness the payment of which is evidenced by instruments, or issued under an indenture or other document, containing specific provisions subordinating such Indebtedness to the Obligations, including following any event of insolvency by the debtor or following acceleration of such Indebtedness.

“Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Trust Indenture.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Total Operating Revenues” means, with respect to the Obligated Group, as to any period of time, total operating revenues less all deductions from revenues, as determined in accordance with generally accepted accounting principles consistently applied.

“Transfer” means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest on which has not been established at a fixed or constant rate to maturity.

Amount of Indebtedness (Section 2.01)

Subject to the terms, limitations and conditions established in the Master Trust Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Trust Indenture or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created under the Master Trust Indenture are not limited, except as limited by the provisions of the Master Trust Indenture, including the provisions described under the heading “Limitations or Indebtedness”, or of any Supplement. Any Member of the Obligated Group proposing to issue an Obligation in a principal amount equal to or exceeding \$20,000,000, shall, at least seven (7) days prior to the date of the issuance of such Obligation, give written notice of its intention to issue such Obligation, including in such notice the amount of the Obligation to be issued and the subsection of Section 3.06 hereof under which such Obligation will be issued, to the Obligated Group Representative, the Master Trustee and, for so long as Related Bonds of the Authority are outstanding, the Authority. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation issued under the Master Trust Indenture.

Supplement Creating Obligations (Section 2.05)

The Obligated Group Representative, on behalf of each Member of the Obligated Group and the Master Trustee, may, from time to time, enter into a Supplement in order to create an Obligation under the Master Trust Indenture. Such Supplement shall, (i) with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of and premium, if any, and interest on such Obligation shall be payable, the provisions regarding discharge thereof, and the form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Trust Indenture, and (ii) with respect to an Obligation relating to an obligation under a Derivative Agreement, set forth the nature and form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Trust Indenture. Any Obligation evidencing Indebtedness or relating to a Derivative Agreement shall be secured *pari passu* by the Mortgages and the security interest in and pledge of Gross Receipts granted under the Master Trust Indenture, and may be secured by such other Properties and revenues of the Members of the Obligated Group as may be permitted under the Master Trust Indenture as a Permitted Lien or under the provisions of a Supplement.

Obligations may be issued hereunder to evidence and secure Indebtedness or to evidence and secure any other financial obligations of any Member or Members of the Obligated Group, including but not limited to obligations under Derivative Agreements or Credit Facilities, and all references herein to payments of principal of, interest on, and premium on Obligations shall be deemed to include and refer to any and all other payments due or to become due on any Obligations. Any Obligation issued and authenticated hereunder to evidence or secure obligations that do not constitute Indebtedness shall nevertheless be equally and ratably secured hereunder with all Obligations issued hereunder, except as otherwise provided herein; provided, however, that any such Obligations that evidence or secure obligations that do not constitute Indebtedness shall be deemed to be Outstanding hereunder solely for the purpose of receiving payment hereunder and shall not be entitled to exercise any rights hereunder, including but not limited to any rights to direct the exercise of remedies, to vote or to grant consents.

Security; Restrictions on Encumbering Property; Payment of Principal and Interest (Section 3.01)

(a) Any Obligation issued pursuant to the Master Trust Indenture will be a general obligation of each Member of the Obligated Group. To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by each Member of the Obligated Group of its other obligations under the Master Trust Indenture, each Member of the Obligated Group has pledged, assigned and granted to the Master Trustee a security interest in its Gross Receipts, and each Member (other than North Shore-Long Island Jewish Health Care, Inc.) has granted or provided a Mortgage to the Master Trustee.

(b) The Master Trustee shall take such actions as it deems reasonably necessary or appropriate to assure that any Mortgages granted in the future to the Master Trustee by any Members shall secure, *pari passu*, all Obligations issued and to be issued under the Master Trust Indenture. The Master Trustee may release portions of the Mortgaged Property from the Lien of the Mortgages, or amend or modify any of the Mortgages, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate demonstrating that any such release is a Permitted Release, or that any such amendment or modification is a Permitted Modification, as provided in Section 3.13 of the Master Trust Indenture. In the event of any such Permitted Release or Permitted Modification, the Master Trustee shall, upon direction of the Obligated Group Representative as set forth in such Officer's Certificate, execute a release of its Lien on any such portion of the Mortgaged Property, in order to implement a Permitted Release, or execute any other appropriate instrument or document in order to implement a Permitted Modification.

(c) In addition to any remedies enforceable pursuant to the Master Trust Indenture, upon the occurrence and continuance of any Event of Default under the Master Trust Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding, as provided in Section 4.03(a) of the Master Trust Indenture, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Trust Indenture by such suits, actions, foreclosure proceedings or other proceedings as the Master Trustee, being advised by counsel, shall deem expedient regarding enforcement of rights under the Mortgages. Any proceeds received from the enforcement of the rights of the Master Trustee as beneficiary under any particular Mortgage shall be distributed by the Master Trustee to satisfy any amounts then due and owing under any Obligations in accordance with the Master Trust Indenture.

If any Event of Default has occurred, any Gross Receipts then on deposit in any fund or account of a Member of the Obligated Group (unless such account has been pledged as security as permitted in the Master Trust Indenture), and any Gross Receipts thereafter received, will immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to the Master Trust Indenture. Upon receipt, all such Gross Receipts will be held by the Master Trustee in trust for the Holders from time to time of all Obligations issued and Outstanding under the Master Trust Indenture, without preference or priority of any one Obligation over any other Obligation. Prior to its receipt of a request from the Master Trustee pursuant to the Master Trust Indenture, any Member of the Obligated Group may transfer, or pledge as security, all or any part of its Gross Receipts free of such security interest, as permitted pursuant to the provisions of the Master Trust Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee will execute a release of its security interest with respect to the assets so transferred.

In addition to the preceding paragraph, upon an Event of Default, the Members of the Obligated Group agree to take no action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated by the Master Trust Indenture, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

As security for the obligation to make the payments on all Obligations when due under the Master Trust Indenture, the Members have granted to the Master Trustee a security interest in all of their Gross Receipts, as provided under Section 3.01 of the Master Trust Indenture, but the existence of any such security interests shall not prevent the expenditure, deposit or commingling of Gross Receipts by such Members of the Obligated Group so long as no Event of Default under the Master Trust Indenture exists and all required payments on the Obligations are made when due. Without limiting the generality of the foregoing, such security interest shall apply to all rights to receive Gross Receipts whether in the form of accounts, accounts receivable, contract rights or other rights, and to the proceeds of such rights. This security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by such Members of the Obligated Group.

Upon the occurrence of an event which requires the funding of the Gross Receipts Revenue Fund the Obligated Group covenants to take all action necessary to insure that all such receipts and revenues are deposited into the Gross Receipts Revenue Fund including, but not limited to, depositing directly all payments received and directing all debtors and payors of the Obligated Group to make all payments due to the Obligated Group Members to the Gross Receipts Revenue Fund. The Gross Receipts Revenue Fund shall be subject to the lien of the Master Trust Indenture in favor of the Holders of all Obligations, as provided in Section 4.03(c) of the Master Trust Indenture. The Master Trustee is authorized to take such self-help and other measures that a secured party is entitled to take under the New York Uniform Commercial Code. Upon a cure or waiver of the event which requires the funding of the Gross Receipts

Revenue Fund, the Master Trustee shall transfer the amounts on deposit in the Gross Receipts Revenue Fund to the Obligated Group Representative.

With respect to all Obligations issued, executed and delivered under the Master Trust Indenture, there will be delivered to the Master Trustee duly executed financing statements evidencing the security interests of the Master Trustee in the Gross Receipts of the Members of the Obligated Group in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State of the State of New York.

Each Member of the Obligated Group will also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Trust Indenture as may be necessary or appropriate to include as security under the Master Trust Indenture the Gross Receipts. In addition, each Member of the Obligated Group covenants that it will prepare and file such financing statements or amendments to or terminations of existing financing statements which will, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to the Master Trust Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to the Master Trust Indenture.

(a) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens or as may be otherwise provided in the Master Trust Indenture) any of its Property.

(b) Each Obligation will be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Trust Indenture at the place, on the dates and in the manner provided in the Master Trust Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(c) Each Member of the Obligated Group covenants that, if an Event of Default will have occurred and be continuing, or any Member of the Obligated Group will have failed to make a periodic deposit in respect of the interest on, or principal of any Related Bonds within three days after the same will have become payable, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured or such required deposit has been made, as the case may be, such Gross Receipts to be applied in accordance with the Master Trust Indenture.

(d) Each Member of the Obligated Group covenants and agrees that, so long as any Related Bonds of the Authority are Outstanding, and unless in connection with a lien otherwise permitted under the Master Trust Indenture, it shall not enter into any Control Agreement unless it shall have delivered to the Authority (i) an opinion of counsel, which counsel is reasonably acceptable to the Authority, stating that such Control Agreement will not adversely affect the Master Trustee's security interest in Gross Receipts, and (ii) a list of all banking institutions with whom such Member of the Obligated Group has relationships.

Covenants as to Corporate Existence, Maintenance of Properties, Etc. (Section 3.02)

Each Member of the Obligated Group covenants:

(a) Except as otherwise expressly provided in the Master Trust Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing contained in the Master Trust Indenture will be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection (b) will be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of a Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof (including, but not limited to, the Public Health Law of the State of New York for as long as there are Related Bonds of the Authority or its predecessors outstanding) and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing contained in the Master Trust Indenture will require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it will be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it will have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding under the Master Trust Indenture) whose validity, amount or collectability is being contested in good faith.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; provided, however, that it need not comply with this Section if and to the extent that its Governing Body will have determined in good faith, evidenced by a resolution of the Governing Body, that such

compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Trust Indenture will remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, or fail to take any action which failure, in the Opinion of Bond Counsel, would result in the interest on any Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes.

Insurance (*Section 3.03*)

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations.

The Obligated Group Representative is required to engage an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially), and the Obligated Group is required to file a copy of such report as required pursuant to Section 3.10(d) of the Master Trust Indenture. If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group is required to increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Member that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the Member of the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding anything in this Section to the contrary, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group Representative furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage, the report of the Insurance Consultant mentioned above shall state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

Insurance and Condemnation Proceeds (*Section 3.04*)

(a) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that do not exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities will be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; provided, however, subject to the terms of the Related Loan Agreement, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in subsection (i) of this section to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and any Related Loan Agreement and any Mortgage, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section.

Limitations on Creation of Liens (*Section 3.05*)

(a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 180 days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof;

(v) Any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under the Master Trust Indenture, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Trust Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien thereunder;

(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to paragraph (e) under the heading "Consolidation, Merger, Sale or Conveyance" herein or paragraph (e) under the heading "Parties Becoming Members of the Obligated Group" herein;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by paragraph (d) under the heading “Limitations on Indebtedness” herein;

(viii) Any Lien on Property acquired by a Member of the Obligated Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions under the heading “Limitations or Indebtedness” herein, and if an Officer’s Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations of the Master Trust Indenture on creation of Liens on Property of the Obligated Group;

(ix) So long as no Event of Default exists under the Master Trust Indenture, any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained in under the heading “Limitations or Indebtedness” herein;

(x) Any Lien on Property which secures Indebtedness or Derivative Agreements that do not exceed in aggregate 20% of Total Operating Revenue as reflected in the most recent Audited Consolidated Financial Statements of the Obligated Group;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(xii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiii) Any Lien securing all Obligations on a parity basis;

(xiv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xv) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvi) Liens on those items described in, or the right to receive the items described in, clauses (x), (y) and (z) of the definition of Gross Receipts set forth above;

(xvii) Liens on Property due to rights of third party payers for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) Any Lien created in the Related Loan Agreements;

(xix) The Mortgages; and

(xx) Any Lien on Excluded Property.

Limitations on Indebtedness (Section 3.06)

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (g) inclusive, set forth under this heading. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such subsections. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements contained in under the heading "Amount of Indebtedness," and a certified resolution of the Governing Board of such Member of the Obligated Group.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that: (A) the cumulative principal amount of all Long-Term Indebtedness incurred pursuant to this subsection 3.06(a)(i)(A) does not exceed 20% of Total Operating Revenues, or (B) the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.20 (provided, however, that for so long as the Series 1998 Bonds are Outstanding and the Credit Facility Issuer therefor is not in default on its obligations under its Credit Facility insuring the Series 1998 Bonds, such provisions shall require that the historic Long-Term Debt Service Coverage Ratio be met based upon the average of the two most recent periods of twelve (12) full calendar months for which Audited Consolidated Financial Statements are available); or

(ii) (1) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, excluding the proposed Long-Term Indebtedness, is at least 1.20 (provided, however, that for so long as the Series 1998 Bonds are Outstanding and the Credit Facility Issuer therefor is not in default on its obligations under its Credit Facility insuring the Series 1998 Bonds, such provisions shall require that the historic Long-Term Debt Service Coverage Ratio be met based upon the average of the two most recent periods of twelve (12) full calendar months for which Audited Consolidated Financial Statements are available) and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.20 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two full Fiscal Years succeeding the date on which such capital improvements are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that compliance with the tests set forth in this subparagraph (a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where

the Long-Term Debt Service Coverage Ratio set forth in this clause (a)(ii)(2) is equal to or greater than 1.50; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements will be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred if, prior to the incurrence of such Long-Term Indebtedness, (i) the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the Related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15%.

(c) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness will not at any time exceed 20% of Total Operating Revenues as reflected in the Audited Consolidated Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Consolidated Financial Statements are available; provided, however, if Related Bonds issued by the Authority are Outstanding, the Obligated Group must first obtain the written consent of the Authority prior to issuing Short-Term Indebtedness in excess of 15% of Total Operating Revenues for the most recent period of twelve consecutive months for which Audited Consolidated Financial Statements are available; and provided further, that there will be a period of at least 30 consecutive calendar days during each such period of twelve consecutive calendar months for which Audited Consolidated Financial Statements are available during which Short-Term Indebtedness will not exceed 5% of Total Operating Revenues. For purposes of this paragraph (c), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set for in this paragraph (c), Short-Term Indebtedness secured by accounts receivable will not be taken into account except to the extent provided in paragraph (f) under this heading.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last paragraph under this heading; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure

such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount will be treated as Short-Term Indebtedness for the purposes of the tests set forth in paragraph (c) under this heading.

(g) Indebtedness may be incurred in an amount limited to the cost of completion for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which Indebtedness has theretofore been incurred, provided there will be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

Indebtedness incurred pursuant to subsection (a)(i) under this heading may be reclassified as Indebtedness incurred pursuant to any other of such subsections if the tests set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity will not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision will not be taken into account in testing compliance with any debt incurrence test pursuant to this Section.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance herewith in an aggregate amount not exceeding 75% of the three-month average outstanding accounts receivable of the Obligated Group that are 90 days old or less as calculated in accordance with generally accepted accounting principles. The three-month average will be calculated based on the month end available balances for the three full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. Accounts receivable that are more than 90 days old may not be sold, pledged, assigned or otherwise disposed or encumbered.

Long-Term Debt Service Coverage Ratio (*Section 3.07*)

(a) The Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such prior Fiscal Year; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof, as derived from the most recent Audited Consolidated Financial Statements for the most recent Fiscal Year, is not met, the Obligated Group covenants to retain a Consultant within 30 days of the delivery of the aforementioned Audited Consolidated Financial Statements to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required

or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. Any Consultant so retained will be required to submit such recommendations within 45 days after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by Governmental Restrictions, follow the recommendations of the Consultant. So long as a Consultant will be retained and each Member of the Obligated Group will follow such Consultant's recommendations to the extent permitted by such Governmental Restrictions, this Section will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the Obligated Group will not be required to retain a Consultant to make recommendations pursuant to this subsection (b) more frequently than biennially.

Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts (*Section 3.08*)

(a) Each Member of the Obligated Group agrees that it will not transfer Property in any Fiscal Year (or other 12-month period for which Audited Consolidated Financial Statements are available) except for Transfers of Property:

(i) To any Person provided such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person provided there will be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with the requirements set forth under the heading "Long-Term Debt Service Coverage Ratio" and the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Audited Consolidated Financial Statements have been reported upon by independent certified public accountants (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate) and such Long-Term Debt Service Coverage Ratio is not less than 1.20 and not less than 65% of what it would have been were such Transfer not to take place.

(iv) To any Person if the aggregate Book Value of the Property Transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed 10% of the Book Value of all Property of the Obligated Group as shown in the Audited Consolidated Financial Statements for the most recent Fiscal Year.

(v) To any Person if the Property Transferred pursuant to this subsection (v) was transferred in the ordinary course of business, and at fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; provided further, however, that the proceeds from such Property Transferred are used to acquire Property, used to repay Indebtedness, or used for any other corporate purpose of a Member or Members.

(vi) To a Person which at the time of the Transfer is not a Member of the Obligated Group or successor corporation pursuant to a merger or consolidation permitted by the Master Trust Indenture, without limit, if such Person or successor corporation will, at the time of such Transfer, become a Member of the Obligated Group pursuant to the Master Trust Indenture.

(b) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group will receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group and if such sale, pledge, assignment or other disposition meets the limitations contained in the last paragraph under the heading "Limitations on Indebtedness" regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(c) Nothing contained under this heading is intended to prohibit the Transfer of Property, including cash, for payment of goods and services in the ordinary course of business of, or for the acquisition of Property by, the Members of the Obligated Group.

Consolidation, Merger, Sale or Conveyance (*Section 3.09*)

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under the Master Trust Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Trust Indenture and any Supplement thereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Trust Indenture; and

(iii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there will have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iv) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of 12 full

consecutive calendar months for which Audited Consolidated Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would have been not less than 1.10, (B) if such merger, consolidation or sale of assets had occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate), the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" would have been satisfied for the incurrence of an additional \$1.00 of Additional Indebtedness, and (C) the unrestricted net assets plus temporarily restricted net assets of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor corporation as reflected in the most recent Audited Consolidated Financial Statements.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation will succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Trust Indenture as such predecessor or had become a Member of the Obligated Group pursuant to the provisions described under the heading "Parties Becoming Members of the Obligated Group," as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Trust Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Trust Indenture prescribed, the Master Trustee will authenticate and will deliver Obligations that such successor corporation will have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Trust Indenture will in all respects have the same security position and benefit under the Master Trust Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Trust Indenture as though all of such Obligations had been issued under the Master Trust Indenture without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under the Master Trust Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iv) under this heading has been delivered, the Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of the Master Trust Indenture to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group pursuant to this Section will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions of the Master Trust Indenture immediately after such Person or successor corporation became a Member of the Obligated Group.

(f) All references in the Master Trust Indenture to successor corporations will be deemed to include the surviving corporation in a merger.

**Filing of Audited Consolidated Financial Statements, Certificate of No Default; Other Information
(Section 3.10)**

The Obligated Group covenants that it will:

(a) Within 30 days after receipt of the audit report mentioned below, but in no event later than 150 days after the end of each Fiscal Year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of the Audited Consolidated Financial Statements as of the end of such fiscal reporting period accompanied by the opinion of independent certified public accountants. Such Audited Consolidated Financial Statements will be prepared in accordance with generally accepted accounting principles and will include such statements necessary for a fair presentation of financial position, statement of activity and changes in net assets and cash flows of such fiscal reporting period.

(b) Within 30 days after receipt of the audit report mentioned above, but in no event later than 150 days after the end of each Fiscal Year, file with the Master Trustee, the Authority (so long as there are Related Bonds of the Authority outstanding) and with each Holder who may have so requested or on whose behalf the Master Trustee may have so requested, an Officer's Certificate stating the Long-Term Debt Service Coverage Ratio for such fiscal reporting period and stating whether, to the best knowledge of the signer, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Trust Indenture and, if so, specifying each such default of which the signer may have knowledge.

(c) If an Event of Default will have occurred and be continuing, (i) file with the Master Trustee and the Authority (so long as there are Related Bonds of the Authority outstanding) such other financial statements and information concerning its operations and financial affairs (or of any consolidated or Obligated Group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 30 days after its receipt thereof, file with the Master Trustee and the Authority (so long as there are Related Bonds of the Authority outstanding) a copy of each report which any provision of the Master Trust Indenture requires to be prepared by a Consultant or an Insurance Consultant.

Parties Becoming Members of the Obligated Group (Section 3.11)

Persons which are not Members of the Obligated Group and corporations which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by the provisions described under the heading "Consolidation, Merger, Sale or Conveyance" may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under the Master Trust Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Trust Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Trust Indenture, (ii) to adopt the same Fiscal Year as

that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Trust Indenture will be paid in accordance with the terms thereof and of the Master Trust Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, will be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there will be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative will be provided to the Master Trustee demonstrating that (i) after giving effect to the admission of such Person as a Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of such Person and the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person will become a member of the Obligated Group and (ii) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming that the Person or corporation which is becoming a Member of the Obligated Group had become a Member at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available (which period of 12 full consecutive months will have ended not more than 18 calendar months prior to the date of the Officer's Certificate).

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions described under the heading "Limitations on Indebtedness" immediately after such Person became a Member of the Obligated Group.

Withdrawal from the Obligated Group (*Section 3.12*)

(a) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative and, if Related Bonds of the Authority are

outstanding, the prior written consent of the Authority; and provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders thereof, there will be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) (A) An Officer's Certificate of the Obligated Group Representative demonstrating that (1) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming such withdrawal to have occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available, (2) the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available (x) would not, if such withdrawal had occurred at the end of such period, be reduced by more than 35%; provided, however, that in no event will such ratio be reduced to less than 1.20, or (y) would be greater than in the absence of such withdrawal, and (3) after giving effect to the withdrawal of such Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Member of the Obligated Group withdraws from the Obligated Group; or (B) a written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (B) above may be evidenced by an Officer's Certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent twelve month period for which Audited Consolidated Financial Statements of the Obligated Group are available; and

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee, the Authority and each Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of the Master Trust Indenture and any agreements or other documents relating to the Master Trust Indenture, the Obligations or the Related Bonds.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, any guaranty by such Member pursuant hereto will be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Trust Indenture will cease.

Permitted Releases and Permitted Modifications with Respect to the Mortgages (*Section 3.13*)

(a) The Mortgages have been assigned or granted to the Master Trustee as additional security for all Obligations issued and to be issued under the Master Trust Indenture. The Members of the Obligated Group covenant that except for Permitted Releases described in paragraph (b) of Section 3.13 (which Permitted Releases shall also include a release to implement a sale and leaseback of a portion of the Mortgaged Property), the Members of the Obligated Group shall not release or allow the release of any of the Mortgaged Property encumbered by the Mortgages from the Lien of such Mortgages. The Members of the Obligated Group also covenant that, except for Permitted Modifications described in paragraph (c) of Section 3.13, the Members of the Obligated Group shall not modify or amend any of the Mortgages.

(b) Permitted Releases shall include only the following:

(1) a release made with respect to a portion of the Mortgaged Property that is to be disposed of in conjunction with a Transfer of Property permitted under Section 3.08 of the Master Trust Indenture (other than Section 3.08(a)(ii)); provided that (i) no such release shall be with respect to the primary healthcare facilities of any Member of the Obligated Group (primary healthcare facilities being any premises that include a building containing more than fifty (50) acute care inpatient beds that are licensed to any Member of the Obligated Group); (ii) any such release shall not, as determined in an Officer's Certificate of the Obligated Group Representative delivered to the Master Trustee and the Authority, impair the ability of the applicable Member of the Obligated Group to perform its functions as a Health Care Facility; and (iii) if the portion of the Mortgaged Property to be released was financed or refinanced with the proceeds of Related Bonds, there is delivered to the Master Trustee and the Authority an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such release, in and of itself, would not adversely affect the exclusion of interest payable on such Related Bonds from the gross income of the holder thereof for purposes of federal income taxation; or

(2) a release made with respect to a portion of the Mortgaged Property of a Member upon the withdrawal of such Member from the Obligated Group in accordance with Section 3.12 of the Master Trust Indenture; provided that any Related Bonds issued for the benefit of, or the proceeds of which were used at facilities of, such withdrawing Member have been redeemed, defeased or discharged at or prior to the date of such Member's withdrawal from the Obligated Group; or

(3) a release made with respect to a portion of the Mortgaged Property, so long as such portion constitutes Excluded Property; or

(4) a release made with respect to any portion of the Mortgaged Property so long as a Mortgage is granted to the Master Trustee on additional Property (to be added as additional Mortgaged Property), which additional Property is to be used by the Obligated Group to provide clinical services, or to provide support for clinical services, at the Health Care Facilities of one or more Members of the Obligated Group, and which additional Property has an appraised value equal to or greater than the appraised value of the portion of the Mortgaged Property being released; provided, however, that such substituted Property is not subject to any Liens other than Liens that are Permitted Liens for the Mortgaged Property ("appraised value" means a market value appraisal performed at the Obligated Group's expense by an independent M.A.I. appraiser selected by the

Obligated Group, dated not more than one year prior to the date presented and accompanied by a bring-down letter from the appraiser, dated not more than one week prior to the date of substitution, to the effect that the condition and appraised value of the appraised property have not changed materially from the date of the appraisal); provided further, however, that any grant of a Mortgage on any substitute Mortgaged Property shall be accompanied by a mortgagee's policy of title insurance reasonably satisfactory to the Master Trustee and evidence reasonably satisfactory to the Master Trustee, in the form of zoning coverage in the title insurance policy or an opinion of counsel, or both, that the substitute Mortgaged Property and any remaining Mortgaged Property meet applicable zoning requirements; or

(5) a release made with respect to machinery, equipment, fixtures or other personal property located on the Mortgaged Property if such property would be eligible to be disposed of pursuant to the provisions of Section 3.08(a) of the Master Trust Indenture, or in order to implement a permitted financing or a sale and leaseback with respect to such machinery, equipment, fixtures or other personal property, or a sale and leaseback with respect to a portion of the Mortgaged Property; or

(6) a release made with respect to a portion of the Mortgaged Property, but only with the prior written consent of the Authority and certain Credit Facility Issuers.

(c) Permitted Modifications shall include only the following:

(1) a modification or amendment to a Mortgage to cure any ambiguity or formal defect or omission therein; or

(2) a modification or amendment to a Mortgage to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other modifications or amendments with respect to matters or questions arising under such Mortgage which shall not materially and adversely affect the interests of the Holders; or

(3) a modification or amendment to a Mortgage to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon the Holders; or

(4) a modification or amendment to a Mortgage to make any necessary or appropriate changes to reflect the issuance of additional Obligations in accordance with the provisions of Section 3.06 of the Master Trust Indenture; or

(5) a modification or amendment to a Mortgage, or a consent with respect thereto, to implement any necessary or appropriate changes to reflect matters relating to zoning, land use, environmental and other real property laws, ordinances, rules or regulations that in substance do not alter the security provided pursuant to such Mortgage or that shall not materially and adversely affect the interests of the Holders; or

(6) a modification or amendment to a Mortgage covering a portion of the Mortgaged Property so long as such portion constitutes Excluded Property; or

(7) a modification or amendment to a Mortgage, but only with the prior written consent of the Authority and certain Credit Facility Issuers.

(d) The Master Trustee, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate, shall cooperate with the Obligated Group and execute any and all documents or instruments in order to promptly implement any such Permitted Release or Permitted Modification. In addition, the Master Trustee, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate, shall grant such consents and approvals, and shall subordinate the Lien on a portion of the Mortgaged Property to such easements or other non-monetary encumbrances, as a Member of the Obligated Group may from time to time request; provided that any such action does not materially impair the Lien of the applicable Mortgage on the Mortgaged Property nor materially diminish the value or utility of the Mortgaged Property.

Events of Default (*Section 4.01*)

Event of Default, as used herein, will mean any of the following events:

(a) The Members of the Obligated Group will fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Trust Indenture when and as the same will become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or of any Supplement;

(b) Any Member of the Obligated Group will fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Trust Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, will have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding or by the Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; provided, however, that if said failure be such that it cannot be corrected within 30 days after the receipt of such notice, it will not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default will occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued under the Master Trust Indenture;

(d) (i) Any Member of the Obligated Group will fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Trust Indenture), which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, and any period of grace with respect thereto will have expired, or (ii) there will occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, which event of default will not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness will have been accelerated; provided, however, that such default will not constitute an Event of Default within the meaning of this Section if within 30 days (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith will commence proceedings to contest the obligation to pay

such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; and

(f) The institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

Acceleration; Annulment of Acceleration. (Section 4.02)

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Trust Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, will, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations will become and be immediately due and payable, anything in the Obligations or in any other section of the Master Trust Indenture to the contrary notwithstanding. In the event Obligations are accelerated there will be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations will have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Trust Indenture will have been paid or a sum sufficient to pay the same will have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) will have been remedied or waived pursuant to the provisions under the heading "Waiver of Event of Default", then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding will, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies (Section 4.03)

(a) Upon the occurrence and continuance of an Event of Default under the Master Trust Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or upon the request of the Credit Facility Issuer, if any, with respect to any series of Obligations or Related Bonds, together with indemnification of the Master Trustee to its satisfaction therefor, will, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Trust Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, will deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Bring suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State of New York;

(vi) Enforcement of any Mortgage granted by any Member of the Obligated Group to secure any one or more Obligations; and

(vii) Enforcement of any other right of the Holders conferred by law or by the Master Trust Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, will, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised will be necessary or expedient (i) to prevent any impairment of the security under the Master Trust Indenture by any acts which may be unlawful or in violation thereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Trust Indenture and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

(c) Upon the occurrence of an Event of Default, the Master Trustee may, and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, realize upon any security interest which the Master Trustee may have in Gross Receipts and will establish and maintain a Gross Receipts Revenue Fund into which will be deposited all Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund will be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplement for application (i) to the payment of the reasonable and necessary operating expenses of the Obligated Group, all in accordance with budgeted amounts proposed by the Obligated Group Representative and, if Related

Bonds of the Authority are Outstanding, approved by the Authority or the Authority's designee, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) such other amounts as may be required by the Master Trust Indenture and any Supplement thereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund will be held for the equal and ratable benefit of all Obligations Outstanding; provided, that amounts held in the Gross Receipts Revenue Fund for making of debt service payments on or after the due date for Obligations will be reserved and set aside solely for the purpose of making such payment. In addition, with regard to Gross Receipts, the Master Trustee may take any one or more of the following actions: (i) during normal business hours enter the offices or facilities of any Member of the Obligated Group and examine and make copies of the financial books and records of the Member relating to the Gross Receipts and take possession of all checks or other orders for payment of money and moneys in the possession of the Members of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify any account debtors obligated on any Gross Receipts to make payment directly to the Master Trustee, (iii) following such notification to account debtors, collect, or, in good faith compromise, settle, compound or extend amounts payable as Gross Receipts which are in the form of accounts receivable or contract rights from each Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member whether or not the full amount of any such account receivable or contract right owing will be paid to the Master Trustee, as the Authority may direct; (iv) forbid any Member to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Gross Receipts, 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 (v) endorse in the name of the applicable Member any checks or other orders for the payment of money representing any unpaid assigned Gross Receipts or the proceeds thereof.

Application of Moneys after Default (Section 4.04)

During the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Article of the Master Trust Indenture relating to Events of Default will be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to the Master Trust Indenture and with respect to the payment of Obligations thereunder, as follows:

(a) Unless the principal of all Outstanding Obligations will have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which will have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available will not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference; and

Third: To the extent there exists a Credit Facility Issuer with respect to any series of Obligations or Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above.

(b) If the principal of all Outstanding Obligations will have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Obligations will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Article of the Master Trust Indenture relating to Events of Default, then, subject to the provisions of paragraph (b) of this Section in the event that the principal of all Outstanding Obligations will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys will be applied by it at such times, and from time to time, as the Master Trustee will determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee will apply such moneys, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates will cease to accrue. The Master Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the Holder of any unpaid Obligation until such Obligation will be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Moneys held in the Gross Receipts Revenue Fund will be invested in Government Obligations, which mature or are redeemable at the option of the holder not later than such times as will be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments will be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments. Unless otherwise provided in the Master Trust Indenture, the Master Trustee will sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it will be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee will not be liable or responsible for making any such investment in the manner provided above and will not be liable for any loss resulting from any such investment. Any investment income derived from any investment of moneys on deposit in the Gross Receipts Revenue Fund will be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid, any balance remaining will be paid to the Person entitled to receive the same; if no other Person will be entitled thereto, then the balance will be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

Holder's Control of Proceedings (Section 4.07)

If an Event of Default will have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Trust Indenture or for the appointment of a receiver or any other proceedings under the Master Trust Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Trust Indenture, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee will have the right to decline to follow any such direction if the Master Trustee in good faith will determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and provided further that nothing in this Section will impair the right of the Master Trustee in its discretion to take any other action under the Master Trust Indenture which it may deem proper and which is not inconsistent with such direction by the Holders provided, further, however, that the Credit Facility Issuer, if any, with regard to any series of Obligations or any series of Related Bonds secured by Obligations, and not the Holders, will have the right to control proceedings with respect thereto in the manner described in this Section. (Section 4.07)

Waiver of Event of Default (Section 4.09)

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Article of the Master Trust Indenture relating to Events of Default to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion will have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Trust Indenture, or before the completion of the enforcement of any other remedy thereunder.

(c) Notwithstanding anything contained in the Master Trust Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, will waive any Event of Default under the Master Trust Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of the section captioned "Acceleration; Annulment of Acceleration" herein, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same will become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Trust Indenture, the Members of the Obligated Group, the Master Trustee and the Holders will be restored to their former positions and rights thereunder, respectively, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Appointment of Receiver (Section 4.10)

Upon the occurrence of any Event of Default, unless the same shall have been waived as provided in the Master Trust Indenture, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Trust Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment will confer. Each Member of the Obligated Group, respectively, consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.

Notice of Default (Section 4.12)

The Master Trustee will, within 10 days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default will have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) under the heading "Events of Default", the Master Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Removal and Resignation of the Master Trustee (Section 5.04)

The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default will have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal will become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created by the Master Trust Indenture. Written notice of such resignation or removal will be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal will take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group Representative within 30 days of the date notice of resignation or removal is given, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee will be a trust company or bank having the powers of a

trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Trust Indenture will execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment under the Master Trust Indenture, and thereupon such successor Master Trustee, without further action, will become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor will execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee will execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee will promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than 10 days after its assumption of the duties under the Master Trust Indenture, will mail a notice of such assumption to each registered Holder.

Supplements Not Requiring Consent of Holders (*Section 6.01*)

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Trust Indenture.
- (b) To correct or supplement any provision in the Master Trust Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Master Trust Indenture and which will not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Trust Indenture.
- (d) To qualify the Master Trust Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of Indebtedness or the entry into a Derivative Agreement (including, in either case, the issuance of an Obligation in respect thereof) as permitted under the Master Trust Indenture, so long as no Event of Default has occurred and is continuing thereunder.
- (f) To obligate a successor to any Member of the Obligated Group as provided in the provisions described under the heading “Parties Becoming Members of the Obligated Group”.
- (g) To comply with the provisions of any federal or state securities law.
- (h) So long as no Event of Default has occurred and is continuing under the Master Trust Indenture and so long as no event which with notice or the passage of time or both would become an

Event of Default under the Master Trust Indenture has occurred and is continuing, to make any change to the provisions of the Master Trust Indenture (except as set forth below) if the following conditions are met:

(i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A)(1) a Consultant's report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 consecutive calendar months preceding the date of delivery of the report for which there are Audited Consolidated Financial Statements available was at least 1.75; or (B) evidence satisfactory to the Master Trustee to the effect that (i) there exists for each Related Bond or Obligation, which is not pledged to secure Related Bonds, credit enhancement consisting of a surety bond, insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains outstanding and provides for payment in full of principal and interest on such Related Bond or Obligation when due) or the Obligated Group has delivered, respectively, to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each Holder of an outstanding Obligation which is not pledged to secure Related Bonds and with respect to which there is no trustee, credit enhancement of the types described above in this subsection, and (ii) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change; and

(ii) if any series of Obligations or Related Bonds are rated based on credit enhancement of such Obligations or Related Bonds (whether in the form of a financial guaranty insurance policy, letter of credit, surety bond or otherwise) and not on the underlying credit of the Obligated Group, the issuer of such credit enhancement will consent in writing to such amendment or modification; and

(iii) with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled; provided, however, that no amendment will be made pursuant to this clause (h) which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of the Master Trust Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event will such ratio be reduced to less than 1.10 (or less than 1.00 if Governmental Restrictions make it impossible for a Long-Term Debt Service Coverage Ratio, of at least 1.10 to be maintained or demonstrated), (2) the definition of any term used in the calculation of the Long-Term Debt Service Coverage Ratio, or the amount of Long-Term Indebtedness or Short-Term Indebtedness, or the definitions of Affiliate, Audited Consolidated Financial

Statements, Book Value, Non-Recourse Indebtedness, Operating Assets, Property, Plant and Equipment or Total Operating Revenues, or (3) Sections 3.01, 3.02(a), 3.05(b)(xii), 3.05(b)(xvi), 3.05(b)(xvii), 3.06(a)(i)(A), 3.08(a)(ii), 3.08(a)(iii), 3.09, 3.11, 3.12, 4.01 through 4.12, inclusive, 5.04, 6.01(h), 6.02(a), 7.01 or 8.02 of the Master Trust Indenture.

(i) To make any changes to the Master Trust Indenture in the event the Obligated Group Representative determines that a change in generally accepted accounting principles will create a lasting impediment upon the Members of the Obligated Group's ability to comply with the provisions of any quantitative financial provisions or requirements of the Master Trust Indenture, which changes to the Master Trust Indenture relate to any such quantitative provisions or requirements and the related definitions upon which the calculations included in such provisions or requirements are based, to provide for similar financial and economic measures of the performance of the Members of the Obligated Group, but only with the prior written consent of the Authority and certain Credit Facility Issuers.

Supplements Requiring Consent of Holders (*Section 6.02*)

(a) Other than Supplements referred to under the heading "Supplements Not Requiring Consent with Holders" and subject to the terms and provisions and limitations contained in the Article of the Master Trust Indenture relating to amendments and supplements to the Master Trust Indenture and not otherwise, the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding will have the right, with consent of each Credit Facility Issuer insuring Obligations or Related Bonds, from time to time, anything contained in the Master Trust Indenture to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Trustee of such Supplements as will be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Trust Indenture; provided, however, nothing in this Section will permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in the Master Trust Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group will request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if the Master Trustee receives an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section for the Supplement in question which instrument or instruments will refer to the proposed Supplement and will specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such

Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder will have consented thereto.

(c) Any such consent will be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by the Master Trust Indenture. At any time after the Holders of the required principal amount or number of Obligations will have filed their consents to the Supplement, the Master Trustee will make and file with each Member of the Obligated Group a written statement to that effect. Such written statement will be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding will have consented to and approved the execution of such Supplement as provided in the Master Trust Indenture, no Holder will have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

Satisfaction and Discharge of Indenture (*Section 7.01*)

If (i) the Obligated Group Representative will deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which will have been mutilated, destroyed, lost or stolen and which will have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation will have become due and payable and money sufficient to pay the same will have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation will be Defeased Obligations, and if in all cases the Members of the Obligated Group will also pay or cause to be paid all other sums payable under the Master Trust Indenture by the Members of the Obligated Group or any thereof, then the Master Trust Indenture will cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, will execute proper instruments acknowledging satisfaction of and discharging the Master Trust Indenture. Each Member of the Obligated Group, respectively, agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Trust Indenture or such Obligations.

Evidence of Acts of Holders (*Section 8.01*)

Except as otherwise provided in a Related Bond Indenture, in the event that any request, direction or consent is requested or permitted under the Master Trust Indenture of the Holders of any Obligation securing an issue of Related Bonds, (i) each Related Bond Issuer shall be deemed to be such Holder for the purpose of any such request, direction or consent, or (ii) in the event such series of Related Bonds or Obligation is secured by a Credit Facility, so long as the issuer of such Credit Facility is not then in default on its obligations under such Credit Facility, the Credit Facility Issuer shall be deemed to be the Holder of such Obligation or Obligations pledged as security for such Related Bonds.

SERIES 2012 SUPPLEMENTAL INDENTURE

Discharge of Supplement (*Section 11*)

Upon payment by the Obligated Group of a sum, in cash or Defeasance Securities (as defined in the Related Bond Indenture), or both, sufficient, together with any other cash and Defeasance Securities held by the Related Bond Trustee and available for such purpose, to cause all Outstanding Series 2012 Bonds to be deemed to have been paid within the meaning of the Related Bond Indenture and to pay all other amounts referred to in the Related Bond Indenture, accrued and to be accrued to the date of discharge of the Related Bond Indenture, the Series 2012 Obligation will be deemed to have been paid and to be no longer Outstanding under the Master Trust Indenture and the Series 2012 Supplemental Indenture, but only as it relates to the Series 2012 Obligation, will be discharged.

Reporting Requirements (*Section 13*)

The Members of the Obligated Group covenant that they will:

(a) No later than 60 days subsequent to the last day of each of the first three quarters in each Fiscal Year, provide to (1) the Authority (so long as any Related Bonds are outstanding), and (2) the MSRB, the following information: (A) the unaudited consolidated financial statements of the Health System, including the consolidated statements of financial position as of the end of such quarter, the consolidated statements of operations, the consolidating statements of changes in net assets, and the consolidated statements of cash flows, as well as the consolidating statement of financial position and the consolidating statement of operations from which the financial information relating solely to the Obligated Group Members may be derived; (B) utilization statistics of the Obligated Group, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits, and ambulatory surgery visits, or such other or different statistics as are appropriate at the time of calculation; and (C) the major payer mix of the Obligated Group by percentage of gross revenue;

(b) No later than 120 days subsequent to the last day of each Fiscal Year, provide to each of the parties identified in clauses (1) and (2) of the foregoing paragraph, to the Related Bond Trustee and to the applicable rating services, (1) copies of the Audited Consolidated Financial Statements of the Health System; (2) copies of the consolidating statement of financial position and consolidating statement of operations for the Health System from which the financial information relating solely to the Obligated Group Members may be derived; (3) utilization statistics of the Obligated Group, including aggregate discharges, patient days, average length of stay, average daily census, emergency room visits, and ambulatory surgery visits, or such other or different statistics as are appropriate at the time of calculation; (4) the major payer mix of the Obligated Group by percentage of gross revenue; and (5) such other statements, reports and schedules describing the finances, operation and management of the Obligated Group or the Health System, as the case may be, and such other information reasonably required by an Authorized Officer of the Authority; and

(c) Not later than 120 days after the end of each Fiscal Year, provide to the Related Bond Trustee, the Authority and such other parties as an Authorized Officer of the Authority may designate, including the applicable rating services, a certificate stating whether the applicable Members of the Obligated Group are in compliance with the provisions of the Master Trust Indenture, the Loan Agreement and the Mortgages.

Each of the forgoing requirements may be waived, modified or amended by the Authority without notice to or consent of the Holders.

Required Ratios (*Section 14*)

For so long as the Series 2012 Obligation and/or any Series 2012 Bonds of the Authority remain Outstanding, the following provisions shall apply:

(a) The Obligated Group covenants that the number of Days Cash On Hand for the Obligated Group, as of each semi-annual testing date set forth below, shall not be less than 30.

(b) The Required Ratios shall be tested semi-annually as of June 30, as reflected in the unaudited financial statements of the Obligated Group as derived from the unaudited interim consolidated financial statements of the Health System, and as of December 31, as reflected in the financial statements of the Obligated Group as derived from the Audited Consolidated Financial Statements of the Health System, of each year (each a "Semi-Annual Testing Date"), and an Officer's Certificate of the Obligated Group Representative shall be delivered on the date the related financial statements are delivered, in accordance with the provisions described under the heading "Reporting Requirements" above, to the Master Trustee and the Authority, certifying as to the Long-Term Debt Service Coverage Ratio and Days Cash on Hand as of such date and certifying compliance with the Required Ratios.

(c) If, on any Semi-Annual Testing Date, the Long-Term Debt Service Coverage Ratio is less than 1.25 or the Days Cash on Hand level is less than thirty (30), then the Obligated Group shall within 75 days after the end of such testing period, but in no event less than 20 days following notice from the Authority to do so, (i) prepare a scope of work for a Consultant in form and content acceptable to the Authority, (ii) retain a Consultant acceptable to the Authority, (iii) require such Consultant, within 15 days of its appointment, to commence work on a report to be delivered to the Obligated Group Representative and the Authority recommending changes with respect to the operation and management of the Obligated Group's facilities, and (iv) to the extent permitted by Governmental Restrictions, implement such Consultant's recommendation in a timely manner. Any report of a Consultant prepared within the previous 12-month period pursuant to the provisions of Section 3.07 of the Master Trust Indenture shall, if addressed to the Authority and meeting the requirements of clause (iii) above, be deemed to satisfy the foregoing requirement to procure a Consultant's report and, in any event, the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this clause more frequently than biennially.

(d) For so long as the Obligated Group is not in compliance with the Required Ratios, the Obligated Group Representative shall deliver to the Authority (i) within 90 days after the delivery of a Consultant's report pursuant to paragraph (c) above, a certified copy of a resolution adopted by the Governing Body of the Obligated Group Representative acknowledging receipt of such report on behalf of itself and the other Members of the Obligated Group, and a report setting forth in reasonable details the steps the Obligated Group proposes to take to implement some or all of the recommendations of such Consultant, to the extent permitted by Governmental Restrictions, and (ii) quarterly reports showing the progress made by the Obligated Group in achieving compliance with the Required Ratios and, if applicable, implementing the recommendations of the Consultant.

(e) If the Obligated Group shall fail to maintain the Required Ratios as required by paragraph (b) above, the Obligated Group shall nonetheless be considered to be in compliance with the provisions described under this heading so long as the Obligated Group has satisfied the requirements of paragraphs (c) and (d) above to the reasonable satisfaction of the Authority. If the Obligated Group shall (i) fail to provide the Officer's Certificate required by paragraph (b) above by the required date, or (ii) fail to satisfy the requirements of paragraphs (c) and (d) above to the reasonable satisfaction of the

Authority, the Authority shall be entitled to notify the members of the Governing Body of each Member of such noncompliance, and to enforce the provisions of this heading by specific performance.

(f) Notwithstanding the foregoing, and so long as any Series 2012 Bonds are Outstanding, if, (i) on any Semi-Annual Testing Date the Days Cash on Hand have decreased by 30% or more within the prior 12-month period, or (ii) on any Semi-Annual Testing Date the Days Cash on Hand have decreased by 50% or more within the prior 24-month period, then the Obligated Group shall, within 30 days after such Semi-Annual Testing Date, deliver written notice to the Authority of such decrease and cooperate with the Authority in evaluating the cause(s) for such decrease. If the Obligated Group shall (A) fail to provide the written notice required by (i) above by the required date, or (B) fail to cooperate with the Authority to its reasonable satisfaction, the Authority shall be entitled to notify the members of the Governing Body of each Member of such noncompliance, and to enforce the provisions of this heading by specific performance.

(g) In no event, however, shall failure to satisfy the provisions set forth in paragraphs (a), (b), (c), (d), (e) and (f) above constitute an Event of Default under the Master Trust Indenture, it being understood that the sole remedies for noncompliance shall be the right of the Authority to seek specific performance and/or to notify Governing Body members as aforesaid.

(h) Notwithstanding anything in the Series 2012 Supplemental Indenture or in the Master Trust Indenture to the contrary, the Obligated Group covenants that in no event shall the Long-Term Debt Service Coverage Ratio be less than 1.00 as of the end of any Fiscal Year.

(i) Notwithstanding anything in the Series 2012 Supplemental Indenture or in the Master Trust Indenture to the contrary, the provisions set forth under this heading are made solely for the benefit of the Authority (including the successors or assigns thereof), and no other Person shall acquire or have any right thereunder or by virtue thereof.

APPENDIX F

PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

May [], 2012

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

Re: \$48,930,000 Dormitory Authority of the State of New York North
Shore-Long Island Jewish Obligated Group Revenue Refunding
Bonds, Series 2012A

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 \$48,930,000 aggregate principal amount of its above-referenced bonds (the “Series 2012A 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), including, without limitation, as amended by the Health Care Financing Consolidation Act, constituting Chapter 83 of the Laws of 1995 of New York (constituting Title 4-B of Article 8 of the New York Public Authorities Law), which authorized the Authority to issue bonds pursuant to the New York State Medical Care Facilities Finance Agency Act, as amended, constituting Chapter 392 of the Laws of 1973 of New York, as amended (constituting Chapter 6 of Title 18 of the New York Unconsolidated Laws), and the Supplemental Resolution adopted by the Authority on August 10, 2011 which amended and restated the Authority’s North Shore Health System Obligated Group Revenue Bond Resolution originally adopted on June 24, 1998, as previously supplemented and amended (the “Resolution”), and the Series 2012A Resolution Authorizing North Shore-Long Island Jewish Obligated Group Revenue Refunding Bonds, Series 2012A, adopted February 29, 2012, including the Bond Series Certificate executed and delivered concurrently with the issuance of the Series 2012A Bonds (collectively, the “Series 2012A Resolution”). The Resolution and the Series 2012A 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 Loan Agreement with North Shore-Long Island Jewish Health Care, Inc. (the “Institution”), dated as of February 29, 2012 (the “Loan Agreement”), providing, among other things, for a loan to the Institution for the purposes permitted in the Loan Agreement and by the Resolutions. Pursuant to the Loan Agreement, the Institution is required to make payments sufficient to pay the principal, sinking fund installments and redemption price of and interest on the Series 2012A Bonds, as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the owners of such Series 2012A Bonds.

The Series 2012A Bonds are secured by, among other things, funds and accounts held under the Resolutions and a pledge of payments to be made under the Loan Agreement. In addition, the Series 2012A Bonds are secured by payments to be made by the Obligated Group on its Obligation No. 40, dated as of April 1, 2012 (“Obligation No. 40”), issued by the Members of the Obligated Group under a

Master Trust Indenture, dated as of July 1, 1998, as amended and restated as of August 1, 2003, and as further amended and supplemented by the Third Supplement to Master Indenture and Supplemental Indenture For Obligation No. 39, dated as of September 1, 2011 and as further amended and supplemented by Supplemental Indenture for Obligation No. 40, dated as of April 1, 2012 (collectively, the “Master Trust Indenture”), by and among the Members of the Obligated Group and The Bank of New York Mellon, as successor to United States Trust Company of New York, as master trustee (the “Master Trustee”). Obligation No. 40 is a joint and several obligation of the Members of the Obligated Group secured by, among other things, a security interest in Gross Receipts (as defined in the Master Indenture) and Mortgages granted to the Master Trustee by each of the Members of the Obligated Group (except the Institution).

Interest on the Series 2012A Bonds is payable on May 1 and November 1 of each year, commencing on November 1, 2012 in accordance with the terms of the Series 2012A Resolution.

The Series 2012A Bonds are to mature on the date and in the year and amount set forth in the Bond Series Certificate executed and delivered pursuant to the Resolutions concurrently with the issuance of the Series 2012A Bonds. The Series 2012A Bonds are to be issued in fully registered form in the denominations of \$5,000 and any integral multiple thereof. The Series 2012A Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions.

In such connection, we have reviewed the Resolutions, the Loan Agreement, Obligation No. 40 , the Master Trust Indenture, the Tax Certificate and Agreement, dated as of the date hereof (the “Tax Certificate”), by and among the Authority and the Institution, North Shore University Hospital, Glen Cove Hospital, Plainview Hospital, Forest Hills Hospital and North Shore University Stern Family Center for Extended Care and Rehabilitation and The Feinstein Institute for Medical Research (collectively, the “Organizations”), opinions of counsel to the Authority, the Trustee, the Institution and the other Members of the Obligated Group, certificates of the Authority, the Trustee, the Institution and the other Members of the Obligated Group 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 Ropes & Gray LLP, counsel to the Obligated Group, regarding, among other matters, the current qualification of the Organizations as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and on the opinion of Hawkins Delafield & Wood LLP regarding the intended operation of the facilities to be financed and refinanced by the Series 2012A Bonds as substantially related to the Organizations’ charitable purpose under Section 513(a) of the Code. We note that such opinions are subject to a number of qualifications and limitations. Failure of any of the Organizations to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of their status as organizations 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 Organizations within the meaning of Section 513 of the Code, may result in interest on the Series 2012A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2012A 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 other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2012A 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 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 Series 2012A Bonds to be included in gross income for federal income tax purposes. In addition, we have assumed that actions of the Organizations and other persons will not cause any of the Series 2012A Bonds to exceed the \$150,000,000 limitation on qualified 501(c)(3) bonds that do not finance hospital facilities set forth in Section 145(b) of the Code. We call attention to the fact that the rights and obligations under the Series 2012A 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, arbitration, 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 of the real 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. Our services did not include financial and other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated April 12, 2012 (the "Official Statement") or other offering material relating to the Series 2012A Bonds and express no opinion with respect thereto.

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 Series 2012A 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 Series 2012A Bonds, of the Revenues and any other amounts (including the proceeds of the sale of the Series 2012A 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 the valid and binding agreement of the Authority in accordance with its terms.

5. Interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series 2012A Bonds is not a specific preference

item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Series 2012A Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Interest on the Series 2012A 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 Series 2012A Bonds.

Very truly yours,

