



\$261,345,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
ORANGE REGIONAL MEDICAL CENTER
OBLIGATED GROUP REVENUE BONDS,
SERIES 2008



Dated: Date of Issuance

Due: December 1, as shown on the inside cover

Payment and Security: The Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008 (the "Series 2008 Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority") payable from and secured by a pledge of (i) the payments to be made under the Loan Agreement (the "Loan Agreement") dated as of March 26, 2008, between the Authority and Orange Regional Medical Center (the "Institution"), (ii) the hereinafter defined Series 2008 Obligation (the "Series 2008 Obligation"), and (iii) the funds and accounts (except the Arbitrage Rebate Fund) created under the Authority's Orange Regional Medical Center Obligated Group Revenue Bond Resolution, adopted by the Authority on March 26, 2008 (the "Revenue Bond Resolution") and under the Authority's Series Resolution adopted on March 26, 2008 (the "Series Resolution").

The Institution's obligations under the Loan Agreement are general obligations of the Institution. The Loan Agreement requires the Institution to pay, in addition to the fees and expenses of the Authority and Manufacturers and Traders Trust Company, as Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, or Redemption Price, if any, of and interest on the Series 2008 Bonds, as such payments shall become due and to maintain the Debt Service Reserve Fund for the Series 2008 Bonds at its requirement. At the time of delivery of the Series 2008 Bonds, an amount equal to the Debt Service Reserve Fund Requirement for the Bonds will be deposited into the Debt Service Reserve Fund.

The Institution's obligations to make payments related to the Series 2008 Bonds is secured by the Series 2008 Obligation issued pursuant to a Master Trust Indenture, dated as of May 1, 2008, as supplemented (the "Master Indenture"), by and between the Institution and such other organizations who from time to time are Members of the Obligated Group (the "Members") known as Orange Regional Medical Center Obligated Group (the "Obligated Group") and Manufacturers and Traders Trust Company, as Master Trustee. The Institution will initially be the sole Member of the Obligated Group. The Series 2008 Obligation is a general obligation of each Member of the Obligated Group and each Member of the Obligated Group is jointly and severally liable for amounts payable by the Obligated Group under the Series 2008 Obligation and all other Obligations (defined herein) issued under the Master Indenture.

The Series 2008 Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2008 Bonds will be issued as fully registered bonds in minimum denominations of \$100,000 and in any integral multiples of \$5,000 in excess thereof. Interest on Series 2008 Bonds will be payable semiannually on each June 1 and December 1, commencing December 1, 2008. Interest on the Series 2008 Bonds will be payable at the principal corporate trust office of the Trustee, by check or draft mailed to the registered owner thereof. See "PART 3 – THE SERIES 2008 BONDS" herein.

The Series 2008 Bonds will be initially issued 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 2008 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2008 Bonds, payments of the principal and Redemption Price of and interest on such Series 2008 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 2008 BONDS- Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2008 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.

Tax Exemption: In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, under existing statutes, regulations, administrative rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. However, such interest is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability of certain corporations. See "PART 12 – TAX MATTERS" herein regarding certain other related federal tax considerations. Bond Counsel is also of the opinion that, under existing statutes, including the Act, interest on the Series 2008 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof. Bond Counsel expresses no opinion regarding any other consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds.

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS
(See inside cover hereof)

The Series 2008 Bonds are offered when, as, and if received by the Underwriters. The offer of the Series 2008 Bonds is subject to the satisfaction of certain conditions and may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Harris Beach PLLC, Rochester, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Institution and the Obligated Group by Arent Fox LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York. The Authority expects the Series 2008 Bonds to be delivered in definitive form in New York, New York on or about May 7, 2008.

Merrill Lynch & Co.

JPMorgan

Morgan Stanley

Dated: April 24, 2008

\$261,345,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
ORANGE REGIONAL MEDICAL CENTER OBLIGATED GROUP REVENUE BONDS,
SERIES 2008

\$27,840,000 Serial Bonds

<u>Maturity</u> <u>December 1,</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>CUSIP Number</u> ⁽¹⁾
2011	\$4,020,000	5.50%	5.05%	649903ZS3
2012	4,240,000	5.50%	5.10%	649903ZT1
2013	4,475,000	6.00%	5.15%	649903ZU8
2014	4,745,000	6.00%	5.25%	649903ZV6
2015	5,030,000	6.00%	5.35%	649903ZW4
2016	5,330,000	6.00%	5.50%	649903ZX2

\$32,170,000 6.50% Term Bonds due December 1, 2021, Yield 6.05%, CUSIP⁽¹⁾ 649903ZY0
 \$76,960,000 6.125% Term Bonds due December 1, 2029, Yield 6.30%*, CUSIP⁽¹⁾ 649903ZZ7
 \$124,375,000 6.25% Term Bonds due December 1, 2037, Yield 6.35%, CUSIP⁽¹⁾ 649903A27

¹ CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers indicated have been assigned by an independent company not affiliated with the Authority and are provided solely for the convenience of the holders of the Series 2008 Bonds only at the time of issuance of the Series 2008 Bonds. No representations are made with respect to such numbers nor does any party undertake any responsibility for the accuracy of the CUSIP numbers now or at any time in the future. The Authority is not responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 2008 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2008 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity of the Series 2008 Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a part of the Series 2008 Bonds.

* The Term Bonds maturing December 1, 2021 are priced at the stated yield to the December 1, 2018 optional redemption date at 100%.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Obligated Group, or the Underwriters to give any information or to make any representations with respect to the Series 2008 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 Members of the Obligated Group 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 an offer, reoffer or sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, reoffer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Members of the Obligated Group and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority.

The Obligated Group has reviewed the information contained in this Official Statement describing the Institution, the Obligated Group, the Master Indenture and the Project, including but not limited to "PART 1 - INTRODUCTION", "PART 4 - PLAN OF FINANCING", "PART 7 - ORANGE REGIONAL MEDICAL CENTER OBLIGATED GROUP", "PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP" and "PART 15 - FINANCIAL FEASIBILITY STUDY". The Obligated Group will certify as of the dates of offering and delivery of the Series 2008 Bonds that such information does not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Obligated Group makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

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.

References in this Official Statement to the Act (as defined herein), the Revenue Bond Resolution, the Series Resolution, the Loan Agreement, the Mortgage (as defined herein), the Master Indenture, the Supplemental Indenture (as defined herein) and the Series 2008 Obligation do not purport to be complete. Refer to the Act, the Revenue Bond Resolution, the Series Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture and the Series 2008 Obligation for full and complete details of their provisions. Copies of the Act, the Revenue Bond Resolution, the Series Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture, and the Series 2008 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 or the Obligated Group have remained unchanged after the date of this Official Statement.

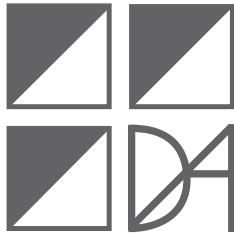
IN CONNECTION WITH THE OFFERING OF THE SERIES 2008 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2008 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK
DAVID D. BROWN, IV - EXECUTIVE DIRECTOR

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

OFFICIAL STATEMENT RELATING TO

\$261,345,000

**DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
ORANGE REGIONAL MEDICAL CENTER OBLIGATED GROUP
REVENUE BONDS, SERIES 2008**

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page hereto, is to provide information in connection with the offering by the Dormitory Authority of the State of New York (the "Authority"), of \$261,345,000 aggregate principal amount of its Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008, dated their date of issuance (the "Series 2008 Bonds").

The following is a brief description of certain information concerning the Series 2008 Bonds, the Authority, Orange Regional Medical Center (the "Institution" or "ORMC") and other matters. A more complete description of such information and additional information that may affect decisions to invest in the Series 2008 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A and Appendix F hereto.

Purpose of the Issue

The proceeds of the Series 2008 Bonds will be loaned by the Authority to the Institution pursuant to the Loan Agreement dated as of March 26, 2008 as further described herein. The proceeds of the Series 2008 Bonds will be applied to construct a new 374 bed approximately 600,000 square feet hospital on a 61 acre site in the Town of Wallkill (the "Replacement Hospital") to replace the Hospital's existing hospital facilities located at its Arden Hill Campus and Horton Campus described herein. Proceeds of the Series 2008 Bonds together with other available funds will also be used to (i) fund interest during construction of the Project, (ii) make a deposit to a Debt Service Reserve Fund for the Series 2008 Bonds in an amount equal to the Debt Service Reserve Fund Requirement, and (iii) to pay certain costs of issuance of the Series 2008 Bonds. In addition, prior to the issuance of the Series 2008 Bonds, the Institution is required to cause the redemption of outstanding obligations secured by the Institution's revenues. See "PART 4 - PLAN OF FINANCING" and "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS."

Authorization of Issuance

The Series 2008 Bonds will be issued pursuant to the Orange Regional Medical Center Obligated Group Revenue Bond Resolution adopted by the Authority on March 26, 2008 (the "Revenue Bond Resolution"), the Series Resolution corresponding to the Series 2008 Bonds, adopted March 26, 2008 (the "Series Resolution" and

collectively with the Revenue Bond Resolution, the “Resolution”), and the Act. The Series 2008 Bonds will be secured by (i) the funds and accounts established pursuant to the Series Resolution, and (ii) the Series 2008 Obligation (as defined herein). The Series 2008 Obligation is issued under the Master Trust Indenture dated as of May 1, 2008 (the “Master Trust Indenture”) by and between the Institution (as the initial and sole member of the Obligated Group created thereby) and Manufacturer’s and Traders Trust Company, as Master Trustee (the “Master Trustee”) and Supplemental Indenture for Obligation No. 1 dated as of May 1, 2008 by and between the Institution and the Master Trustee (the “Supplemental Indenture”; the Master Trust Indenture as supplemented by the Supplemental Indenture is referred to herein as the “Master Indenture”). The Master Indenture provides for the issuance of obligations thereunder (“Obligations”), including the 2008 Obligation, which represent the joint and several obligations of the Members of the Obligated Group created thereby. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS.” Any Series of Bonds that may be issued in the future under the Revenue Bond Resolution and a Series Resolution will be separately secured from the Series 2008 Bonds by the funds and accounts established for such Series of Bonds and a separate Obligation under the Master Indenture and a supplement thereto.

The Series 2008 Bonds

The Series 2008 Bonds will be dated their date of issuance, and will accrue interest from their date at the rates, and will mature at the times, as set forth on the inside cover page hereof. Interest on the Series 2008 Bonds will be payable on June 1 and December 1 commencing December 1, 2008. See “PART 3 - THE SERIES 2008 BONDS - Description of the Series 2008 Bonds.”

The Authority

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

The Institution

The Institution is a New York not-for-profit corporation created as the result of a merger in 2002 between Arden Hill Hospital of Goshen, New York (whose hospital facility is referred to herein as the “Arden Hill Campus” of the Institution) and Horton Medical Center of Middletown, New York (whose hospital facility is referred to herein as the “Horton Campus” of the Institution). The Institution is currently licensed for 450 beds, 174 at the Arden Hill Campus and 276 at the Horton Campus. See “PART 7 – ORANGE REGIONAL MEDICAL CENTER” and “Appendix B – Orange Regional Medical Center Consolidated Financial Statements and Consolidating Information as of December 31, 2007 and 2006.”

Payment of the Bonds

The Bonds issued under the Resolution, including the Series 2008 are and will be special obligations of the Authority payable solely from the Revenues. The Revenues include certain payments to be made by the Institution under the Loan Agreement or to be made by the Obligated Group on the 2008 Obligations of the Obligated Group issued under the Master Indenture, which payments are pledged and assigned to the Trustee. The Institution’s payment obligations under the Loan Agreement are general obligations of the Institution secured by the Series 2008 Obligation (as defined below) which is the joint and several general obligation of all Members of the Obligated Group. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - Payment of the Series 2008 Bonds” and “- Obligations under the Master Indenture.”

Security for the Series 2008 Bonds

The Series 2008 Bonds are secured by the pledge and assignment made by the Authority pursuant to the Resolution to the Trustee of the Revenues and all funds and accounts authorized by the Resolution and established under the Series Resolution (with the exception of the Arbitrage Rebate Fund), which includes a Debt Service Reserve Fund. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS -

Security for the Series 2008 Bonds” and “Obligations under the Master Indenture - The Mortgage” and “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture.”

In addition, payment when due of the obligations of the Institution to the Authority under the Loan Agreement is secured by the 2008 Obligation issued pursuant to the Master Indenture. The Master Indenture constitutes a joint and several obligation of each Member of the Obligated Group to repay all Obligations issued thereunder, including the Series 2008 Obligation. The obligation of the Institution and any future Members of the Obligated Group to make the payments required by the Master Indenture with respect to the Series 2008 Obligation is secured by a security interest in the Gross Receipts of the Institution and any future Member of the Obligated Group. Gross Receipts do not include, among other things, revenue derived from Property that does not constitute Health Care Facilities (*i.e.*, Excluded Property) under the Master Indenture. The Series 2008 Obligation will be registered in the name of the Authority. The issuance of future Obligations is subject to the satisfaction of certain financial covenants set forth in the Master Indenture which bind all Members of the Obligated Group, as described in “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - Obligations under the Master Indenture” and “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and 2008 Supplemental Indenture.” As additional security for the Series 2008 Obligation, the Institution has granted to the Master Trustee a Mortgage dated the date of issuance of the Series 2008 Bonds (the “2008 Mortgage”) on the land and buildings that comprise the new hospital facility (the “2008 Mortgaged Property”).

The Members of the Obligated Group, upon compliance with the terms and conditions and for the purposes described in the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a joint and several obligation of the Members of the Obligated Group that is secured (i) by the Gross Receipts on a parity with the Series 2008 Obligation and all other Obligations outstanding under the Master Indenture, and (ii) if such Obligation is, with the consent of the Authority, designated by the Obligated Group as a 2008 Covered Obligation, by a mortgage lien on, and a security interest in, some or all of the 2008 Mortgaged Property. See “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture.” Indebtedness not evidenced by an Obligation issued under the Master Indenture, would constitute a debt solely of the individual Member of the Obligated Group incurring such Indebtedness, and not a joint and several obligation of the entire Obligated Group and, therefore, would not be entitled to the benefits of the Master Indenture. Currently, the Institution is the only Member of the Obligated Group. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - Obligations under the Master Indenture” and “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture.”

The Revenue Bond Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds issued pursuant to the Resolution for the benefit of any Members of the Obligated Group. The holders of Bonds of a Series will not be entitled to the rights and benefits conferred upon the holders of Bonds of any other Series. Each Series of Additional Bonds will be secured by a separate Obligation issued under the Master Indenture. For a more complete discussion of the security for the Series 2008 Bonds, see “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - Security for the Series 2008 Bonds.”

The Series 2008 Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

The 2008 Mortgage

The Institution's payment obligations on the Series 2008 Obligation will be secured by the 2008 Mortgage granted to the Master Trustee by the Institution. The 2008 Mortgage will include a security interest in certain fixtures, furnishings and equipment now or hereafter owned by the Institution and located on or used in connection with the Replacement Hospital (the "2008 Mortgaged Property"). The Master Indenture permits other 2008 Covered Obligations secured by the 2008 Mortgaged Property subject to the limitations described herein under the caption "PART 2 SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - The Mortgage". The Master Indenture further permits the Members of the Obligated Group to grant Mortgages on real property other than the 2008 Mortgaged Property as security for Covered Obligations (mortgages granted pursuant to the Master Indenture, including the 2008 Mortgage are referred to herein as a "Mortgage"). The Mortgaged Property will not include the existing Arden Hill and Horton Campuses or the outpatient facilities. (See "PART 7 - ORANGE REGIONAL MEDICAL CENTER" under the caption "Scope and Location of Services - Non Hospital Based Services and Facilities"). The Master Trustee is permitted to release or subordinate certain portions of the Mortgaged Property from the lien of the 2008 Mortgage under certain conditions set forth in the Master Indenture; provided, that so long as the Series 2008 Bonds are Outstanding, the Master Trustee may not release, subordinate or amend the 2008 Mortgage in whole or in part without the prior written consent of the Authority. No such release or subordination will require the consent of the holders of the Series 2008 Bonds or the Trustee. The Institution may grant liens on the Mortgaged Property on a parity with the 2008 Mortgage with the prior written consent of the Authority. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - Obligations under the Master Indenture - The Mortgage".

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2008 Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture, and the Series 2008 Obligation. Copies of the Act, the Resolution, the Series Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture, and the Series 2008 Obligation are on file with the Authority and the Trustee. See also "Appendix D - Summary of Certain Provisions of the Loan Agreement," "Appendix E - Summary of Certain Provisions of the Resolution" and "Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture", for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2008 Bonds

The Bonds issued under the Resolution, including the Series 2008 Bonds, are and will be special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the Series 2008 Bonds are payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund for the Series 2008 Bonds) established by the Series Resolution. The Revenues consist of the payments required to be made by the Institution under the Loan Agreement or to be made by the Obligated Group under the Series 2008 Obligation to be issued by the Obligated Group to secure all payments due by the Institution with respect to the Series 2008 Bonds on account of the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2008 Bonds and to maintain the Debt Service Reserve Fund at its requirement. The Revenues have been assigned by the Authority to the Trustee for the benefit of the holders of the Series 2008 Bonds.

The Institution's obligations under the Loan Agreement are general obligations of the Institution. The Authority has directed the Institution, and the Institution has agreed, to make the payments under the Loan Agreement directly to the Trustee. Any payments made on the Series 2008 Obligation issued with respect to the Series 2008 Bonds will also be made directly to the Trustee. The Loan Agreement obligates the Institution to make monthly payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest

on the Series 2008 Bonds as they become due, and to maintain the Debt Service Reserve Fund at its requirements. See “PART 3 - THE SERIES 2008 BONDS - Redemption and Purchase in Lieu of Redemption Provisions.”

Security for the Series 2008 Bonds

The Series 2008 Bonds will be secured by the payments described above to be made under the Loan Agreement, all funds and accounts authorized under the Resolution and established by the Series Resolution (with the exception of the Arbitrage Rebate Fund) and payments to be made by the Obligated Group under the Series 2008 Obligation. See “Appendix E - Summary of Certain Provisions of the Resolution.”

Debt Service Reserve Fund

The Series Resolution establishes the Debt Service Reserve Fund for the Series 2008 Bonds to be funded at the time of the delivery of the Series 2008 Bonds. The Debt Service Reserve Fund is to be funded in an amount equal to the Debt Service Reserve Fund Requirement for the Series 2008 Bonds. See Appendix A for the definition of the Debt Service Reserve Fund Requirement. The Debt Service Reserve Fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest on the applicable series of the Series 2008 Bonds. Any payments to be made by the Institution to restore the Debt Service Reserve Fund is to be made directly to the Trustee for deposit to such Debt Service Reserve Fund. See “Appendix E - Summary of Certain Provisions of the Resolution.”

Moneys in the Debt Service Reserve Fund are to be withdrawn and deposited in the Debt Service Fund whenever the amount in the Debt Service Fund, on the fourth (4th) Business Day prior to an interest or principal payment date for the Series 2008 Bonds, is less than the amount that is necessary to pay the principal and Sinking Fund Installments of and interest on such Series 2008 Bonds payable on such interest or principal payment date and Redemption Price or purchase price of such Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption. The Resolution requires that with respect to the Series 2008 Bonds, the Institution restore the Debt Service Reserve Fund to its requirement by paying the amount of any deficiency to the Trustee within five (5) days after receiving notice of a deficiency. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement may be withdrawn and applied in accordance with the Resolution. See “Appendix E - Summary of Certain Provisions of the Resolution - Debt Service Reserve Fund.”

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

The Series 2008 Obligation

Payment of the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2008 Bonds when due, and payment when due of the obligation of the Institution to the Authority under the Loan Agreement, will be secured by payments made by the Obligated Group pursuant to the Series 2008 Obligation. The Series 2008 Obligation will be issued to the Authority, which will upon Event of Default assign all payments under the Series 2008 Obligation (but for the Authority’s right to receive certain fees and expenses) to the Trustee for the benefit of the Bondholders. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS - Obligations under the Master Indenture” herein.

Events of Default and Acceleration under the Resolution

The following constitute events of default under the Resolution: (i) a default by the Authority in the payment when due of the principal, Sinking Fund Installments or Redemption Price, if any, of or interest on any Series 2008 Bond; (ii) 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 2008 Bonds from gross income under the Code;

(iii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the Series 2008 Bonds or in the Resolution which continues for thirty (30) days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee's discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof); or (iv) an "Event of Default," as defined in the Loan Agreement, shall have occurred and is continuing and all sums payable by any Member of the Obligated Group under a Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of any Member of the Obligated Group to make payment under a Loan Agreement shall not constitute an Event of Default under the Loan Agreement if timely payment of the Series 2008 Obligation is made by the Obligated Group in place of the payment due under such Loan Agreement. If the Obligated Group defaults under the Master Indenture or under any Obligation issued thereunder, such default shall constitute an Event of Default under the Loan Agreement. Unless all sums payable by any Member of the Obligated Group under a Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an Event of Default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default occurs and continues (except with respect to a default described in clause (ii) above), the Trustee shall, upon the written request of the holders of not less than 25% in principal amount of the Outstanding Series 2008 Bonds, by written notice to the Authority, declare the principal of and interest on the Series 2008 Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of such notice, such principal and interest shall become immediately due and payable. The Trustee shall, with the prior written consent of the holders of not less than 25% in principal amount of Series 2008 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the holders of the Series 2008 Bonds within thirty (30) days, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, Sinking Fund Installment or Redemption Price of, or interest on, any of the Series 2008 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 2008 Bonds.

Additional Bonds

In addition to the Series 2008 Bonds, the Revenue Bond Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other specified purposes including refunding Outstanding Bonds or other notes or bonds issued on behalf of other Members of the Obligated Group.

Loan Agreement

Concurrently with the issuance of the Series 2008 Bonds, the Authority will execute the Loan Agreement with the Institution whereby the Institution agrees to repay the Series 2008 Bonds. The obligation of the Institution to make payments under the Loan Agreement is secured by the Series 2008 Obligation.

Obligations under the Master Indenture

General

In addition to other sources of payment described herein, principal, Sinking Fund Installments, Redemption Price of and interest and any redemption premium on the Series 2008 Bonds will be payable from moneys paid by the Institution under the Loan Agreement and Members of the Obligated Group pursuant to the Series 2008 Obligation. The Series 2008 Obligation will be issued to the Authority, which will assign all payments under the Series 2008 Obligation to the Trustee (but for the Authority's rights to receive certain fees and expenses) as security

for the payment of the principal of, Sinking Fund Installments on, Redemption Price of, purchase price in lieu of redemption, and interest on the Series 2008 Bonds.

Subject to the terms of the Master Indenture, any entities that are not Members of the Obligated Group and corporations that are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Indenture may become an additional Member of the Obligated Group. Pursuant to the Master Indenture, Institution and any subsequent Member of the Obligated Group is also subject to the same covenants as the Institution under the Master Indenture, relating to maintenance of a Long-Term Debt Service Coverage Ratio, a minimum Days Cash on Hand covenant, and covenants restricting, among other things, the incurrence of Indebtedness, the existence of Liens on Property, consolidation and merger, the disposition of assets, the addition of Members of the Obligated Group and the withdrawal of Members from the Obligated Group.

THE MASTER INDENTURE PERMITS ANY MEMBERS OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT MAY SHARE THE SECURITY FOR THE SERIES 2008 OBLIGATION (*I.E.*, THE GROSS RECEIPTS PLEDGE) ON A PARITY BASIS WITH SUCH OBLIGATIONS, AND IN CERTAIN CIRCUMSTANCES THE LIEN ON GROSS RECEIPTS MAY BE RELEASED IN PART TO SECURE SHORT-TERM INDEBTEDNESS OR AS OTHERWISE PERMITTED BY THE MASTER INDENTURE. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE TRUSTEE FOR THE SECURITY OF THE SERIES 2008 BONDS.

Pursuant to the Master Indenture, each Obligation issued thereunder will be a joint and several general obligation of the Members of the Obligated Group. Upon issuance of the Series 2008 Bonds, the Institution will be the initial Member of the Obligated Group. Under the Master Indenture, the Members of the Obligated Group may not create or suffer to be created any Lien on Property other than Permitted Liens. Permitted Liens include but are not limited to the Liens created by the Mortgage securing a Covered Obligation and Liens on Excluded Property or any Health Care Facility not encumbered by a first lien mortgage to secure any issue of Related Bonds. See “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture - Limitations on Creation of Liens”. The enforcement of the Obligations may be limited by (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any Federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or Federal court in the exercise of its equitable jurisdiction and (v) Federal bankruptcy laws, State receivership or fraudulent conveyance laws or similar laws affecting creditors’ rights that may affect the enforceability of the Master Indenture. See “PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP - Enforceability of the Master Indenture.”

Security Interest in Gross Receipts

As security for its Obligations issued under the Master Indenture, the Institution and future Members of the Obligated Group, if any, must pledge and grant to the Master Trustee a security interest in such member’s Gross Receipts. Gross Receipts are defined to include all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, 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 intangibles, general intangibles, health-care insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (A) paying debt service on an Obligation or (B) meeting any commitment of an Obligated Group member under any loan agreement, lease agreement, sublease agreement or any similar instrument relating to the loan or other provision of proceeds of bonds to a Member of the Obligated Group; (ii) all receipts, revenues, income and other moneys received by or on behalf of a Member of the Obligated Group, derived from Excluded Property which constitute real property, and all rights to receive the same whether in the form of accounts, payment intangibles, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, health-care receivables and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform

Commercial Code; and (iii) insurance proceeds or condemnation proceeds for Excluded Property which constitutes real property other than the Arden Hill Campus or the Horton Campus; (iv) any insurance or condemnation proceeds that is received for a Health Care Facility if, such proceeds are applied in accordance with the Master Indenture, and (v) insurance proceeds relating to assets subject to a capital lease permitted under the Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee. Excluded Property means any real property that is not now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. Excluded Property includes the real property constituting the Arden Hill Campus and real property constituting the Horton Campus; however, Gross Receipts is defined to include revenues generated at the Arden Hill and Horton campuses prior to the time that the Institution occupies the Replacement Hospital as its primary hospital facility.

The Master Indenture provides that upon the occurrence of an Event of Default thereunder the Master Trustee may, and upon written direction of the holders of 25% in aggregate principal amount of Obligations or upon the written direction of one or more providers of credit enhancement of not less than 25% in the aggregate principal amount of Bonds that are secured by Obligations, if any, shall direct each Member of the Obligated Group to deliver or cause to be delivered to the Master Trustee all Gross Receipts until such Event of Default is cured. Such Gross Receipts shall be deposited into the Gross Receipts Revenue Fund and applied in accordance with the Master Indenture.

Medicaid Account

The Master Indenture provides that the Institution and each future Member of the Obligated Group who is reimbursed as a health care provider under the Medicaid program must establish a Medicaid Revenue Account with the Master Trustee. Each such Obligated Group Member is required to cause its Medicaid reimbursement to be deposited into such Medicaid Revenue Account. Annually, and upon issuance of additional Obligations, the Institution, on behalf of the Obligated Group is required to provide the Master Trustee a schedule showing the estimated portion of debt service payable on indebtedness secured by Obligations in which no funds are on deposit. Beginning with the first day of each month that the schedule shows that a portion of the debt service requirement is not on deposit, the Master Trustee will retain moneys in the Medicaid Revenue Account for application to the Obligated Group's debt service requirement. In the event that a payment default has occurred under the Master Indenture or a member of the Obligated Group is the subject of a bankruptcy or similar proceeding, moneys in the Medicaid Revenue Account are to be transferred to the Gross Receipts Revenue Fund.

The Mortgage

To secure payments required to be made by the Institution under the Series 2008 Obligation issued under the Master Indenture, the Institution will grant the 2008 Mortgage on the Mortgaged Property, defined in the Supplemental Indenture (the "2008 Mortgaged Property") to the Master Trustee, which 2008 Mortgage will include a security interest in certain fixtures, furnishings and equipment located thereon. The 2008 Mortgaged Property is comprised of the Replacement Hospital. Neither the Arden Hill Campus nor the Horton Campus will be subject to the 2008 Mortgage. See "PART 7 - ORANGE REGIONAL MEDICAL CENTER - Facilities," herein for further information regarding the Replacement Hospital. In addition to the 2008 Obligation, other Obligations may be issued by the Obligated Group and secured by the 2008 Mortgaged Property; if such lien is on a parity basis, such Obligation shall constitute a "2008 Covered Obligation" under the Master Indenture. For so long as the 2008 Mortgage is Outstanding, the Authority's consent to any such 2008 Covered Obligation will be required. Other Obligations of the Obligated Group may be secured by other real property of the Obligated Group (other than the 2008 Mortgaged Property). In addition, other Obligations of the Obligated Group may be secured by a Mortgage on the 2008 Mortgaged Property subordinate to the lien of the 2008 Mortgage. In addition, the Master Trustee is permitted to release or subordinate certain portions of the 2008 Mortgaged Property under certain conditions set forth in the Master Indenture and the Supplemental Indenture; provided, that so long as the Series 2008 Bonds are Outstanding, the Master Trustee may not release, subordinate or amend the 2008 Mortgage in whole or in part without the prior written consent of the Authority (which consent shall not be unreasonably withheld with respect to Liens permitted under the Master Indenture). No such release or subordination will require the consent of the holders of the Series 2008 Bonds or the Trustee. See "Appendix E - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture."

The Supplemental Indenture provides that upon the occurrence of an Event of Default thereunder the Master Trustee may, and upon written direction of the holders of 25% in aggregate principal amount of 2008 Covered Obligations or upon the written direction of one or more providers of credit enhancement of not less than 25% in the aggregate principal amount of Bonds that are secured by 2008 Covered Obligations, if any, shall proceed forthwith to protect and enforce the rights of the holders of 2008 Covered Obligations by such suits, actions, foreclosure proceedings or other proceedings as the Master Trustee, being advised by counsel, shall deem expedient regarding enforcement rights under the 2008 Mortgage.

Other Indebtedness

The Obligated Group may issue additional Obligations under the Master Indenture for the benefit of any Member thereof that are secured on a parity with outstanding Obligations, including the Series 2008 Obligation, by the pledge of Gross Receipts. The Master Indenture further provides that the Obligated Group may issue additional Obligations secured by a Mortgage on some or all of the 2008 Mortgaged Property. See “The Mortgage” herein and “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture - Limitation on Indebtedness” for a description of the conditions under which the Members of the Obligated Group may issue additional Obligations under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the Members of the Obligated Group may incur debt in the form of Indebtedness incurred by the Members of the Obligated Group individually that is not evidenced or secured by an Obligation issued under the Master Indenture. Such borrowing may be secured by Liens on Property permitted under the Master Indenture, including without limitation Liens on Excluded Property or any Health Care Facility not encumbered by a first lien mortgage to secure any issue of Related Bonds, or, with limitations, accounts receivable. See “Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture” for a description of various financial covenants applicable to the Institution and any other Members of the Obligated Group.

THE SERIES 2008 BONDS ARE NOT A DEBT OF THE STATE NOR WILL THE STATE BE LIABLE THEREON. THE AUTHORITY HAS NO TAXING POWER. THE AUTHORITY HAS NEVER DEFAULTED IN THE TIMELY PAYMENT OF PRINCIPAL OF OR INTEREST ON ITS BONDS OR NOTES. SEE “PART 9 - THE AUTHORITY.”

PART 3 - THE SERIES 2008 BONDS

General

The Series 2008 Bonds will be issued pursuant to the Revenue Bond Resolution and the Series Resolution. The Series 2008 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2008 Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2008 Bonds, payments of the principal and Redemption Price of and interest on the Series 2008 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as hereinafter defined) of the Series 2008 Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2008 Bonds, the Series 2008 Bonds will be exchangeable for fully registered Series 2008 Bonds of the same series and maturity in any authorized denominations without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange and for the cost of preparing the new bond, subject to the conditions and restrictions set forth in the Resolution. See “- Book-Entry Only System” below and “Appendix E - Summary of Certain Provisions of the Resolution.”

Description of the Series 2008 Bonds

The Series 2008 Bonds will be dated their date of issuance. The Series 2008 Bonds will mature and will accrue interest from their date at the rates and at the times set forth on the inside cover page of this Official

Statement. The Series 2008 Bonds will be offered as fully registered Bonds in minimum denominations of \$100,000 and in any integral multiple of \$5,000 in excess of thereof. Interest on the Series 2008 Bonds will be computed on the basis of a year of twelve 30-day months.

Interest on the Series 2008 Bonds is payable on June 1 and December 1 commencing December 1, 2008. Principal and sinking fund payments of the Series 2008 Bonds are payable on December 1 of each year as set forth herein.

The Record Dates for the Series 2008 Bonds are the 15th day of the month prior to each Interest Payment Date. The Authority will not be obligated to make any exchange or transfer of Series 2008 Bonds (i) during the period beginning on the Record Date next preceding an Interest Payment Date for the Series 2008 Bonds and ending on such Interest Payment Date or (ii) after the date next preceding the date on which the Trustee commences selection of Series 2008 Bonds for redemption.

Redemption and Purchase in Lieu of Redemption Provisions

The Series 2008 Bonds are subject to redemption and purchase in lieu of redemption as described below.

Optional Redemption

The Series 2008 Bonds maturing after December 1, 2018 are subject to optional redemption prior to maturity, at the election or direction of the Authority at the request of the Obligated Group, on or after December 1, 2018, in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Redemption

The Series 2008 Bonds are also subject to redemption prior to maturity, in whole or in part, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, at the option of the Authority in consultation with the Obligated Group, on any Interest Payment Date, from the proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Mortgaged Property or the applicable Project, and which proceeds are not otherwise applied as permitted under the Master Indenture.

In addition, the Series 2008 Bonds are subject to redemption prior to maturity, in whole or in part, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, at the option of the Authority in consultation with the Obligated Group, on any Interest Payment Date, from unexpended proceeds of the Series 2008 Bonds upon the abandonment of all or a portion of the Project due to a legal or regulatory impediment.

Mandatory Redemption

In addition, the Series 2008 Bonds indicated below are subject to redemption, in part, on each December 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on December 1 of each year the principal amount of Series 2008 Bonds specified for each of the years shown below:

Series 2008 Bonds Maturing December 1, 2021

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2017	\$5,650,000	2020	\$6,825,000
2018	6,015,000	2021 [†]	7,270,000
2019	6,410,000		

[†] Maturity

Series 2008 Bonds Maturing December 1, 2029

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2022	\$7,740,000	2026	\$ 9,820,000
2023	8,215,000	2027	10,420,000
2024	8,720,000	2028	11,060,000
2025	9,250,000	2029 [†]	11,735,000

[†] Maturity

Series 2008 Bonds Maturing December 1, 2037

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2030	\$12,455,000	2034	\$15,870,000
2031	13,230,000	2035	16,865,000
2032	14,060,000	2036	17,920,000
2033	14,940,000	2037 [†]	19,035,000

[†] Maturity

Purchase in Lieu of Optional Redemption

The Series 2008 Bonds are subject to purchase by or at the direction of the Authority at the request of the Obligated Group, prior to maturity, on the same terms that would apply if the Series 2008 Bonds were then being optionally redeemed.

General

The Authority may from time to time direct the Trustee to purchase Series 2008 Bonds with moneys in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any Series 2008 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on such Series 2008 Bonds. The Obligated Group also may purchase Series 2008 Bonds and apply any Series 2008 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on the Series 2008 Bonds. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's Series 2008 Bonds will be reduced for such year.

Selection of Bonds to be Redeemed

In the case of redemptions of the Series 2008 Bonds, other than mandatory redemptions, the Authority will select the principal amounts and maturities of the Series 2008 Bonds to be redeemed. Except as described in the next paragraph, if less than all of the Series 2008 Bonds of a maturity are to be redeemed, the Series 2008 Bonds to be redeemed will be selected by the Trustee, by lot as provided in the Resolution.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2008 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any Series 2008 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten (10) business days prior to the date such notice is given. The failure of any such registered owner of a Series 2008 Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2008 Bond.

If on the redemption date moneys for the redemption of the Series 2008 Bonds or portions thereof to be redeemed, are held by the Trustee so as to be available for payment of the Redemption Price, together with interest thereon to the redemption date, and if notice of redemption has been mailed, then interest on such Series 2008 Bonds or portions thereof will cease to accrue from and after the redemption date and such Series 2008 Bonds will no longer be considered to be Outstanding.

In addition, any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on the Series 2008 Bonds to be redeemed and that if such moneys are not so received, such notice shall be of no force and effect and such Series 2008 Bonds shall not be required to be redeemed.

Notice of Purchase in Lieu of Redemption

Notice of the purchase of the Series 2008 Bonds as described under “– Purchase in Lieu of Optional Redemption” above, will be given in the name of the Obligated Group to the registered owners of the Series 2008 Bonds to be purchased by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the purchase date specified in such notice. The Series 2008 Bonds to be purchased are required to be tendered to the Trustee on the date specified in such notice. Series 2008 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event Series 2008 Bonds are called for purchase in lieu of an optional redemption, such purchase shall not operate to extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2008 Bonds and such Series 2008 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest and shall continue to be subject to optional redemption as described herein.

The Obligated Group’s obligation to purchase a Series 2008 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the purchase price for all of the Series 2008 Bonds to be purchased on the purchase date. If sufficient money is available on the purchase date to pay the purchase price of the Series 2008 Bonds to be purchased, the former registered owners of such Series 2008 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the purchase price. If sufficient money is not available on the purchase date for payment of the purchase price, the Series 2008 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the purchase date, who will be entitled to the payment of the principal of and interest on such Series 2008 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2008 Bonds are to be purchased, the Series 2008 Bonds to be purchased will be selected by lot in the same manner as Series 2008 Bonds to be redeemed in part are to be selected.

Book-Entry Only System

DTC will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate for each maturity and each series will be issued for the Series 2008 Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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, in turn, is owned by a number of Direct Participants of DTC and members

of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”, and together with Direct Participants, the “Participants”). The DTC Rules applicable to its Participants are on file with the SEC. More information on DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2008 Bond (“Beneficial Owner”) is in turn to be recorded on the Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008 Bonds, except in the event that use of the Book-Entry Only System for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 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 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008 Bonds, such as redemptions, tenders, defaults and proposed amendments to the documents relating to the Series 2008 Bonds. For example, Beneficial Owners of the Series 2008 Bonds may wish to ascertain that the nominee holding the Series 2008 Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the applicable maturity and series of Series 2008 Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2008 Bonds to be redeemed.

Neither DTC, Cede & Co. nor such other DTC nominee will consent or vote with respect to Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an omnibus proxy (the “Omnibus Proxy”) to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2008 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any,

and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2008 Bonds registered in its name for the purposes of payment of the principal or redemption premium, if any, of, or interest on, the Series 2008 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2008 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. None of the Authority, the Trustee or the Obligated Group will have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2008 Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2008 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner.

For every transfer and exchange of beneficial ownership of the Series 2008 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Authority or 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 2008 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, the Series 2008 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2008 Bonds of the same series and maturity in other authorized denominations as set forth in the Resolution, 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.

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 Obligated Group, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, OR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2008 BONDS (i) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2008 BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN SERIES 2008 BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2008 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC OR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH PARTICIPANTS ARE ON FILE WITH DTC.

NONE OF THE AUTHORITY, THE TRUSTEE OR THE MEMBERS OF THE OBLIGATED GROUP WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE PARTICIPANTS OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR

ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

PART 4 - PLAN OF FINANCING

Substantially all of the proceeds from the sale of the Series 2008 Bonds will be applied to the construction and equipping of the Replacement Hospital. In addition, at the time of closing, the Institution expects to have contributed an additional amount equal to approximately \$45,674,000 towards Replacement Hospital costs, including Institution equity, capital campaign funds, proceeds from the sale of the Arden Hill Campus and the Horton Campus and \$5,142,703 of a \$24,600,000 grant from the Healthcare Efficiency and Affordability Law for New Yorkers Phase 2 ("HEAL NY 2"). Furthermore, additional capital campaign contributions and the remainder of the HEAL NY 2 grant are expected to be received periodically during the construction period and will be applied to the construction and equipping of the Replacement Hospital. The Replacement Hospital is to serve as a replacement for the Institution's existing hospital facilities located at its Arden Hill Campus and Horton Campus. The Replacement Hospital is expected to be a seven floor building including emergency room, medical, surgical, outpatient, critical care, obstetrics and nursery services and administrative and support services. See PART 7 - ORANGE REGIONAL MEDICAL CENTER - Replacement Hospital. The construction and equipping of the Replacement Hospital, the funding of interest during construction, the establishment of a Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement, and the payment of the Costs of Issuance is sometimes referred to herein as the "Project". The Institution has retained an independent construction monitor with respect to the Project. See Part 21 - "MISCELLANEOUS".

Prior to the date of delivery of the Series 2008 Bonds, the Institution must cause the redemption of all of the (i) Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Arden Hills Hospital Project) Series 2002, (ii) the Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center Project) Series 2002, (iii) the Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center/West Hudson Facility Project), Series 2002B (Taxable) which are outstanding in the aggregate principal amount of \$31,680,000 (collectively, the "2002 Bonds"). The Institution has terminated an existing interest rate exchange agreement entered into in connection with the 2002 Bonds (the "2002 Swap), and has satisfied the associated termination liability. Moneys to effect the redemption of the 2002 Bonds are to be derived from \$24,000,000 of Healthcare Efficiency and Affordability Law for New Yorkers Phase 4 ("HEAL NY 4") grant moneys that has been received by the trustee for the 2002 bonds for such purpose, and other funds of the Institution. The retirement of the 2002 Bonds and the termination of the 2002 Swap are conditions to the issuance of the Series 2008 Bonds.

PART 5 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS

The following table sets forth the amount payable during each bond year ending December 1 of the years shown for (i) the payment of the principal and Sinking Fund Installments on the Series 2008 Bonds, payable on December 1 of each such period; (ii) the interest payments coming due during each such period with respect to the Series 2008 Bonds; and (iii) the total aggregate debt service payments coming due during such period with respect to all such Series 2008 Bonds.

Bond Year Ending December 1	Series 2008 Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	-	\$ 9,184,186	\$ 9,184,186
2009	-	16,207,388	16,207,388
2010	-	16,207,388	16,207,388
2011	\$ 4,020,000	16,207,388	20,227,388
2012	4,240,000	15,986,288	20,226,288
2013	4,475,000	15,753,088	20,228,088
2014	4,745,000	15,484,588	20,229,588
2015	5,030,000	15,199,888	20,229,888
2016	5,330,000	14,898,088	20,228,088
2017	5,650,000	14,578,288	20,228,288
2018	6,015,000	14,211,038	20,226,038
2019	6,410,000	13,820,063	20,230,063
2020	6,825,000	13,403,413	20,228,413
2021	7,270,000	12,959,788	20,229,788
2022	7,740,000	12,487,238	20,227,238
2023	8,215,000	12,013,163	20,228,163
2024	8,720,000	11,509,994	20,229,994
2025	9,250,000	10,975,894	20,225,894
2026	9,820,000	10,409,331	20,229,331
2027	10,420,000	9,807,856	20,227,856
2028	11,060,000	9,169,631	20,229,631
2029	11,735,000	8,492,206	20,227,206
2030	12,455,000	7,773,438	20,228,438
2031	13,230,000	6,995,000	20,225,000
2032	14,060,000	6,168,125	20,228,125
2033	14,940,000	5,289,375	20,229,375
2034	15,870,000	4,355,625	20,225,625
2035	16,865,000	3,363,750	20,228,750
2036	17,920,000	2,309,688	20,229,688
2037	<u>19,035,000</u>	<u>1,189,688</u>	<u>20,224,688</u>
Total	\$261,345,000	\$326,410,874	\$587,755,874

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Project:

Sources of Funds

Series 2008 Bonds	\$261,345,000
HEAL NY 2 Funds ⁽¹⁾	5,142,703
Equity Contribution ⁽²⁾	40,531,500
Net Original Issue Discount	<u>(1,238,800)</u>
Total	<u>\$305,780,403</u>

Uses of Funds

Construction Costs	\$226,197,268
Debt Service Reserve Fund	20,230,063
Capitalized Interest	50,673,656
Costs of Issuance ⁽³⁾	<u>8,679,416</u>
Total	<u>\$305,780,403</u>

⁽¹⁾ The HEAL NY 2 Funds are for Replacement Hospital construction related expenses. See "PART 4 - PLAN OF FINANCING".

⁽²⁾ Includes prepaid expenses, the proceeds from the sale of the Arden Hill Campus and the Horton Campus, capital campaign funds and an additional cash contribution by the Institution.

⁽³⁾ Includes certain New York State Department of Health Fees, Authority fees, New York State Bond Issuance Charge, as well as legal fees and expenses, rating agency fees, Underwriters' Discount, financial adviser fees, title insurance and Trustee and Master Trustee fees.

PART 7 - ORANGE REGIONAL MEDICAL CENTER

Introduction and Background

Orange Regional Medical Center, a subsidiary of Greater Hudson Valley Health System, is a 501(c)(3) tax-exempt, New York not-for-profit corporation, located in Orange County, in the Mid-Hudson Valley region of New York State. ORMC was formed in September 2002 through the merger of two community hospitals--Arden Hill Hospital (located in Goshen, New York) and Horton Medical Center (located in Middletown, New York) which now comprise the Arden Hill Campus and Horton Campus, respectively, of ORMC. Since the merger, ORMC's stated mission has been to "Improve the health of the community by providing exceptional health care". Over the past five years, the Institution has focused on consolidating existing resources, eliminating redundancies, expanding the depth and breadth of services, improving access to necessary services and elevating the quality of healthcare services in its service area.

ORMC has grown to the point that operations on the two separate campuses are inefficient on a number of levels. As a result, the Institution is undertaking construction of the Project. The Replacement Hospital will allow for the consolidation of the two current campuses onto a single site. The Replacement Hospital will offer a total of 374 acute care beds, a reduction of 76 licensed beds and it is anticipated that upon completion it will allow ORMC to further expand upon the improvements noted above.

The construction period is expected to be 36 months, starting in March 2008 with an expected completion date in 2011.

History

Prior to their merger, Arden Hill Hospital and Horton Medical Center were independent 501 (c)(3) tax-exempt community hospitals, each serving their immediate communities in Goshen (Arden Hill Hospital) and Middletown (Horton Medical Center) for close to 100 years. The hospitals are located approximately 8 miles apart.

Arden Hill Campus

The Arden Hill Campus is located in Goshen, New York, approximately 65 miles northwest of New York City. In May 1908, a group of Goshen women, headed by Mrs. Susan Randall Bacon, founded the Goshen Emergency Hospital. In October 1908, the hospital, then comprising two rooms, was chartered. Provisionally accredited in 1954, The Goshen Hospital achieved full accreditation by the Joint Commission on Accreditation in 1957. By 1958, The Goshen Hospital had evolved into a 50-bed, 12-bassinets hospital, which included 10 maternity beds. In 1965, the hospital broke ground on Harriman Drive, its current location, for a hospital of less than 100 beds. In 1967, The Goshen Hospital changed its name to Arden Hill Hospital and moved to its current location on Harriman Drive. Today, the facility is licensed for 174 acute care beds.

Horton Campus

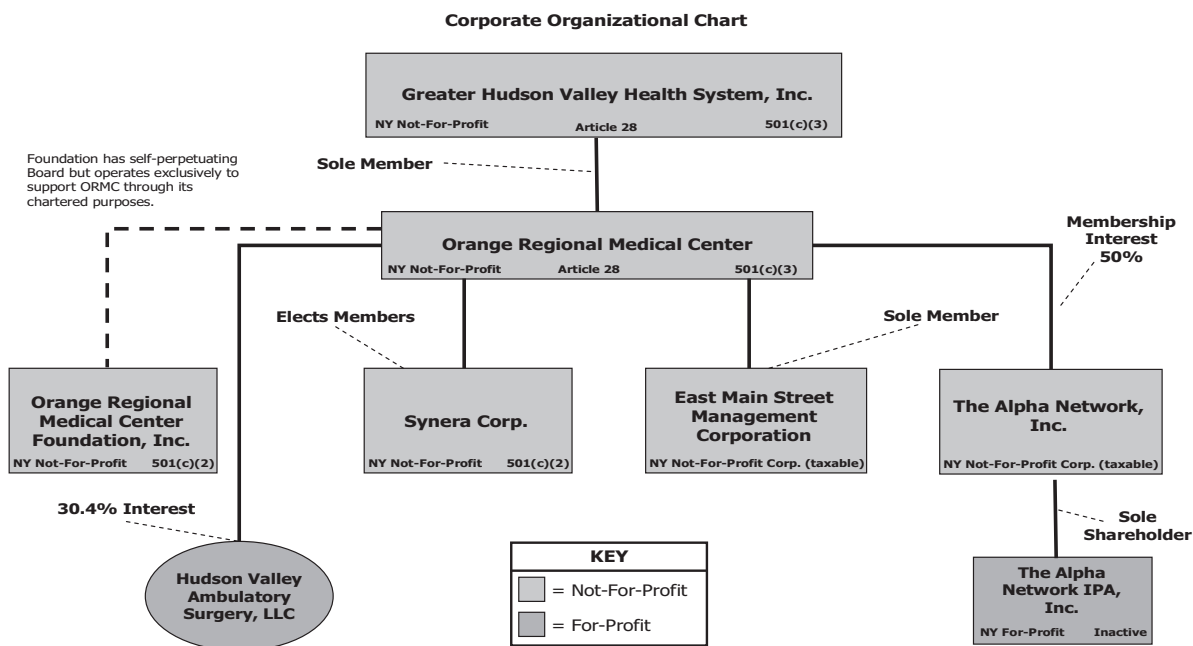
The Horton Campus is located in Middletown, New York, approximately 73 miles northwest of New York City. The Horton campus has its roots in Thrall Hospital which formally opened in May 1892. In 1928 a generous bequest from Eugene Horton, in honor of his late mother Elizabeth Ann Radeker Horton, led to the construction of a new facility on Prospect Avenue. The Elizabeth A. Horton Memorial Hospital opened on March 12, 1929 replacing Thrall Hospital. Many additions have been made to Horton since its opening. On December 9, 1994, the Elizabeth A. Horton Memorial Hospital officially changed its name to Horton Medical Center. Today, the facility houses 276 licensed acute care beds.

Merger of Arden Hill Hospital and Horton Medical Center

Over time, each hospital continued to develop with expanding market areas that increasingly overlapped. Eventually, the two hospitals became significant competitors, each vying for a larger share of the healthcare market in central and western Orange County. In the late 1990's, it became increasingly evident to the boards at both institutions that scarce resources were being expended in redundant operations and competitive initiatives. Therefore, in the year 2000, the decision was made by both boards to pool resources and work together toward a merger. The underlying objective was to combine the best of both hospitals and create a critical mass that would both improve existing services and bring new services into the community.

In November 2000, the two hospitals consolidated operationally with mirror boards and integrated executive management. On September 1, 2002 the hospitals voluntarily restructured by merging into a single organization; and shortly thereafter, changed the organization's name to Orange Regional Medical Center.

Corporate Structure



Greater Hudson Valley Health System

Greater Hudson Valley Health System, Inc. (“GHVHS”), a New York State not-for-profit corporation located in Middletown, New York, is the sole member of and active parent company for the Institution. GHVHS is an Article 28 network approved by the New York State Department of Health.

GHVHS, as the sole member of ORMC, maintains the reserve power to elect and remove the board of directors of the Institution, to authorize the merger, consolidation or dissolution of the Institution, to approve the incurrence of long-term debt in excess of certain limits, and to approve amendments of the Institution’s certificate of incorporation and bylaws.

In its role as the sole member of the Institution, GHVHS coordinates the activities of the Institution by, among other things, approving strategic and business plans, capital and operating budgets, the acquisition and encumbrance of certain property, the closure or conversion of services and facilities, and the submission of certificate of need applications. At each annual meeting of GHVHS, the GHVHS board of directors elects individuals to replace those directors whose terms of office are expiring. Each GHVHS director serves a two-year term or until a successor has been elected.

Subsidiaries

ORMC holds corporate relationships with the subsidiary organizations listed below and depicted in the corporate organization chart above.

- Synera Corporation: a 501(c)(2) not-for-profit real estate holding company which operates exclusively for the purpose of acquiring, holding title to and collecting income from real

property to be used exclusively in support of the Institution. The ORMC Board appoints the members of Synera. Synera is currently inactive and holds no real estate properties.

- East Main Street Corporation (EMSC): a 501(c)(2) not-for-profit corporation formed to support the purposes of the Institution for certain administrative employees. ORMC is the sole member of EMSC and ORMC alone elects EMSC's Board of Directors.
- The Alpha Network, Inc.: a not-for-profit physician hospital organization in which the Institution shares membership interest with a number of physicians. Both ORMC and the physicians elect the corporation's Board of Directors. The Alpha Network ceased operations in 1997 but remains incorporated.
- The Alpha Network IPA, Inc.: a taxable, for-profit corporation for which The Alpha Network, Inc. is the sole shareholder. Consequently, the Alpha Network, Inc. alone elects the Board of Directors of the Alpha Network IPA, Inc. The Alpha Network IPA, Inc. ceased operations in 1997 but remains incorporated.

Orange Regional Medical Center Foundation, Inc.

Orange Regional Medical Center Foundation, Inc. ("Orange Regional Foundation"), a 501(c)(3) not-for-profit organization with a self-perpetuating board of directors, operates exclusively to support the charitable, educational and scientific purposes of ORMC. There is a slight overlap in membership with the Boards of Orange Regional Foundation, GHVHS and ORMC; three individuals sit on all three boards.

The Orange Regional Foundation provides oversight of the Capital Campaign for the Replacement Hospital (the "Campaign"); as of April 1, 2008, it has received pledges for \$14.2 million towards the Campaign of which, approximately \$12.3 million is expected to be on hand upon closing of the Series 2008 Bonds. A capital campaign consultant has been engaged and is responsible for the day-to-day operation of the Capital Campaign with oversight from the Foundation. The consultants report directly to the Foundation President and ORMC's CEO, who provide the Campaign's vision and overall strategy.

THE INSTITUTION IS CURRENTLY THE ONLY MEMBER OF THE OBLIGATED GROUP AND IS THE ONLY PARTY RESPONSIBLE FOR MAKING DEBT SERVICE PAYMENTS ON THE SERIES 2008 BONDS. NONE OF THE ENTITIES DESCRIBED ABOVE, OTHER THAN ORMC, WILL BE MEMBERS OF THE OBLIGATED GROUP AND NONE, OTHER THAN ORMC, WILL HAVE ANY LEGAL OBLIGATION TO MAKE ANY PAYMENTS THAT WILL BE USED TO PAY DEBT SERVICE ON THE SERIES 2008 BONDS AND NO ASSETS OF THESE ENTITIES, OTHER THAN ORMC, WILL BE PLEDGED TO SECURE THE SERIES 2008 BONDS.

On June 25, 2007, Catskill Regional Medical Center ("Catskill Regional") and Greater Hudson Valley Health System announced plans to form an affiliation for the purposes of enhancing healthcare in the Hudson Valley Region. Catskill Regional is located in Sullivan County and is licensed for a total of 179 beds maintained on two campuses in Harris, New York and Callicoon, New York.

As part of the affiliation, GHVHS agreed to become the sole member of Catskill Regional and a Certificate of Need application is being prepared for submission to the New York State Department of Health seeking approval for Greater Hudson Valley Health System to become the active parent of Catskill Regional. It is expected that the application will be submitted in April 2008. In addition, GHVHS agreed to assume responsibility for day-to-day management of Catskill Regional following approval from the New York State Department of Health, pursuant to a management contract. These management services are to be provided by senior management of the Institution. ORMC and Catskill Regional will maintain independent financial operations and will not be liable for the other's obligations.

CATSKILL REGIONAL WILL NOT BE A MEMBER OF THE OBLIGATED GROUP AND WILL NOT HAVE ANY LEGAL OBLIGATION TO MAKE DEBT SERVICE ON THE SERIES 2008

BONDS AND NO ASSETS OF CATSKILL REGIONAL WILL BE PLEDGED TO SECURE THE SERIES 2008 BONDS.

Until the time the New York State Department of Health approves GHVHS as the active parent of Catskill Regional, the Institution will provide management consulting services to Catskill Regional regarding the day-to-day operations of the hospital, including administrative services (marketing, human resources and information technology), financial services (billing/collections, budgets) and strategic direction (capital purchases and program development).

Scope and Location of Services

Hospital-Based Services

ORMC is currently licensed for 450 acute care beds on its two campuses and provides a full range of adult medical/surgical, intensive care, pediatric, obstetrical, rehabilitation and behavioral health services. ORMC's inpatient service categories are presented below:

Service	Arden Hill Campus	Horton Campus	ORMC Total
Medical/Surgical*	104	172	276
Intensive Care	22	14	36
Coronary Care	<u>0</u>	<u>6</u>	<u>6</u>
Total Medical-Surgical	126	192	318
Maternity*	0	34	34
Pediatric	8	21	29
Psychiatry	40	0	40
Physical Medicine and Rehabilitation	0	17	17
Trauma Brain Injury	0	10	10
Coma Recovery	<u>0</u>	<u>2</u>	<u>2</u>
Total Non-Medical-Surgical	<u>48</u>	<u>84</u>	<u>132</u>
Total Licensed Beds	<u>174</u>	<u>276</u>	<u>450</u>

*Reflects the consolidation of maternity beds at the Horton Campus in May 2006. The Horton Campus increased its maternity beds by 14 to a total of 34 and reduced its med/surg beds by 14. At the same time, the Arden Hill Campus converted its 14 maternity beds to medical/surgical beds.

ORMC also provides the following certified services at either one or both of its campuses:

- | | |
|--|------------------------------|
| Acute renal dialysis | Therapeutic nuclear medicine |
| Ambulatory surgery | Cystoscopy |
| Cardiac catheterization (adult diagnostic) | Lithotripsy |
| Emergency angioplasty | Therapeutic radiology |
| MRI | Speech-language pathology |
| CT Scan | Emergency department |
| Linear accelerator | Social work services |
| Diagnostic nuclear medicine | |

Non-Hospital Based Services and Facilities

In addition to providing inpatient care at its two campuses, the Institution also operates a network of nine satellite facilities which provide a full range of out-patient diagnostic, therapeutic and community education services. The facilities are listed below. The facilities described below are not subject to the 2008 Mortgage issued to the Master Trustee to secure the 2008 Obligations.

Facility	Services
The Orange Regional Medical Pavilion 75 Crystal Run Road, Middletown, NY	Eleanor T. Snow Radiation Oncology, Ray W. Moody, M.D. Breast Center: digital mammography, breast biopsy; 64-slice CT scanner, open bore MRI, x-ray, ultrasound, endoscopy, ambulatory surgery, lab specimen collection, bone densitometry
Family Program For Alcoholism/ Chemical Dependency 420 East Main Street, Middletown, NY	Alcohol/substance abuse counseling
Outpatient Rehabilitation Center 110 Crystal Run Road, Middletown, NY	Physical therapy, occupational therapy, speech therapy
Community Health Education Center 110 Crystal Run Road, Middletown, NY	The Frances L. Bergen Health Information Library, health education classes and seminars, support groups
Orange Regional Diagnostic Imaging Center 30 Hatfield Lane, Goshen, NY	Digital mammography, ultrasound, bone densitometry, x-ray
Outpatient Behavioral Health Center Arden Hill Campus 4 Harriman Drive, Goshen, NY	Adult, geriatric, child & adolescent counseling
Goshen Radiation Oncology 70 Hatfield Lane, Goshen, NY	Radiation Therapy
Goshen Patient Infusion Center 70 Hatfield Lane, Goshen, NY	Infusion Therapy
Goshen Patient Service Center 70 Hatfield Lane, Goshen, NY	CT Scanner, x-ray, ultrasound, lab specimen collection , MRI

Service Improvements due to Merger

The 2002 merger fostered greater critical mass which has enabled ORMC to support new programs, recruit additional specialists, enhance existing programs, and acquire the most technologically advanced medical equipment available. Services that were added or expanded as a result of the merger are described below.

- ***Neonatology:*** The merger allowed ORMC to achieve the threshold of 2,000 annual deliveries needed to develop a formal neonatal/perinatal affiliation agreement with the Westchester Medical Center.
- ***Cardiac Services:*** ORMC opened Orange County's first diagnostic cardiac catheterization lab in September 2004 and has performed approximately 400 procedures annually from 2005-2007. Electrophysiology services were added in 2006 and emergency angioplasty commenced operations in February 2008.
- ***Orthopedics:*** In March 2006, ORMC's dedicated Bone & Joint Center ("the Center") began operations. Orthopedic volume has increased from 138 total cases in 2004 to 453 cases in 2006, an increase of over 225%. The increase continued in 2007 with 546 total cases, a 20% increase over 2006. Prior to the merger, ORMC had insufficient volume to attract major joint replacement specialists. Currently, ORMC has two such specialists on staff.

- Diagnostic Imaging: Diagnostic imaging advances during the past two years include Orange County's first 64-slice CT scanner acquired in December 2005; and the installation of three digital mammography units in March 2006, making the Institution a 100% digital organization. ORMC has also implemented a Picture Archive Communication System (PACS), which allows physicians remote access to all diagnostic imaging results on their personal computers.
- Radiation Therapy: Various radiation therapy and diagnostic imaging services have become available, including:
 - The Intensity Modulated Radiation Therapy (IMRT) program introduced in 2004. IMRT treatments are ideally suited for cancer sites where the critical normal structures are extremely close to the target tumors.
 - IMPAC, a state-of-the-art record and verification system serving both the Horton and Arden Hill campuses provides the vital link between ORMC's treatment and planning software and the linear accelerator (which delivers the radiation). In addition to providing communication between treatment planning and the accelerator, this software provides connectivity between ORMC's two radiation oncology sites. The end result is a united patient database that allows for enhanced communications for patient management between physicians, physicists, radiation therapists, and the nursing staff.
 - MammoSite Therapy System for breast cancer patients is a treatment option for select patients wherein a catheter containing a radioactive source is inserted into the breast so that radiation can be administered specifically into the cancer site. This procedure typically reduces radiation therapy time from seven weeks to approximately five days.

Affiliations

The Institution believes the development of its specialty and subspecialty services can be improved through the addition of strategic tertiary affiliations. As a result, the Institution currently maintains clinical affiliations with three tertiary medical centers: Montefiore Medical Center, Westchester Medical Center and Hospital for Joint Diseases Orthopedic Institute. These affiliations have enhanced the level of care at ORMC primarily through increased collaboration between ORMC's medical staff and the affiliates' medical staffs along with enhanced quality assurance measures.

- Montefiore Medical Center (Bronx, New York) — ORMC maintains a cardiac affiliation with Montefiore in diagnostic catheterization and primary angioplasty. This academic medical center affiliation – which is required by the New York State Department of Health to offer these services – provides ORMC with clinical training, quality oversight and expedited transfers.
- Westchester Medical Center (Valhalla, New York) — ORMC maintains an affiliation agreement with Westchester Medical Center (“WMC”) in obstetrics/gynecology and pediatrics/newborn care. The relationship presently includes clinical services such as full-time neonatology coverage and pediatric subspecialty consultation in Orange County, as well as arrangements for expedited transfer of infants, mothers and children to WMC.
- Hospital for Joint Diseases Orthopaedic Institute (New York, New York) — ORMC is affiliated with Hospital for Joint Diseases in orthopedics. This agreement provides clinical support and training to patients and staff in ORMC's new Bone & Joint Center; and provides for expedited transfers as well.

In addition, ORMC also has local affiliations with area nursing homes, health centers and membership organizations including:

- Middletown Community Health Center — ORMC is affiliated with the Middletown Community Health Center (the “Health Center”). ORMC accepts inpatient referrals from the Health Center and provides physician coverage for the Health Center’s obstetric patients. In addition, ORMC offers the Health Center’s patients access to specialty clinics in orthopedics and cardiology.
- Other — ORMC is a participating member of the Northern Metropolitan Hospital Association, an organization of 15 hospital facilities in the Hudson Valley who share best practice clinical information. In addition, ORMC is a member of both the Hospital Association of New York State (“HANYYS”) and the Greater New York Hospital Association – two well recognized industry associations in New York.

Replacement Hospital

Project Description

To meet the current demand for services and support the future needs of its patient population, the Institution plans to undertake the Project—the construction of a 374 bed hospital to replace the Arden Hill Campus and the Horton Campus.

The Replacement Hospital will be located on a 61 acre “greenfield” site in the Town of Wallkill. When the Replacement Hospital opens, 354 beds will be operational with the ability to increase to 374 beds during periods of high demand. The bed complement upon operational commencement inclusive of the 20 add-in reserve beds is presented in the table that follows.

Bed Type	Current Licensed Bed Count	Proposed Replacement Hospital Bed Count
Medical/Surgical	276	244*
Pediatric	29	12
ICU/CCU	<u>42</u>	<u>40</u>
Total Med/Surg	347	296
Obstetric	34	24
Mental Health	40	30
Rehabilitation	<u>29</u>	<u>24**</u>
TOTAL	450	374

*Includes 16 surge capacity beds. **Includes 4 surge capacity beds.

The 374 bed complement marks a reduction of 76 licensed beds from ORMC’s current 450 licensed beds at the Arden Hill and Horton Campuses. The bed reduction was a requirement of the State’s Commission on Health Care Facilities in the 21st Century.

The Replacement Hospital will be located between the two existing campuses, approximately four miles from the Horton Campus and six miles from the Arden Hill Campus. The site location is adjacent to the intersection of two major roadways (Route 17 (future Interstate 86) traversing north/south and Interstate 84 traversing east/west) in the heart of Orange County and is expected to provide superior access for area residents.

ORMC’s decision to construct the Replacement Hospital is based on several key factors including: (i) the growing demand for healthcare due to the increasing and aging population in this region, (ii) the increasing need to improve accessibility and availability by attracting specialists and providing services that otherwise would not be available to residents, (iii) the inability of ORMC’s existing facilities to accommodate upgraded technologies, new

services and advances in patient safety, and (iv) the opportunity to gain greater operational efficiencies through the elimination of duplicative functions.

The Replacement Hospital will be designed with an inpatient focus that features patient-centered care and enhanced patient safety measures. The vast majority of outpatient services are expected to be shifted to ORMC's nine outpatient satellites. Specifically, the Replacement Hospital will include:

- All private rooms to provide patient privacy as well as enhanced infection control;
- Smaller, more efficient inpatient bed units to maximize staff efficiencies;
- Wiring for the latest information technology that includes electronic medical records, medication reconciliation and tracking of quality measures;
- Grouping of similar services (*e.g.* invasive center, diagnostic center) that allows for operating efficiencies and patient convenience;
- Spacious operating rooms;
- Flexibility for future growth and technology.

Replacement Hospital Design Concepts/Principles

Concepts such as “patient-centered care” (care provided with a focus on the needs of the patient rather than the operational needs of the institution) and “evidenced-based design” (an approach to healthcare design guided by research linking the physical environment of hospitals to patient and staff outcomes) have been taken into consideration in the planning and design initiatives. ORMC has also been guided by several design principles that were identified in a series of focus groups and community presentations. The design principles include the following:

- Create a “Campus Feel”— In addition to constructing the Replacement Hospital, ORMC will preserve areas within the 61-acre site for future uses such as physician offices, ambulatory care, etc.
- Preserve Green Space— ORMC intends to preserve open space to maintain a natural setting for the facility and to minimize the environmental impact of the Project.
- Focus the Replacement Hospital on Inpatient Programs— The Replacement Hospital was conceived and is being designed with inpatient care as the primary focus. The Replacement Hospital is designed to specifically address the needs of a more highly acute inpatient population. Ambulatory patients will be directed to one of ORMC's nine satellite facilities.
- Provide Private Rooms— The Replacement Hospital is being designed to provide all patients with a private room as part of a patient-centered philosophy and effort to improve the quality of their stay. The primary benefit of private rooms is enhanced patient safety. Research indicates that private rooms reduce patient infection rates, result in fewer patient transfers and associated medical errors, reduce excess noise, increase privacy and confidentiality, improve communication, provide superior accommodation of family members and promote consistently higher satisfaction with overall quality of care. Moreover, private rooms also translate into operational efficiencies due to the reduced incidence of patient falls and patient transfers, as well as the avoidance of gender and age issues that arise when placing patients in a semi-private room.
- Create Efficient Bed Units— The facility is designed with efficient, 24-bed inpatient units to maximize staff efficiencies. The design equips each unit with its own nursing station and support functions.

- Ensure Patient/Public Separation—To the extent possible, the hospital design separates patient and public circulation spaces. Also, the behavioral health unit is separated from the general acute population.
- Create Adjacencies for Similar Functions— To maximize operational efficiencies, staffing and patient flow, the hospital’s design groups related clinical functions and/or spaces. For example, an invasive center includes all surgical suites, invasive cardiology, and interventional radiology.
- Provide for Flexibility— Flexibility is being built into the Replacement Hospital to accommodate future facility expansions and new technology. The chassis is designed to provide options for horizontal expansion and diagnostic and surgical suites are sized for robotic technology. In addition, 20 patient rooms are being designed to accommodate an additional bed, for surge capacity.
- Provide Accessible Parking—The lack of adequate, accessible parking at the existing campuses is an ongoing problem. The Replacement Hospital provides the Institution with the opportunity to provide parking required to accommodate visitors, physicians and employees in a safe and secure manner.

Design/Build Contract

ORMC is using a “design/build” approach in which one firm is retained to handle both the design and construction of the new facility. Proponents of the design/build approach claim that design/build offers significant savings in project costs of between 10% and 20% due to a single contract that eliminates redundant functions and helps reduce fees while ensuring standardization of the overall planning and building processes. The cost savings was a significant factor in the Institution selecting the design/build approach. Risks associated with design/build include a high cost of customization and little chance of the owner influencing design and making changes without increased costs and delays.

ORMC entered into a design/build agreement with Hospital Building and Equipment Corporation (HBE) to design and construct the Replacement Hospital. HBE is headquartered in St. Louis, Missouri and is the largest health care design/build company in the United States. HBE has approximately 40 years of experience in the design and construction of hospitals and other health care structures. The Institution contracted with HBE to design and construct the Replacement Hospital for a lump sum guaranteed price of \$195,500,000. This fixed price, lump sum was established after completion of schematic design and design development, based upon design documents and detailed specifications enumerated in the agreement, but prior to the issuance of final construction documents. The agreement requires a 100% code compliant facility designed under the most recent American Institute of Architects (AIA) *Guidelines for Design and Construction of Health Care Facilities* (2006) and other codes and regulations. In the event of errors or omissions, HBE bears the full responsibility to correct the deficiency at their cost. The contract requires that HBE and its subcontractors obtain various specified insurance coverage, including an excess umbrella liability coverage of \$50,000,000. The Project is also supported by a performance bond for the full amount of the contract price. The construction schedule set forth in the agreement holds HBE accountable to achieve substantial completion of the installation and completion of the Project by March 16, 2011. The contract contains a “time is of the essence” clause, and provides that HBE is fully liable to ORMC for its actual damages arising from HBE’s failure to meet the substantial completion date.

Replacement Hospital and Commission on Health Care Facilities in the 21st Century

In 2005, the New York State legislature established the Commission on Health Care Facilities in the 21st Century (the “Commission”) to address changes in New York State’s healthcare delivery system that have resulted in health care facility closures and continued financial losses over the past two decades. The Commission’s charge was to evaluate New York State’s acute and long term care delivery systems and make recommendations to reconfigure and right-size the supply of hospitals and nursing homes to meet regional needs. Specifically, the Commission’s enabling legislation stated that the Commission would conduct a “rational, independent review of health care capacity and resources in the State to ensure that the regional and local supply of general hospital and

nursing home facilities is best configured to appropriately respond to community needs for quality, affordable and accessible care, with meaningful efficiencies in delivery and financing that promote infrastructure stability.” ORMC believes the Replacement Hospital addresses these goals.

- Community Need for Quality— The construction of the Replacement Hospital which will accommodate 21st Century medical technologies, sophisticated information systems, patient safety advances and patient centered design including all private rooms directly addresses community quality needs.
- Affordable and Accessible Care— Affordable and accessible care is addressed by developing the Replacement Hospital to attract specialty physicians to the area to provide services that residents now have to access out of the area; and by redirecting resources currently used to maintain out-dated buildings to patient care.
- Meaningful Efficiencies in Delivery— Efficiencies will be derived through replacing the two hospital campuses into one to avoid costly maintenance required with out-dated facilities and to eliminate the duplication of functions now occurring at both campuses; efficiencies in staffing, energy consumption, etc. designed into the new building.
- Financing to Promote Infrastructure Stability— Enhanced stability will be achieved through projected operational savings in labor and non-labor costs of over \$8 million annually; debt financing will be minimized through a significant equity contribution, capital campaign, asset sale (of existing campuses), and State Healthcare Efficiency and Affordability Law (HEAL) grant monies. Project costs also will be reduced by eliminating 76 beds from the system, building new versus renovation/retrofit of current aged facilities (an estimated 20% project cost savings) and utilizing the design/build approach (an estimated 10% to 20% savings).
- Further Commission Mandate— ORMC believes the Project reflects the spirit of the Commission’s charge and embraces the six criteria outlined in the Commission’s Analytic Framework, described below.
- Service to Vulnerable Populations— The Replacement Hospital will serve six federally designated medically underserved populations and 28 federally designated health professional shortage areas located within ORMC’s service area. The Replacement Hospital will service a sizeable Medicaid population, a third of which currently seek care at the ORMC. In addition, 20% of households in the PSA have an income level below \$25,000 and 11% of households in the PSA have incomes below \$15,000. Finally, the Institution serves an aging population that will become increasingly vulnerable as it continues to age.
- Availability of Service— The Replacement Hospital is anticipated to support the development of specialty and subspecialty services and related technologies. Since the merger, ORMC has developed specialty services, recruited specialty physicians, and acquired technologies. ORMC now offers cardiac catheterization and electrophysiology, a dedicated bone and joint center, high-tech imaging capabilities, radiation therapy and clinical affiliations for neonatology/perinatology, cardiology and orthopedics. A new facility will enhance ORMC’s ability to provide such services to the community and continue to reverse outmigration that currently hovers around 25%.
- Quality of Care— The Replacement Hospital provides the Institution the opportunity to enhance the care it provides by increasing the depth and the breadth of services and improving the manner in which these services are provided. Patient-centered and evidence-based design concepts that include private rooms, smaller nursing units and service clusters epitomize quality care in a modern hospital. Further, the Replacement

Hospital is designed to house sophisticated information systems that offer electronic medical records to track outcomes and reduce errors.

- Economic Impact— With a budget of \$250+ million and 2,500 employees, ORMC will maintain its role as a significant economic engine by remaining the top non-governmental employer in the region and a major purchaser of goods and services. Further, the Replacement Hospital is expected to create opportunities to reduce operating expenses by over \$8 million by eliminating redundancies and creating operational efficiencies.
- Utilization— The construction of all private rooms is designed to allow ORMC to assign patients to beds without concerns about gender, age or medical condition, thereby helping to improve overall utilization.
- Viability— The Replacement Hospital is expected to promote financial viability with projected operational savings of approximately \$8 million, based on reductions in staff, elimination of routine maintenance costs, improved plant operations, and reduction of duplicate contracts and redundant functions.

The Commission concurred that the Replacement Hospital was consistent with its charge by supporting the project in its final report (“Final Report”), issued in December 2006. The Final Report identified 81 health care organizations throughout New York State subject to specific recommendations, including closure, merger and bed/service reductions or modifications. ORMC believes that the Replacement Hospital project is consistent with the Commission’s recommendation for the Institution.

As stipulated in Recommendation 3 within the Hudson Valley Region Acute Care Region Recommendations portion of the Final Report, ORMC is required to close its two current out-dated campuses and consolidate into a new replacement hospital. Specifically, ORMC’s recommended action states:

“Contingent upon financing, it is recommended that ORMC close its existing campuses and consolidate its operations at a new, smaller replacement facility that is downsized by approximately 100 beds to approximately 350 beds”.

HEAL Grants

In conjunction with the Commission recommendations, ORMC has also been awarded grant funding via New York State’s Healthcare Efficiency and Affordability Law (HEAL NY) totaling \$48.6 million to assist with the planning and construction of the Project, and retirement of the 2002 Bonds, see “PART 4 - PLAN OF FINANCING”. The Institution expects to receive \$24.6 million in HEAL NY 2 funds and \$24 million in HEAL NY 4 funds. The HEAL NY grants are an effort by New York State policy makers to reconfigure and reform the health care delivery system in New York State to produce greater efficiency and community benefit. Approximately \$5,100,000 of the HEAL NY 2 funds have been received by the Institution and the remaining HEAL NY 2 funds are expected to be received periodically during the construction period. The HEAL NY 4 funds were received on April 14, 2008.

Governance and Executive Staff

Board of Directors

The ORMC Board of Directors (“Board”) currently includes 18 members (including ex officio members). The elected members of the Board serve staggered terms, and a maximum of three terms at three years per term. The Directors have been selected to ensure that a variety of community interests and perspectives are represented. Directors reflect a cross-section of the community with residences in seven different service area towns. Board Directors include attorneys, physicians, business leaders, and educators. Members are listed in the table below.

<u>Director Name</u>	<u>Company Affiliation</u>	<u>Terms Expire April</u>
William J. Bassett (Secretary)	Interim Superintendent of Pine Bush School District; former Professor at Mount St. Mary College.	2010
Scott Batulis	<i>President & CEO of ORMC</i>	<i>ex officio</i>
Patricia Claiborne	Executive Director, Cornell Cooperative Extension	2011
Robert Lewis Douglas, MD	Staff Physician in private practice	2011
John Galanti (Treasurer)	Founder and CEO of DataNet Communications Group, Inc.	2009
Louis Heimbach (Vice Chair)	Chairman; President & CEO of Sterling Forest since 1990	2009
Arthur D. Kowaloff	President, financial advisory firm	2009
Sherwood Levitan	CPA in private practice since 1972	2009
Cynthia Lowe	<i>Chairman of the ORMC Foundation</i>	<i>ex officio</i>
Howard Mills	Director, Ulster Community Foundation.	
	Director & Chief Advisor, Insurance Industry Group, Deloitte & Touche LLP	2011
Schuyler Newman, MD	Staff Physician in private practice since 1992	2009
James Oxley, D.O.	Vice President of Medical Affairs for ORMC; staff Physician in private practice	2010
Ronald Raspa, MD	<i>Chief of ORMC Medical Staff;</i> staff Physician in private practice.	<i>ex officio</i>
Richard Shapiro, Esq.	Attorney in private practice	2010
Virginia Silver-Rizzo (Chair)	Consultant in private practice	2009
Patricia B. Simmons	Retired public school educator/administrator	2011
Alanna M. Smith	Orange Ulster BOCES Administrator	2009
John M. Szeftc	Director of Operations for New School University	2011

The Institution's by-laws establish three types of committees: (1) Standing Committees of the Board, (2) Special Committees of the Board; and (3) Corporate Committees. The current Standing Committees of the Board are the Executive Committee, Finance Committee, Audit Committee, and Governance Committee; each Standing Committee has at least three members, all of whom must be Directors. The current Corporate Committees are the Strategic Planning Committee, Bioethics Committee, Performance Improvement Committee, and the Institutional Review Board. The current Special Committees of the Board are the Compliance Committee and the Single Site Consolidation Committee. Both the Special Committees of the Board and the Corporate Committees may be comprised of Directors as well as community members.

Conflict of Interest Policy

ORMC has adopted a conflict of interest policy. Contracts or transactions involving ORMC and any interested director, officer, and other personnel who are in a position to influence any substantial business decision of the Institution or any business in which any such person has a financial interest, are subject to ORMC's conflict of interest policy. The policy includes disclosure by the affected individuals, review by ORMC's Compliance Office and appropriate Board committee and if necessary corrective action. Failure to comply with the policy is grounds for removal from the Board or termination of employment, as applicable.

Executive Staff

ORMC's executive staff is headed by its President and Chief Executive Officer, Scott Batulis. Information regarding select executive staff members is presented below.

Scott Batulis, President & CEO, age 50

Mr. Batulis joined ORMC in August 2006 as President and CEO. Prior to joining ORMC, Mr. Batulis was employed by HealthEast Care System in St. Paul, Minnesota in a variety of roles from 1987 through 2006. Prior to

his departure, he held the positions of Vice President of HealthEast Care System and CEO of St. Joseph's Hospital. His leadership marked a turning point for St. Joseph's, as it had previously announced plans to close its doors. This 401-bed tertiary care teaching hospital, with \$230 million in revenue and staffed with over 2,200 employees, is now a recognized leader in quality care. During his tenure at St. Joseph's, Mr. Batulis initiated a \$20 million capital campaign and directed an \$81 million campus expansion/ renovation plan, the first major construction project approved at St. Joseph's in thirty years. Due to many improvements made at St. Joseph's over a three-year period, the hospital has ranked as one of the Top 100 Hospitals and Top 100 Cardiovascular Hospitals in the US by Solucient. As a Vice President of HealthEast, Mr. Batulis was accountable for the Heart Care and Neuroscience departments in three of the network's hospitals and led the HealthEast Ambulance, Hospice and outreach laboratory businesses. He also served on the Board of Directors for HealthEast Home Care. Prior to joining St. Joseph's, Batulis served as CEO of the 264-bed Bethesda Rehabilitation Hospital (a HealthEast Care hospital). In addition to serving as CEO, he managed HealthEast's six nursing homes, five assisted living facilities, an ambulance company, a medical equipment company, a home health care agency and three retail pharmacies.

Mr. Batulis holds a Masters of Business Administration degree from the University of St. Thomas in St. Paul, Minnesota and a Bachelor of Science degree in Long Term Care Administration from the University of Minnesota. He is a member of the American College of Healthcare Executives.

Mitchell Amado, Chief Financial Officer, age 45

Mr. Amado joined ORMC in June 2003. He is responsible for all financial services, financial planning and treasury management for ORMC. Prior to joining ORMC, Mr. Amado was the Chief Operating Officer at The Kingston Hospital in Kingston, New York from March 2002 through June 2003. Mr. Amado also served as the Chief Financial Officer at The Kingston Hospital from March 1999 through March 2002. During his tenure at The Kingston Hospital, Mr. Amado was responsible for implementing strategic and financial initiatives that resulted in the development of a state-of-the-art dialysis center; the recruitment of physicians for emergency room and radiology services; the addition of a new angiography program; the addition of a new 18,000 square foot building to house MRI, outpatient surgery prep and recovery space, and conference center; a reduction of days in accounts receivable from 85 to 57; and the introduction of a workplace safety program that resulted in \$300,000 in annual workers' compensation savings. Prior to his tenure at Kingston Hospital, Mr. Amado served as Director of Finance at Horton Medical Center.

Mr. Amado is former Chairman of the Board of the Hudson Valley Senior Residents Adult Home, former Board Member and Chairman of the finance committee for Ulster/Greene Counties ARC, and served on the New York State ARC statewide finance committee. Mr. Amado received his B.S. in Accounting from LeMoyne College in Syracuse, New York.

Joseph Anesi, General Counsel, age 49

Mr. Anesi joined ORMC as General Counsel in September 2007. He has over 20 years of diverse legal experience, including 13 years in health and managed care law, contracting, healthcare regulatory and transactional work, as well as 7 years in general business and corporate practice, litigation and arbitration. Prior to joining ORMC, Mr. Anesi served as Associate General Counsel for United Health Care/Oxford Health Plans since September 2003, where he negotiated provider contracts with hospitals and physician groups throughout the Northeast. Prior to that, Mr. Anesi spent 10 years as counsel at Univera Healthcare-CNY, Inc. where he provided a variety of legal support, including advising senior management regarding managed care operations, represented Univera to the New York State Departments of Health and Insurance, and negotiated comprehensive medical services agreements with numerous IPAs and PHOs.

Mr. Anesi graduated from the University of Rochester with a BA degree and then went on to earn his JD from Duke University School of Law. Mr. Anesi also holds an MPH degree from the Harvard University School of Public Health. He was admitted to the New York State Bar in February 1985.

Wayne Becker, Vice President - New Projects, age 54

Mr. Becker was appointed to his current role as Vice President New Projects in 2003. In this role, Mr. Becker is largely responsible for overseeing ORMC's project to construct the Replacement Hospital and close its existing campuses. Prior to his current role, Mr. Becker served as Executive Vice President and Chief Operating Officer of ORMC from 2000 to 2003. Mr. Becker's career with ORMC began in 1975 as a staff pharmacist at Arden Hill Hospital. He was named Director of Pharmacy in 1980 and from 1982 until the merger in 2000, Mr. Becker has held several positions, including Administrative Coordinator, Assistant Executive Director, Associate Executive Director, Vice President Operations, and Executive Vice President/ Administrator.

Mr. Becker received his B.S. in Pharmacy degree from the Albany College of Pharmacy. He received his Masters of Professional Health Services Administration from New School for Social Research. Mr. Becker is a Fellow of the American College of Healthcare Executives.

James Oxley, D.O., Vice President of Medical Affairs, age 60

Dr. Oxley has recently accepted the position of Vice President for Medical Affairs. From 1985 to the present, Dr. Oxley was Director of Emergency Services through his own practice, first at Arden Hill Hospital and then for ORMC following the merger. Prior to that, Dr. Oxley served as Chief of the Internal Medicine Clinic at Keller Army Hospital at West Point, New York. Dr. Oxley is board certified in both internal medicine and emergency medicine.

Dr. Oxley received his undergraduate degree from the United States Military Academy in 1970 and served in the Army as a Special Services Officer. He earned a D.O. degree from the Philadelphia College of Osteopathic Medicine in 1978. He completed internship and residency programs at Letterman Army Medical Center in San Francisco, California.

Rosemary L. Frado, Vice President - Planning and Marketing, age 56

Ms. Frado has been the Vice President for Planning and Marketing for ORMC since 2001. In this role, she is responsible for strategic and business planning, regulatory filings and all marketing initiatives. From 1984 to 2001, Ms. Frado owned and operated her own management consulting firm, RLF Management Consulting, specializing in strategic planning, regulatory consulting, and project management. Her prior clients included specialty hospitals, community hospitals and academic medical centers. From 1975 to 1984, Ms. Frado worked as a consultant at Booz Allen & Hamilton, where in 1983 she was made Partner. At Booz Allen, Ms. Frado was responsible for the firm's national practice in hospital systems. She specialized in strategic planning, organizational planning and financial feasibility.

Ms. Frado graduated Cum Laude from Mt. Holyoke College with a Bachelor of Arts Degree and received her MBA with concentrations in finance and healthcare administration from the University of Chicago.

Medical Staff

Members of ORMC's medical staff are appointed by the Board pursuant to the Medical Staff Bylaws that have been adopted and approved by the Board. As of December 31, 2007 ORMC's medical staff totaled 489 physicians with an average age of 47 years. On an aggregate basis, 93.5% of ORMC's medical staff physicians are board certified; this exceeds the national average board certification rate of 89.0%.

ORMC maintains a relatively young medical staff with the average age of the 20 top admitting physicians being 41. Nearly 60% of ORMC's 2007 discharges were from physicians age 44 and under. In addition, over 70% of the medical staff is under the age of 55 with physicians age 65 and over representing about 5.1% of ORMC's medical staff and 2.3% of total discharges. This compares favorably with national data that indicate that 18.3% of physicians in the United States are over the age of 65. Management believes these statistics indicate that ORMC is insulated from decline due to physician retirement and has the potential for growth as existing physician practices mature.

ORMC has actively recruited physicians in recent years. From 2002 to 2007, the Institution had a net increase of 109 physicians; during this period 358 physicians joined the staff while 249 withdrew as a result of retirement, succession and time off. ORMC has increased its medical staff across virtually all major medical specialties. The success of the recruitment program has largely been the result of efforts by the hospital and area physician groups working collaboratively.

For additional information regarding ORMC's medical staff, refer to the "Medical Staff Profile" section of the Financial Feasibility Analysis in Appendix C.

ORMC Service Areas

Description of Service Areas

ORMC is located in central Orange County. Its primary service area (PSA) is comprised of 11 towns that surround the two campuses from which ORMC draws approximately 65% of its total discharges. Nine of the towns are located in Orange County and two are located in Sullivan County, which borders Orange County to the northwest.

From 2005 to 2006, the Institution discharges from its PSA increased by 2.1% from 13,192 to 13,469 and ORMC's PSA discharges remained at approximately 65.0% of its total discharges.

ORMC's secondary service area (SSA) is defined based on a wider geographic region of twenty zip codes, which comprised 20.9% of total 2006 discharges. ORMC experienced discharge growth from its SSA of 3.1% from 2005 to 2006. Based on population growth prospects in the region (see population discussion below), the Institution expects to draw an increasing number of patients from its SSA as it expands tertiary services. ORMC also experienced a slight increase in SSA market share from 14.7% in 2004 to 15.8% in 2006.

For additional information regarding ORMC's service areas, refer to the "Service Area Analysis" section of the Financial Feasibility Analysis in Appendix C.

Demographic Characteristics of the Service Area

Population information for the Institution's service area, the State of New York, and the United States was compiled by the Environmental Systems Research Institute (ESRI). The data are based on the 2000 census, with 2007 estimates and 2012 projections.

According to the 2000 U.S. Census, the population for the entire service area was approximately 351,383 and is projected to grow by 20.6% to 423,621 persons by 2012.

The 45-64 age cohort, the fastest growing segment of the US population, is anticipated to be over one-quarter of the patient population in 2012 for The Institution's total service area. This rapidly growing age cohort is projected to grow at a 2.6% CAGR per year from 2007 to 2012 in the overall service area.

The forecasted CAGR of 1.5% for the total service area population is expected to outpace both New York State's rate of 0.4% per year and the United States' rate of 1.4% per year.

Moreover, Orange County's CAGR for its population from 2007 to 2012 is approximately 1.4% per year, which is more than three times the growth rate forecasted for New York State and is one of the fastest growing counties in the State and the fastest growing county with a population over 250,000.

For additional information regarding service area demographics, refer to the "Demographic Characteristics of the Service Area" section of the Financial Feasibility Analysis in Appendix C.

Labor Force and Economics

ORMC is located within the U.S. Department of Labor's (USDOL) Bureau of Labor Statistic's Poughkeepsie-Newburgh-Middletown, NY statistical region (the Region). The Region includes labor force data for 10 separate industry sectors. Overall labor force growth was 0.6% from December 2006 through December 2007. Moreover, eight out of the ten industry sectors identified in the Region experienced growth over the same time period ranging from +0.2% in the *Trade, Transportation and Utilities* sector to +4.3% in the *Information* sector.

Housing Market

The regional housing market has paralleled the population growth in Orange County. Orange County is now considered a desirable and affordable location to establish residency while remaining in close proximity to major area employers. As a result, the housing market in Orange County experienced consistent growth in single-family home sales from 3,281 in 2000 to 3,685 in 2005 (+12.3%). Increases were also significant when examined based on single family home permits. Orange County single family home permits increased from 790 in 1990 to 1,480 in 2004. ORMC management believes that the single family housing starts in its regional housing area is favorable compared to national and state trends.

Orange County issued permits in 2006 for the construction of 1,033 single-family homes. Permits for the construction of single family homes have exceeded over 1,000 per year since 1998 through 2006.

Employment

As of June 2007, there were approximately 326,400 persons employed in the Poughkeepsie-Newburgh-Middletown Region. The Region's December 2007 unemployment rate of 4.1% continues to be below that of New York State (4.9%) and the United States (5.0%), reflecting the strong economic development taking place in the area.

Median Household Income

The median household income for Orange County was \$52,734 in 2000 and is projected to grow at a CAGR of 3.7% per year to approximately \$80,829 in 2012. The 2012 projected PSA and SSA median income levels are \$80,613 and \$75,712 respectively; both greater than New York State projected median household income of \$68,000 suggesting economic strength and favorable demographics in the county.

For additional information regarding service area demographics, refer to the "Socioeconomic Characteristics of the Service Area" section of the Financial Feasibility Analysis in Appendix C of the Official Statement.

Market Share

Area Competitors

ORMC's management has identified the hospitals listed below as competitors based on their location and percentage of discharges from the primary and secondary service areas. Note that 2006 discharge and market share data is the latest available from the New York State SPARCS data base.

<u>Key Facility Name</u>	<u>Location</u>	<u>County</u>	<u>Certified Beds</u> ^(a)	<u>Total 2006 Discharges</u> ^(b)	<u>Distance from Replacement Facility (Mi)</u> ^(c)
Orange Regional – Horton Campus	Middletown, NY	Orange	276	15,207	4.1
Orange Regional – Arden Hill Campus	Goshen, NY	Orange	174	7,576	6.4
Total ORMC Combined			450	22,783	NA
St. Lukes Cornwall Hospital-Cornwall ^(d)	Cornwall, NY	Orange	147	11,650	26.8
St. Lukes Cornwall Hospital-Newburgh ^(d)	Newburg, NY	Orange	242	NA	21.0
Total St. Lukes/Cornwall combined			389	11,650	NA
Westchester Medical Center	Valhalla, NY	Westchester	635	19,991	51.0
Catskill Regional Medical Center	Harris, NY	Sullivan	161	5,235	33.2
St. Anthony Community Hospital	Warwick, NY	Orange	73	2,569	15.5
Bon Secours Community Hospital	Port Jervis, NY	Orange	137	4,070	21.4
Good Samaritan Hospital of Suffern ^(e)	Suffern, NY	Rockland	370	11,427	37.7

^(a) Bed counts for Orange Regional, provided by Management, are certified beds. Certified bed counts were obtained from the American Hospital Directory. Certified bed counts include acute care, neonatal intensive care, behavioral health, and rehabilitation beds.

^(b) Discharges include normal newborns.

^(c) Distances calculated using MapQuest North American mapping software.

^(d) St. Lukes Cornwall's discharges are reported on a combined basis and therefore could not be displayed separately.

^(e) Good Samaritan primarily provides obstetrical services to patients within The Institution's service area.

In the PSA, ORMC maintained a 61.5% market share in 2006 and has demonstrated consistently strong market share in 2005 (61.7%) and 2004 (62.8%). No other hospital competitor holds a PSA market share over 6.0%. Westchester Medical Center had the highest market share in 2006 at 5.9%. ORMC's market share of over 60.0% represents a dominating presence, with modest fluctuation due to high occupancy and/or limited capacity. ORMC's strong market position is enhanced by Westchester Medical Center and Montefiore Medical Center which have established affiliations with the Institution.

Secondary service area discharges are dispersed across a number of facilities, with ORMC holding a 15.8% market share in 2006, second only to St. Luke's/Cornwall Hospital which is located in the SSA. St. Luke's Cornwall held approximately 33.4% of the market, down from 34.6% in 2006.

Overall, market share remained relatively steady for all area hospitals during the previous four years. The majority of area facilities witnessed growth or declines in market share by only a few tenths of a percentage point.

Outpatient Competition

A number of sizable private, multi-specialty physician groups in the Orange County region compete with ORMC for outpatient services. The largest of these groups is Crystal Run Healthcare with approximately 120 physicians located in Middletown and Goshen (Orange County), and Rock Hill and Liberty (Sullivan County). However, on an inpatient basis, these identified physician groups comprise a significant portion of ORMC's admissions and are reliant on the Institution as a partner in providing medical care to the community.

For additional information regarding service area demographics, refer to the "Competitive Environment" section of the Financial Feasibility Analysis in Appendix C.

Utilization

Inpatient Utilization Statistics

Total discharges decreased 4.2% during 2007 as compared to 2006; however, year-to-date February 2008 discharges have increased 3.2% from the same period in 2007. ORMC's total discharges experienced a 5.7% increase in 2006 compared to 2005 following a slight decline of 1.1% in 2005. However, the 2005 decline was preceded by volume increases of 2.9% in 2004 and 6.3% in 2003 (not shown in table). ORMC continues to focus on recruitment of specialty physicians and development of specialty services to fuel inpatient growth. Despite the volume decrease from 2006 to 2007, it should be noted that 2006 was marked by uncharacteristically high volume

and that ORMC's 2007 volume exceeded its annual volume for the years 2003 through 2005. The decline in 2007 occurred in acute care, rehabilitation and mental health services, as described below:

- Acute Care— The 2007 discharge level is due, in part, to the retirement of several active physicians. Continued physician recruitment efforts are expected to address this issue. In fact, since January 2007, the Institution has added 38 physicians to its medical staff, including two orthopedists, one general surgeon, one cardiologist and one neurologist. In addition, delays generated by the New York State Department of Health in its review and approval of cardiac services statewide (*i.e.* angioplasty) have forced several of ORMC's high volume cardiologists to temporarily shift a portion of their cases to full service cardiac centers located outside of the area. Emergent angioplasty at ORMC (the first step toward a full angioplasty program) was approved in early February 2008 by the New York State Department of Health and the service commenced immediately thereafter. At the same time, ORMC continues to advocate for approval of elective angioplasty services. This approval could trigger the return of cardiac volume currently being shifted outside the area.
- Mental Health— As a result of the closure of a nearby State operated long-term psychiatric facility, ORMC has experienced an increase in chronic mental health discharges with longer lengths of stay. The result has been higher occupancy at ORMC which in turn has limited its capacity to admit patients.
- Rehabilitation— Rehab volume has declined due primarily to the "75% Rule" that requires 75% of the total rehab patient population at a health care facility to receive treatment for one or more of 13 specific conditions; the 75% rule effectively reduces the number of overall patients who qualify for rehab services, resulting in the decrease (see "Reimbursement Methodologies- Medicare" below). Effective January 1, 2008 the 75% rule has been amended to 60% which is expected to result in higher rehabilitation volume moving forward.

Outpatient Utilization Statistics

ORMC's outpatient volume decreased 7.5% in 2007; however, total outpatient visits for ORMC have increased steadily on an annual basis from 2003 through 2006. During this timeframe, Management expanded ORMC's market area by developing satellite offices, and promoting medical staff collaboration. Also, the Institution opened its Cardiac Cath Lab in 2004 and its Oncology Center in Goshen in 2005. In addition, ORMC invested in high technology equipment in oncology, endoscopy and imaging services and recently opened an 83,000 square foot addition to its primary outpatient site through a third party developer which will be leased to the Institution and physicians. The outpatient utilization table that follows presents outpatient volume statistics for fiscal years ended December 31, 2005 through December 31, 2007 along with year-to-date February 2008 and year-to-date February 2007. As noted, the Institution experienced a drop of 7.5% in its outpatient total volume from 2006 to 2007. However, it should be noted that a significant portion of that drop is due to a decline in laboratory testing, which has minimal impact on ORMC's financial results. Three primary factors have driven this overall decline:

- Reduction in ORMC Employee Benefits— ORMC is a self-insured company for health care benefits. Recently, in an effort to reduce expenses, ORMC shifted selected benefit expenses to its employees through increased co-pay amounts. The result has been a reduction in the number of outpatient visits by ORMC employees. The impact of this cost shift is most evident in the nearly 20,000 visit reduction for PT/OT/Speech Therapy.
- Site Closures- Following thorough evaluations regarding its operating models, ORMC decided to either close or consolidate several sites over the last 12 months. To date, ORMC has consolidated its two physical therapy centers into one and closed four small stand alone imaging centers, transferring their volume to other nearby satellites.

- Outpatient Competition— Several private multi-specialty physician practices and for-profit companies offer outpatient testing and diagnostic services in ORMC's market area, particularly in diagnostic imaging and cardiology.

ORMC recognizes that outpatient volumes are driven, in large part, by physician referrals. As a result, ORMC has assigned a senior staff member to act as liaison with medical staff and their office staff on a one-to-one basis.

The tables on the following two pages present inpatient and outpatient volume statistics for fiscal years ended December 31, 2005 through December 31, 2007, along with year-to-date February 2007 and 2008 statistics.

Orange Regional Medical Center Inpatient Utilization Statistics

	<u>Discharges</u>			<u>YTD Feb</u>	<u>YTD Feb</u>
	<u>Year Ended December 31</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>		
<u>Arden Hill Hospital</u>					
Medical/Surgical	5,775	6,117	5,830	967	1,048
Obstetrics/Delivery*	601	214	0	0	0
Nursery*	530	193	0	0	0
Mental Health	<u>1,005</u>	<u>1,052</u>	<u>1,003</u>	<u>153</u>	<u>167</u>
Total Discharges	7,911	7,576	6,833	1,120	1,215
<u>Horton Medical Center</u>					
Medical/Surgical	10,037	10,676	10,101	1,619	1,701
Obstetrics/Delivery	1,405	1,803	2,072	324	291
Nursery	1,375	1,837	1,969	295	268
Rehabilitation	<u>835</u>	<u>891</u>	<u>852</u>	<u>144</u>	<u>138</u>
Total Discharges	13,652	15,207	14,994	2,382	2,398
ORMC Total Discharges	<u>21,563</u>	<u>22,783</u>	<u>21,827</u>	<u>3,502</u>	<u>3,613</u>
Growth from Prior Period	-1.1%	5.7%	-4.2%		3.2%

*OB unit merged at Horton Campus in May 2006.

	<u>Patient Days</u>			<u>YTD Feb</u>	<u>YTD Feb</u>
	<u>Year Ended December 31</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>		
<u>Arden Hill Hospital</u>					
Medical/Surgical	31,001	33,041	29,687	5,167	5,757
Obstetrics/Delivery*	1,840	615	0	0	0
Nursery*	1,258	448	0	0	0
Mental Health	<u>10,307</u>	<u>11,439</u>	<u>11,961</u>	<u>2,014</u>	<u>1,814</u>
Total Patient Days	44,406	45,543	41,648	7,181	7,571
<u>Horton Medical Center</u>					
Medical/Surgical	50,025	52,010	52,016	8,667	8,974
Obstetrics/Delivery	4,309	5,120	5,436	874	822
Nursery	3,187	4,267	4,628	691	666
Rehabilitation	<u>9,751</u>	<u>9,731</u>	<u>9,588</u>	<u>1,688</u>	<u>1,643</u>
Total Patient Days	<u>67,272</u>	<u>71,128</u>	<u>71,668</u>	<u>11,920</u>	<u>12,105</u>
ORMC Total Patient Days	<u>111,678</u>	<u>116,671</u>	<u>113,316</u>	<u>19,101</u>	<u>19,676</u>
Growth from Prior Period	-2.0%	4.5%	-2.9%		3.0%

<u>Arden Hill Hospital</u>					
Available beds and bassinets	179	179	179	179	179
Average Length of Stay	5.6	6.0	6.1	6.4	6.2
Average Daily Census	121.7	124.8	114.1	121.7	126.2
% Occupancy (Available)	68.0%	69.7%	63.7%	68.0%	70.5%

<u>Horton Medical Center</u>					
Available beds and bassinets	239	239	239	239	239
Average Length of Stay	4.9	4.7	4.8	5.0	5.0
Average Daily Census	184.3	194.9	196.4	202.0	201.8
% Occupancy (Available)	77.1%	81.5%	82.2%	84.5%	84.4%

Orange Regional Medical Center Outpatient Utilization Statistics

	<u>Fiscal Years Ended December 31</u>			<u>YTD February 28/29</u>	
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>
Arden Hill Campus					
Surgery	2,048	2,704	2,773	482	414
Emergency Room (OP Only)	22,058	21,630	20,875	3,294	3,207
Endoscopy Procedures	1,391	1,074	469	97	124
Behavioral Health Visits	1,226	1,201	1,269	242	175
Laboratory Procedures	75,881	76,108	74,192	12,232	13,689
Imaging Procedures	26,388	27,870	25,671	4,268	3,797
Sleep Lab	1,480	1,540	1,455	239	217
Respiratory & Pulmonary Function	3,331	3,654	3,168	582	81
Cardiology Services	10,157	9,165	8,226	1,448	1,353
Pt/Ot/Speech Procedures	48	58	113	19	31
Other Outpatient Procedures	<u>2,411</u>	<u>2,652</u>	<u>2,626</u>	<u>440</u>	<u>356</u>
Total Arden Hill Visits	146,419	147,646	140,837	23,343	23,444
Growth from Prior Period	-6.6%	0.8%	-4.6%		0.4%
Horton Campus					
Surgery	4,372	4,910	4,407	771	619
Emergency Room (OP Only)	25,272	26,610	25,976	4,138	4,411
Endoscopy Procedures	2,435	3,439	3,195	475	482
Laboratory Procedures	250,607	259,442	249,185	40,037	41,760
Imaging Procedures	37,298	35,141	29,862	4,899	5,079
Oncology	10,860	8,934	9,286	1,530	1,612
Radiation Oncology	744	452	333	19	8
Cath Lab Visits	315	415	341	62	44
Respiratory & Pulmonary Function	1,553	1,359	1,093	237	104
Cardiology Services	19,585	23,217	19,446	3,598	3,126
Pt/Ot/Speech Procedures	-	-	-	-	-
Other Outpatient Procedures	<u>11,182</u>	<u>11,964</u>	<u>11,150</u>	<u>1,976</u>	<u>1,483</u>
Total Horton Visits	364,223	375,883	354,274	57,742	58,828
Growth from Prior Period	-0.7%	3.2%	-5.7%		1.9%
Satellite Facilities					
Surgery	3,193	2,958	2,733	483	396
Endoscopy	5,464	5,205	6,526	1,002	1,040
Laboratory Procedures	107,958	109,037	95,760	15,230	10,886
Imaging Procedures	80,634	88,463	85,770	15,202	13,108
Oncology (Goshen Infusion)	6,728	8,932	8,520	1,404	1,405
Radiation Oncology	30,518	33,380	34,644	5,197	5,314
Substance Abuse Program	6,321	6,692	6,141	903	1,185
Behavioral Health Visits	5,553	4,620	3,320	529	480
Respiratory & Pulmonary Function	-	-	220	216	595
Wound Care	5,458	3,181	-	-	-
Pt/Ot/Speech Procedures	79,874	82,281	64,749	11,880	8,859
Cardiology Services	3,599	3,553	3,195	598	534
Other Outpatient Procedures	<u>2,891</u>	<u>2,522</u>	<u>2,072</u>	<u>237</u>	<u>123</u>
Total Satellite Visits	338,191	350,824	313,650	52,854	43,925
Growth from Prior Period	7.8%	3.7%	-10.6%		-16.9%
Total ORMC Outpatient Visits					
Total ORMC Outpatient Visits	848,833	874,353	808,761	133,939	126,197
Growth from Prior Period	1.4%	3.0%	-7.5%		-5.8%

Summary of Historical Financial Performance

The following consolidated statements of operations for ORMC have been prepared by ORMC Management. The data for years ended December 31, 2005, 2006 and 2007 were derived by ORMC Management from ORMC's audited consolidated financial statements, except that investment income has been reclassified from operating revenue to non-operating investment income. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B, as well as the financial information under "Management's Discussion of Recent Financial Performance" in this Appendix A. The consolidated financial statements of ORMC for fiscal years ended December 31, 2005, 2006 and 2007 have been audited by KPMG LLP, independent accountants.

	Orange Regional Medical Center			Consolidated Statements of Operations	
	Year Ended December 31			YTD February 28/29	
	<u>2005</u> <u>(audited)</u>	<u>2006</u> <u>(audited)</u>	<u>2007</u> <u>(audited)</u>	<u>2007</u> <u>(unaudited)</u>	<u>2008</u> <u>(unaudited)</u>
Revenue					
Net patient service revenue	\$245,057,723	\$269,250,738	\$274,209,994	\$43,952,363	\$47,547,550
Other Revenue	4,214,378	5,718,851	6,167,934	562,480	914,601
Net assets released from restriction of operations	<u>156,585</u>	<u>177,537</u>	<u>111,570</u>	<u>7,206</u>	<u>7,314</u>
Total Operating Revenue	<u>249,428,686</u>	<u>275,147,126</u>	<u>280,489,498</u>	<u>44,522,049</u>	<u>48,469,465</u>
Expenses:					
Salaries and wages	112,038,740	118,381,341	122,892,312	19,955,307	20,794,268
Employee benefits	34,839,036	39,028,247	39,856,612	7,373,494	7,032,386
Supplies	38,251,882	46,634,820	47,403,097	7,478,278	7,873,980
Purchases services, insurance & other	37,347,461	44,225,202	47,264,735	7,521,121	7,530,321
Provision for bad debt, net of recovery	9,842,233	11,355,722	7,130,553	1,139,055	1,356,555
Loss on extinguishment of debt	<u>—</u>	<u>807,675</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Operating Expenses	<u>232,319,352</u>	<u>260,433,007</u>	<u>264,547,309</u>	<u>43,467,255</u>	<u>44,587,510</u>
Income from Operations (excluding investment income, depreciation, amortization and interest expense)	17,109,334	14,714,119	15,942,189	1,054,794	3,881,955
Nonoperating gains	450,484	1,034,520	733,021	202,675	527
Investment income	<u>1,661,304</u>	<u>2,702,003</u>	<u>3,811,102</u>	<u>637,621</u>	<u>283,275</u>
EBIDA	19,221,122	18,450,642	20,486,312	1,895,090	4,165,757
Depreciation and amortization	12,713,337	12,004,431	10,789,104	1,759,617	1,892,624
Interest Expense	<u>2,298,616</u>	<u>2,962,086</u>	<u>2,754,375</u>	<u>572,219</u>	<u>469,687</u>
Excess of revenues, gains and other support over expenses	<u>\$4,209,169</u>	<u>\$3,484,125</u>	<u>\$6,942,833</u>	<u>\$ (436,746)</u>	<u>\$1,803,446</u>

Source: Audited financial statements for ORMC for the years ended December 31, 2005, 2006 and 2007 and unaudited financial statements for year-to-date February 2007 and 2008

The following consolidated balance sheets for ORMC have been prepared by Management. The data for December 31, 2005, 2006 and 2007 are derived by Management from ORMC's audited consolidated financial statements prepared. The data presented in the following table should be read in conjunction with the audited financial statements presented in Appendix B. The consolidated financial statements of ORMC for fiscal years ended December 31, 2005, 2006 and 2007 have been audited by KPMG LLP, independent accountants.

**Orange Regional Medical Center
Consolidated Balance Sheets**

	Fiscal Years Ended December 31,			Two Months Ended February 28,	Two Months Ended February 29,
	2005	2006	2007	2007	2008
	<u>(audited)</u>	<u>(audited)</u>	<u>(audited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets					
Current assets:					
Cash and cash equivalents	\$22,084,519	\$41,730,433	\$35,288,904	\$44,215,882	\$32,862,343
Patient accounts receivable, net investments	39,281,642	38,739,114	35,170,418	36,128,492	37,149,978
Investments	23,821,354	18,076,281	18,408,239	18,770,883	18,826,954
Other current assets	<u>8,252,731</u>	<u>9,694,187</u>	<u>11,279,677</u>	<u>9,606,794</u>	<u>12,879,738</u>
Total current assets	93,440,246	108,240,015	100,147,238	108,722,051	101,719,013
Assets limited or restricted as to use					
Property, plant and equipment, net	11,338,236	12,449,905	8,590,572	10,048,109	8,859,104
Interest in net assets of Orange Regional Medical Center Foundation, Inc.	64,493,012	49,124,622	68,423,390	51,354,578	72,315,620
Other assets, net	2,224,118	2,304,305	11,704,491	2,324,683	11,664,903
	<u>6,125,221</u>	<u>5,960,782</u>	<u>3,420,839</u>	<u>5,854,843</u>	<u>3,296,261</u>
Total assets	<u>\$177,620,833</u>	<u>\$178,079,629</u>	<u>\$192,286,530</u>	<u>\$178,304,264</u>	<u>\$197,854,901</u>
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$6,726,743	\$5,156,740	\$4,010,448	\$4,817,787	\$4,256,939
Accounts payable and accrued expenses	37,620,107	38,436,886	35,701,551	39,469,987	38,232,971
Estimated third-party-payor liabilities, net	970,000	70,013	822,190	681,262	871,671
Current Portion of Deferred Gain	<u>-</u>	<u>898,641</u>	<u>855,228</u>	<u>748,867</u>	<u>712,690</u>
Total current liabilities	45,316,850	44,562,280	41,389,417	45,717,903	44,074,271
Long-term debt, net of current installments					
Other liabilities	46,715,821	39,030,141	34,912,479	38,589,562	35,468,444
Accrued retirement benefits	14,385,599	13,804,062	12,716,706	14,068,610	13,251,625
Deferred Gain – Net of Current Portion	25,802,508	20,582,983	13,312,116	20,213,752	11,817,650
	<u>-</u>	<u>6,035,062</u>	<u>5,179,834</u>	<u>6,035,062</u>	<u>5,179,834</u>
Total liabilities	<u>132,220,778</u>	<u>124,014,528</u>	<u>107,510,552</u>	<u>124,624,889</u>	<u>109,791,824</u>
Net assets:					
Unrestricted	39,452,808	47,901,190	68,538,430	47,565,980	71,842,420
Temporarily restricted	3,731,222	3,993,350	14,243,784	3,936,267	14,226,815
Permanently restricted	2,216,025	2,170,561	1,993,764	2,177,128	1,993,842
Total net assets	<u>45,400,055</u>	<u>54,065,101</u>	<u>84,775,978</u>	<u>53,679,375</u>	<u>88,063,077</u>
Total liabilities and net assets	<u>\$177,620,833</u>	<u>\$178,079,629</u>	<u>\$192,286,530</u>	<u>\$178,304,264</u>	<u>\$197,854,901</u>

Source: Audited financial statements for ORMC for the years ended December 31, 2005, 2006 and 2007 and unaudited financial statements for year-to-date February 2007 and 2008

Management's Discussion of Recent Financial Performance

Recent Developments

In October 2006, ORMC sold its outpatient medical pavilion with a historical cost of approximately \$18.8 million and accumulated depreciation of \$8.0 million for a sale price of \$18.9 million. Simultaneously, the Hospital's Series 2002A Variable Rate Civic Facility Revenue Bonds (Horton Medical Center West Hudson Facility Project) in the amount of \$9.8 million were redeemed and the Hospital received cash proceeds of approximately \$8.2 million relating to the disposal of the building. As part of the transaction, the Hospital leased back the entire building through 2016. Accordingly the gain of \$7.2 million was recognized in the accompanying consolidated

balance sheet as deferred revenue and is being recognized as an offset to rental expense over the life of the new operating lease.

Year-to-Date 2008 Compared to Year-to-Date 2007

Operating revenues for ORMC increased \$3.9 million, or 8.9% for the two months ended February 29, 2008 over the same period in 2007. Operating expenses increased by \$1.1 million, or 2.6% for the same period.

Salaries and employee benefits increased \$0.5 million, or 1.8% for the two months ended February 29, 2008 over the same period in 2007. Supplies increased \$0.4 million, or 5.3%, purchased services, insurance and other expenses remained consistent. Bad Debt Expense increased \$0.2 million, or 19.1%.

Excess of revenue over expenses for ORMC increased \$2.2 million over a loss of \$0.4 million for the two months ended February 28, 2007. ORMC's earnings (excluding investment income) before interest expense, depreciation and amortization (EBIDA) increased \$2.8 million, or 268.0% for the two months ended February 29, 2008 versus the same period in 2007.

ORMC's total assets increased by \$19.6 million from February 28, 2007 to February 29, 2008, or a 11.0% increase. Cash and equivalents and short-term investments decreased by \$11.3 million, or 25.7% for the same period. Current assets decreased \$7.0 million, or 6.4%, while current liabilities decreased by \$1.6 million, or 3.6%, which is reflective of Project expenditures funded from equity sources. Within current assets, net patient accounts receivable increased by \$1.0 million, or 2.8%. Net days in patient accounts receivable remained stable at 47.8 days. Net property, plant and equipment increased by \$21.0 million, or 40.8%. Long term debt, including current maturities, decreased by \$3.7 million, or 8.5%. Total net assets increased \$19.6 million, or 10.9% for the period February 28, 2007 through February 29, 2008.

Fiscal Year 2007 Compared to Fiscal Year 2006

Operating revenues for ORMC increased \$5.3 million, or 1.9% for the year ended December 31, 2007 over the same period in 2006. Operating expenses increased by \$4.1 million, or 1.6% for the same year-over-year period.

Salaries and employee benefits increased \$5.3 million, or 3.4% for the year ended December 31, 2007 over the same period in 2006. Supplies increased \$0.77 million, or 1.7%, purchased services, insurance and other increased \$3.0 million, or 6.9%. Bad debt expense decreased \$4.2 million, or 37.2%.

Excess of revenue over expenses for ORMC increased \$2.9 million, or 82.0%, for the year ended December 31, 2007 versus the same period in 2006. ORMC's earnings (excluding investment income) before interest expense, depreciation and amortization (EBIDA) increased \$1.2 million, or 8.4% for the year ended December 31, 2007 versus the same period in 2006.

ORMC's total assets increased by \$14.2 million from December 31, 2006 to December 31, 2007, an 8.0% increase. Cash and equivalents and short-term investments decreased by \$6.1 million, or 10.2% for the same period. Current assets decreased \$8.1 million, or 7.5%, while current liabilities decreased \$3.2 million, or 7.1%. Within current assets, net patient accounts receivable decreased \$3.6 million, or 9.2%. Net days in patient accounts receivable went from 52 days at December 31, 2006, to 47 days at December 31, 2007, a 9.6% decrease. Net property, plant and equipment increased by \$19.3 million, or 39.3%. Long-term debt, including current maturities, decreased by \$5.3 million, or 11.9%. Total net assets increased \$14.2 million, or 8.0%, for the year ended December 31, 2007.

Fiscal Year 2006 Compared to Fiscal Year 2005

Operating revenue for ORMC increased \$25.7 million, or 10.3% from 2005 to 2006. Revenue growth was driven by increased outpatient volume, as well as an increase in both the Medicare and Medicaid Case Mix Indices. Operating expenses increased \$28.1 million, or 12.1%, compared year-over-year.

Salaries and wages and employee benefits expenses increased by \$10.5 million, or 7.1% from 2005 to 2006. Supplies expenses increased \$8.4 million, or 21.9%, purchased services, insurance and other increased by \$6.9 million, or 18.4%. Bad debt expense increased \$1.5 million, or 15.4%.

Excess of revenues over expenses for ORMC was \$3.5 million in 2006 versus \$4.2 million in 2005, a decrease of 17.2%. ORMC's EBIDA was \$14.7 million and \$17.1 million, respectively, for 2006 and 2005, a decrease of 14.0%. Cash and cash equivalents and short-term investments increased \$13.9 million, or 30.3%. Current assets increased \$14.8 million, or 15.8%, while current liabilities decreased \$0.8 million, or 1.7%. Within current assets, net patient accounts receivable decreased \$0.5 million, or 1.4%. Net days in patient accounts receivable went from 58 days in December 31, 2005, to 52 days in December 31, 2006, a 10.3% decrease.

Selected Financial Statistics

The following table presents selected historical financial statistics, reflecting ORMC's profitability, liquidity and leverage. As of February 29, 2008 ORMC had contributed approximately \$18 million to Project expenditures which will comprise an equity contribution to the Series 2008 Bonds plan of finance. Consequently, liquidity reserves for the period ending February 29, 2008 have been reduced from the prior period.

	Fiscal Year Ended,			Two Months Ended,	
	12/31/2005 (audited)	12/31/2006 (audited)	12/31/2007 (audited)	2/28/2007 (unaudited)	2/29/2008 (unaudited)
<u>Profitability Ratios</u>					
Operating Revenue Growth (%) ⁽¹⁾	N/A	10.3%	1.9%	N/A	8.9%
EBIDA Margin (%) ⁽²⁾	7.7%	6.6%	7.2%	4.2%	8.5%
Operating Margin (%) ⁽³⁾	0.8%	-0.1%	0.9%	-2.9%	3.1%
<u>Liquidity Ratios</u>					
Cushion Ratio (x) ⁽⁴⁾	5.1x	7.7x	8.4x	N/M	N/M
Cash to Debt (%) ⁽⁵⁾	85.9%	135.3%	138.0%	145.1%	130.1%
<u>Leverage Ratios</u>					
Debt-to-Capitalization (%) ⁽⁶⁾	57.5%	48.0%	36.2%	47.5%	35.6%
Debt to EBIDA (x) ⁽⁷⁾	2.8x	2.4x	1.9x	3.7x	1.6x

⁽¹⁾ defined as year-on-year percentage growth of total operating revenues; for Two Months Ended 2/29/08 equal to growth over same Two Months ended 2/28/07 (sum of net patient service revenue, other operating revenue and net assets released from restrictions used for operations; does not include investment income).

⁽²⁾ defined as earnings before interest, depreciation and amortization (EBIDA) divided by total operating revenues plus non-operating revenues.

⁽³⁾ total operating revenues minus total operating expenses divided by total operating revenues.

⁽⁴⁾ defined as unrestricted cash and investments divided by maximum annual debt service (MADS).

⁽⁵⁾ defined as unrestricted cash and investments divided by total long-term debt.

⁽⁶⁾ defined as total long-term debt divided by total long-term debt plus unrestricted net assets.

⁽⁷⁾ defined as total long-term debt divided by EBIDA; Two Months Ended numbers are annualized.

Payor Mix

The following table presents ORMC's sources of gross revenue by payor for fiscal years 2005 through 2007:

	Orange Regional Medical Center								
	Percent of Gross Patient Service Revenue								
	Years Ended December 31,								
	2005			2006			2007		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
<u>Arden Hill Hospital</u>									
Medicare	59.2%	30.5%	47.5%	58.7%	30.3%	46.7%	59.2%	30.8%	47.1%
Medicaid	12.6%	8.9%	11.1%	11.9%	8.4%	10.4%	10.5%	8.5%	9.6%
Blue Cross	9.1%	20.4%	13.7%	9.6%	19.3%	13.7%	10.4%	20.9%	14.9%
Commercial/HMO	16.2%	36.7%	24.5%	17.1%	38.2%	26.1%	17.0%	35.7%	25.0%
Self-Pay	2.9%	3.5%	3.2%	2.7%	3.8%	3.1%	2.9%	4.1%	3.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Horton Medical Center

Medicare	57.1%	27.7%	45.4%	54.7%	28.8%	44.6%	56.7%	44.6%	53.0%
Medicaid	11.9%	10.3%	11.3%	11.1%	9.6%	10.5%	11.0%	13.3%	11.7%
Blue Cross	11.8%	24.2%	16.7%	12.1%	20.2%	15.3%	12.2%	29.4%	17.5%
Commercial/HMO	17.4%	33.7%	23.9%	20.1%	36.9%	26.7%	18.3%	5.7%	14.4%
Self-Pay	1.8%	4.1%	2.7%	2.0%	4.5%	2.9%	1.8%	7.0%	3.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Reimbursement***Medicare and Medicaid Case Mix Index***

As outlined in the “Reimbursement Methodologies” discussion below, Medicare and Medicaid case rates are factored by an acuity index to reflect appropriate reimbursement for the level of care rendered. Overall, ORMC’s Case Mix Index has increased gradually since 2005 reflecting the treatment of more complicated cases and the associated higher reimbursement.

Medicare Case Mix Index Trend

	<u>Arden Hill</u>	<u>Horton</u>	<u>ORMC</u>
2005	1.3034	1.2951	1.2983
2006	1.2482	1.3552	1.3143
2007	1.2742	1.3570	1.3259
Two months ended Feb. 2007	1.2517	1.3839	1.3319
Two months ended Feb. 2008	1.3546	1.4053	1.3848

Medicaid Case Mix Trend

	<u>Arden Hill</u>	<u>Horton</u>	<u>ORMC</u>
2005	1.1743	1.0111	1.0543
2006	1.4381	0.9506	1.0452
2007	1.5862	0.9754	1.0513
Two months ended Feb. 2007	1.8868	0.9449	1.0615
Two months ended Feb. 2008	1.9459	1.0867	1.2278

Reimbursement Methodologies

A brief synopsis of reimbursement methodologies applicable to ORMC follows:

Medicare— Medicare is the commonly used term for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendments of 1965.

Medicare Part A covers institutional health services, including hospital, home health and nursing home care; and Medicare Part B covers certain physicians’ services, medical supplies and durable medical equipment. The Medicare Advantage Program, also known as Medicare Part C, enables Medicare beneficiaries, who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of risk-based plans. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 created a new Medicare Part D which, effective January 1, 2006, entitles program beneficiaries to coverage for outpatient prescription drugs.

Medicare is administered by the Centers of Medicare and Medicaid Services (CMS), which is an agency of the U.S. Department of Health and Human Services (DHHS). DHHS’s rule-making authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS. Non-governmental organizations or agencies (generally insurance companies), known as “intermediaries” or carriers”, contract with CMS to serve as Medicare’s fiscal agent in specific states or regions. These intermediaries and carriers determine the appropriateness of and process claims for payment from Medicare to providers in these states or regions.

ORMC is paid for services to the majority of Medicare inpatients under the federal prospective payments system (PPS). Under PPS, payments are based on a standard national amount (adjusted for local area wage levels), depending on the patient's diagnosis (Diagnostic Related Group or DRG) without regard to each hospital's actual inpatient operating and capital costs. Hospitals are thus at financial risk for providing services to the patient at an actual cost greater than the applicable DRG payment. Under PPS, Hospitals receive payment for both direct and indirect costs of medical education, capital-related costs and organ acquisition. PPS also permits additional payments to be made within specified limitations regarding atypical cases (outliers) and payments for providing care to a high level of Medicaid and disabled patients (disproportionate share payments).

Since August 1, 2000, PPS has applied to hospital outpatient services (Outpatient PPS). Under Outpatient PPS, most outpatient services are grouped into one of approximately 660 Ambulatory Payment Classifications and paid a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service (*e.g.*, visit, chest x-ray, surgical procedure). The payment for each service is comprised of a payment from the Medicare program and a coinsurance payment of the balance from the beneficiary. Over time, the program payment will likely comprise a higher percentage of the total payment, culminating in 80% of the total payment.

An additional factor regarding Medicare payment is the 75% rule regarding rehabilitation services. In order to be classified as an inpatient rehabilitation facility, 75% of the total patient population in a rehabilitation unit or hospital must require treatment for one or more of 13 specific conditions. This rule is commonly known as the "75% Rule". CMS suspended enforcement of the 75% rule in June 2002 when it was determined that there were inconsistencies in the methods used to verify compliance. Subsequently, CMS proposed a number of changes to the rule with the new rule being issued in 2004. This rule introduced a graduated scale of compliance starting with 50% in 2005, 60% in 2006 and 2007, and 65% compliance scheduled for 2008. ORMC's 29 bed rehabilitation unit has continuously achieved full compliance with each of the graduated compliance rates.

Legislation was enacted on December 29, 2007 repealing the 75% rule for inpatient rehabilitation services and returning the compliance threshold to 60%, effective January 1, 2008.

Please see Appendix C for a further discussion of third-party reimbursement, including Medicare.

Medicaid— Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid.

Unlike Medicare, which is an exclusively federal program, Medicaid is a partially federally funded state program. States obtain federal funds for their Medicaid programs by obtaining the approval of CMS of a "state plan" which conforms to Title XIX of the Social Security Act and its implementing regulations. Within broad national guidelines which the federal government provides, each state establishes its own eligibility standard, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state. After its state plan is approved, a state is entitled to claim federal matching funds for Medicaid expenditures. The current federal share is approximately 50% in New York State, and the remainder of the cost is shared by the State and the local county where the patients reside.

Medicaid operates as a vendor payment program. Subject to federally imposed upper limits and specific restrictions, states may either pay providers directly or may pay for Medicaid services through various prepayment arrangements such as health maintenance organizations (HMOs). Providers participating in Medicaid must accept Medicaid payment rates as payment in full. States must make additional payments to qualified hospitals that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients.

States may impose nominal deductibles, coinsurance or co-payments on some Medicaid recipients for certain services. Emergency services and family planning services must be exempt from such co-payments. Certain Medicaid recipients must be excluded from this cost sharing: pregnant women, children under 18, hospital or nursing home patients who are expected to contribute most of their income to institutional care and categorically needy HMO enrollees.

Payment for services rendered to Medicaid, workers' compensation and no-fault patients continues to employ a per discharge reimbursement methodology similar to PPS. The case payment rate consists of 55% of the total payment per case based on a group average and 45% of the total payment per case based on a hospital specific rate. Psychiatry, rehabilitation medicine and, when certain conditions are met, AIDS services are exempt services and are reimbursed on a per diem methodology. Payment rates are adjusted annually by applying an inflation factor to each hospital's historical operating cost base, less applicable penalties. Capital costs, including interest and principal or depreciation and amortization of financing expense, but excluding certain Medicaid capital costs, are considered separately and in effect are passed through in reimbursement rates.

Pursuant to the New York Health Care Reform (NYHCRA), Blue Cross plans, commercial carriers, self-insured plans and HMOs have been able to negotiate rates with hospitals. NYHCRA's current expiration date is December 31, 2008.

Under NYHCRA, mechanisms are established for the financing of public goods consisting of indigent care, health care initiatives and Medicare graduate medical education (GME). Third party payors are encouraged through fiscal incentives to make payments directly to public good pools although they have the choice of paying providers directly on an encounter basis. NYHCRA specifies the distribution from the public good pools. The Indigent Care Pool is funded through an assessment charged to general hospitals and payments from Medicaid, Blue Cross and other payors to reflect the need for financing losses resulting from bad debts and the cost of charity care. The assessment against a hospital is related to actual non-Blue Cross, non-Medicaid inpatient revenues received by a hospital.

Amounts received from the pool are determined by the hospital's bad debt and charity care needs as they relate to the total statewide bad debt and charity care needs. The GME pools are funded and distributed on a regional basis. Pool distributions are based on receipts for each calendar year. Health care initiatives pay for special projects, particularly expansion of coverage of special need categories, including children. The Institution receives significant payments from such pools, and no assurances can be given that substantial changes in these programs will not occur or that payments will remain at levels comparable to the present level whether NYHCRA is extended further or allowed to expire.

Medicare and Medicaid Managed Care— The Medicare Prescription Drug, Improvement and Modernization Act of 2003 created the Medicare Advantage program, which redefines the Medicare+Choice program, and is intended to offer more competitive reimbursement to participating managed care plans.

Enrollment in Medicare Advantage plans is voluntary, but since 2006 beneficiaries have been permitted to disenroll and reenroll in the traditional Medicare fee-for-service system only during an annual open enrollment period. Through the Medicare Advantage plans, Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. Managed care products for the Medicare population are typically offered by commercial insurers and HMOs. Within the last year, the major HMOs in ORMC's primary and secondary service area have reduced the premiums on these Medicare HMO products. Some anticipate that there may be an increase in enrollment in these products as a result. Management cannot predict how long premium reductions will remain in effect or what the popularity of managed care products with Medicare beneficiaries will be over time.

Medicare enrollees in managed care products have their healthcare managed and paid for by the applicable insurer, HMO or similar entity (the "managed care plan"). Beginning in March 2004, these plans receive no less than the cost of providing fee-for-service care to enrollees in traditional Medicare in their area. The managed care plan are at full financial risk for cost overruns that exceed the amount paid to it by Medicare, provided that, if the plan is a Medicare Advantage Regional Plan, Medicare shares financial risk with the plan if costs exceed or fall below a certain risk corridor in 2006 and 2007. Consequently, the managed care plan and its participating hospitals, physicians and other providers seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial pressures are expected to contribute to reduced per patient revenues for ORMC's Medicare managed care enrolled patients.

In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for

Medicaid recipients who are enrolled in such programs. Enrollment of Medicaid patients in managed care programs, payments to managed care organizations for care rendered to them, the financial risk assumed by the managed care organization and the resulting and potential financial and other risks to ORMC are similar to those for Medicare managed care programs. As enrollment continues, management of ORMC believes that Medicaid fee-for-service payments will likely constitute a reduced percentage of its inpatient revenue as Medicaid managed care plans contract with hospitals on a negotiated-rate basis.

Managed Care Programs and Commercial Insurance— Payments to a hospital on behalf of subscribers of HMOs and Preferred Provider Organizations (PPOs) are generally based on contracts between the hospital and the HMO or PPO. These contracts provide for various reimbursement methodologies including per diem rates, per discharge rates and discounts from established charges.

There are currently six major HMO's operating in ORMC's market area. As of December 31, 2007, they include: AETNA, EMPIRE BLUE CROSS, GHI, MVP, UNITED OXFORD and CIGNA/HIP. No one HMO or commercial carrier is dominant in ORMC's market. ORMC's annual managed care contracts with these six HMO's accounted for approximately 32% of its 2007 discharges. The contracts provide for payment primarily on a per diem basis. All of the Institution's managed care contracts provide for additional payments for high cost cases and contain rate-opening provisions for new technology, or new surgical techniques where the cost of care increases substantially.

Contracted commercial insurers make payment directly to the hospital based on contracted rates. Non-contracted commercial insurers make payment directly to the hospital, or reimburse their subscribers primarily on the basis of charges, or an agreed upon percentage.

Managed Care Strategy

Of the total 2007 ORMC net patient services revenue of \$274.2 million, 45% or approximately \$123.5 million is derived through managed care. ORMC has over 50 "primary" contracts with a number of Managed Care Organizations and related sub-contracts for specialty care such as behavioral health and radiology. Managed care contracts are under the purview of the Chief Financial Officer whose staff works in conjunction with revenue cycle, case management and operations for a comprehensive approach to the payer community. This office is also the focal point for relations with the employer/payer community who are expected to increasingly focus on:

- Costs of an episode of care
- Service satisfaction
- Quality and outcomes

Given the importance of managed care revenues at ORMC and the likelihood that both the federal and state governments will continue to support the transition underway from the traditional Medicare and Medicaid programs to managed care, Management believes that the development of a comprehensive managed care strategy is essential. Consequently, ORMC has developed a constellation of linked tactics that position ORMC for the future and include the following:

- A comprehensive review of ORMC's managed care reimbursement rates versus managed care reimbursement rates nationwide.

Based on a review conducted in 2006, it was determined that, while managed care payments to the Institution for outpatient services appeared equitable, HMO reimbursement for inpatient services was significantly lower than provider reimbursement rates in other parts of the country. Moreover, ORMC inpatient rates were lower than those of providers in the border states of New Jersey and Connecticut. In response, Management implemented a strategy aimed at achieving rates comparable to hospitals outside of New York State. To support this initiative, a division of managed care contracting was initiated with specific targets and goals for contract improvements.

As a result of this initiative, on its core inpatient medical/surgical business for all 13 major payors, (including the aforementioned six major HMOs), ORMC achieved rate increases in excess of 10+% annually effective January 1, 2008, (one payor began January 1, 2007).

- Phased shift in reimbursement to ensure that ORMC's "franchise" for in-patient care is more appropriately priced, while constraining increases for out-patient services to maintain a competitive posture with other providers.
- Development of a self-insured health plan for the ORMC employee base, the second largest in Orange County. This has provided ORMC with "hands on" experience from the employer side to complement the provider side of the equation.
- A special provider arrangement with Orange-Ulster BOCES, a self-funded health plan comprised of a federation of 18 school districts in the region.
- Negotiating "carve out" payments for a number of items (*i.e.* implantables, drugs) that were previously included in the per diem rates and/or in outpatient reimbursement resulting in higher per case reimbursement. In addition, all of ORMC's contracts have provisions that allows for a rate-opening provision for new technology or new surgical techniques.

In addition to regularly scheduled meetings with payors, Management has formed a multi-disciplinary Managed Care Contract Implementation Group (CIG) to address all aspects of managed care.

Reimbursement Factors

The health care industry is subject to extensive federal, state and, in some cases, local laws and regulations with respect to reimbursement. Government revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to health care facilities, including ORMC.

PPS hospitals may also qualify for additional payments due to high levels of poorer patients. Such Disproportionate Share Hospital ("DSH") adjustments are based upon the relative proportion of Medicaid recipients and Supplemental Security Income beneficiaries. Under the Benefits Improvement and Protection Act of 2000, the threshold for rural and small hospitals receipt of DSH payments was reduced from 30% to 15%. ORMC receives a 3.7% add-on for every DRG discharge.

Current Developments

ORMC strives to improve its current services and provide new services in order to reduce the need for local residents to seek care outside ORMC. Recent program development initiatives include the following:

- Stroke Program— ORMC developed a comprehensive stroke program that was subsequently approved by the New York State Department of Health as a "designated stroke program". ORMC maintains a stroke team capable of providing a high level of stroke care in the area. The Stroke Program received the *Get With The GuidelinesSM – Stroke (GWTG – Stroke) Initial Performance Achievement Award* from the American Heart Association and American Stroke Association in 2007. The award was received for outstanding performance on seven measures of stroke care performance.
- Cardiac Services— In 2004, ORMC opened its diagnostic cardiac catheterization laboratory where it now performs over 400 cases annually. In 2006, ORMC added electrophysiology to its array of cardiac services. More recently, ORMC has been granted approval by the New York State Department of Health for emergency angioplasty and started operation of this service in February 2008.
- NICU— ORMC is seeking New York State Department of Health approval for a neonatal intensive care unit in ORMC's current facilities which will be transitioned into

the Replacement Hospital. ORMC's NICU is expected to be part of the neonatal/perinatal network anchored by Westchester Medical Center.

- Bone & Joint Center— This program started in early 2006 and provides an array of orthopedic surgery services, including hip and knee replacement, hand surgery, and spine surgery performed by highly trained orthopedic surgeons. Volume for such procedures at ORMC has increased by over 225% since 2004.
- Palliative Care— A palliative care program was established in early 2007 to provide family-centered care to patients with progressive, chronic and life-limiting illnesses, including cardiopulmonary disease, cancer, stroke, and renal failure, among others.
- Advanced Diagnostic Imaging— ORMC has developed its diagnostic imaging services into one of the more technologically advanced in New York State. Recently added technologies include Orange County's first 64-slice CT scanner (2005), three digital mammography units (2006) and Open Bore MRI (2006).
- Patient Safety— ORMC is dedicated to providing a safe environment for all its patients and strives to achieve all 16 of the patient safety goals issued by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). Other patient safety measures include the creation of Rapid Response Teams comprised of clinical staff members, including a critical care nurse and a respiratory therapist, that are on call and ready to respond immediately to a patient at risk. In addition, in early 2007, ORMC installed a pharmacy robot that automatically fills prescriptions for patients at ORMC. The robot is a nationally recognized method of lowering the incidence of medication errors.
- Customer Service—ORMC has embarked on a multi-year organizational development program focused on improving customer service outcomes throughout the organization. Working with noted consultants, ORMC is implementing strategies and interventions in its emergency medicine program which sees in excess of 50,000 patients each year. These strategies were extended to inpatient services in the third quarter of 2004. ORMC benchmarks its performance to a national database using a patient satisfaction questionnaire and has established a goal of being the top rated hospital in New York State within the database.
- Information Technology— ORMC has been working aggressively to develop an advanced, state-of-the-art information technology system. In the past two years, ORMC implemented new management information systems for both financial and clinical functions. Other advances include the implementation of electronic medical records that allow physicians to access their patients' charts and medical history from a remote location and centralized scheduling that allows patients to schedule their appointments and tests via a single dedicated phone number. The ability to fully integrate such electronic systems and databases will give ORMC a competitive advantage in linking with physicians and the ability to collect data about the quality and quantity of care provided to patients.
- Catskill Regional Affiliation— ORMC's recent affiliation agreement and the provision of management services is expected to enhance the quality and improve access to healthcare in the region while allowing ORMC to access previously untapped patient populations for specialty services.
- Length of Stay (LOS) Reduction— ORMC has initiated an LOS reduction initiative overseen by a committee chaired by a member of the Executive Team. While it is too soon in the process to evaluate LOS reduction data, a series of steps have been implemented, designed to achieve reduced LOS. They include (i) daily rounds performed by staff to discuss patients' clinical status/needs and conduct discharge planning to ensure

that patients do not exceed their necessary length of stay, (ii) development and maintenance of admission and discharge criteria by the Intensive Care Unit and Progressive Care Unit, and (iii) implementation of the MIDAS information system which marries case management with physician management. This system monitors patient care and resource utilization against external benchmarks such as Interqual data.

The pursuit of these initiatives resulted in ORMC being named one of the nation's top performance improvement leader hospitals by Thompson Healthcare (formerly Solucient) in August 2007. ORMC was the only New York hospital listed in the category of "Large Community Hospital" with 250 beds or more. This distinction means that ORMC has been recognized for being one of a hundred hospitals nationwide making the greatest progress in improving hospital-wide performance over five consecutive years (2001-2005).

Outstanding Indebtedness

Prior to or coincident with the issuance of the Series 2008 Bonds, ORMC's expects to retire or defease all of its outstanding bond indebtedness consisting of: \$13.18 million outstanding Variable Rate Demand Civic Facility Revenue Bonds (Arden Hill Project) Series 2002 and \$14.56 million Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center Project) Series 2002 (the "Series 2002 Bonds") and the \$3.94 million Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center West Hudson Facility Project) Series 2002B (Taxable). ORMC also anticipates terminating the interest rate hedging arrangement it entered into in connection with a portion of the Series 2002 Bonds.

Employees and Benefit Programs

Employees

As of January 1, 2008, the Institution employed 2,591 employees representing 2,106 full-time equivalents (FTEs). Of the 2,591 total, 704 are nurses including 227 full-time, 350 part-time and 127 per diem. The nursing vacancy rate is approximately 6.3%.

ORMC offers a comprehensive benefit package, including non-contributory defined benefit pension plans, defined contribution 403(b) plan, group medical, dental, vision, long term disability, life insurance and flexible spending accounts for un-reimbursed medical expenses and dependent care. An employee assistance program is available to all employees. Management considers its relationship with employees to be good.

Approximately 81% of the total employees of ORMC are represented by collective bargaining agreements. The collective bargaining organizations and the expiration dates of their contracts with ORMC are detailed below.

Organization

Expiration of Contract

New York's Health & Human Service Union 1199 SEIU

Registered Nurses Unit	June 30, 2010
Technical Employee Unit	December 31, 2011
Service Employee Unit	December 31, 2011
Professional Employee Unit	December 31, 2011
Clerical Employee Unit	December 31, 2011

Security, Police, Fire Professionals of America Local 530

Security Officer Unit	March 31, 2009
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Benefit Programs

Effective January 1, 2008 ORMC replaced its non-contributory defined benefit pension plan with a defined contribution 403(b) plan with employer base contribution of between 1% and 5% of compensation, based on years

of service. The new plan is more cost effective for ORMC and will allow it to further control costs. ORMC Management believes that this change will significantly enhance the long term financial profile of ORMC.

ORMC currently offers a 403(b) retirement savings plan to certain full time and part time employees. Employees contribute into this pre-tax 403(b) tax deferred annuity and after one year of service earn an employer paid matching contribution of 100% of their contribution up to a maximum of 4% of their salary. Employer matching contributions were \$173,000 for 2007.

Licenses and Accreditation

New York State Department of Health

ORMC maintains unrestricted Article 28 licensure operating under the rules and regulations of the New York State Department of Health.

Joint Commission

ORMC maintains full accreditation under the Joint Commission (formerly the Joint Commission on the Accreditation of Healthcare Organizations) Standards, with the most recent accreditation in February 2005. The Joint Commission completed its triennial review of ORMC in April 2008.

Other

ORMC has received additional accreditation and licensing approvals for services in which clinical complexity or competency requires specialized evaluation, including the following:

- Oncology— ORMC's Tucker Cancer Center is accredited as a Community Hospital Comprehensive Cancer Program by The Commission on Cancer of the American College of Surgeons.
- Rehabilitation— ORMC's 29-bed Inpatient Rehabilitation Service is accredited by the Commission on Accreditation of Rehabilitation Facilities.
- Diagnostic Imaging— ORMC's multi-site diagnostic imaging program including PET/CT scan, MRI, CT, ultrasound, vascular lab and digital mammography programming maintains accreditation in each discipline from the American College of Radiology and the New York State Bureau of Radiation Protection. Additionally, ORMC's Mammography Program, the largest in the area, is certified by the Federal MQSA accreditation process with no deficiencies.
- Laboratory— ORMC's Laboratory Services are accredited by the New York State Department of Health, Wadsworth Bureau of Laboratory Medicine as well as the Joint Commission on Accreditation of Hospitals.

HIPAA Patient Privacy Program

This program is administered by ORMC's Chief Compliance Officer (CCO), assisted by a multi-disciplinary team that involves many departments within the organization. The CCO works cooperatively with appropriate personnel in overseeing patient rights and inspects, amends, and restricts access to protected health information when appropriate.

All patients receive the "HIPAA Notice of Privacy Practices" upon registration. All new and existing employees receive training. ORMC enters into Business Associate Agreements with all parties that use or disclose patient protected health information on the Institution's behalf.

Corporate Compliance Program

The Institution maintains a corporate compliance program with respect to Federal and State billing rules and regulations. The program is headed by the Institution's CCO. The CCO reports directly to the ORMC's Board of Directors. The corporate compliance program establishes education, training and communication programs to ensure that the compliance policy and procedures, are disseminated, understood and followed.

Insurance and Risk Management

ORMC maintains commercial comprehensive insurance coverage for professional (malpractice) and general liability through Medical Liability Mutual Insurance Company. The current policy expires September 1, 2008. Currently, the limits of coverage under the insurance plan are \$1 million per claim and \$3 million annual aggregate for professional liability, and \$1 million per claim and \$3 million annual aggregate for general liability. ORMC also maintains an excess layer through Lexington (AIG), with current limits in the amount of \$5 million per claim and \$5 million annual aggregate for professional liability and general liability. ORMC has an active patient safety and risk management program that focuses on performance improvement, loss prevention, continuous staff education, as well as management of claims. The risk management program is annually evaluated with recommendations for improvement by insurance carrier consultants.

In addition to professional and general liability insurance, ORMC maintains the following insurance coverage:

- Directors and Officers (including employment practices liability)
- Fiduciary Liability (including crime and kidnapping)
- Business Automobile Property (including all risks)
- Business Interruption
- Non-Owned Aircraft

The Worker's Compensation Program is a member of a self-insured group named Hudson Healthcare Workers Compensation Group Trust. The plan is protected by reinsurance with a stop loss attachment point of \$225,000 per participant. ORMC is active in managing its workers' compensation exposures and cost containment programs have been put in place to prevent losses and reduce the costs of losses that do occur. Claims are administered by a third party consultant and claims processor.

Litigation

Professional and general liability claims have been asserted against ORMC by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. The outcome of these actions cannot be predicted with certainty by the Management or by counsel to the Institution or by the respective insurance companies handling such matters. There are known incidents that may result in the assertion of additional claims, and such other claims may arise.

It is the opinion of the Management, based on prior experience, that adequate insurance is maintained to provide for all significant professional liability losses that may arise, and that the eventual liability from general liability claims, if any, will not have a material adverse effect on the financial position or the results of operations of ORMC or on its ability to make required debt service payments. There is no litigation pending or threatened against ORMC (other than claims against which ORMC is fully insured) that, in the opinion of the Management, would materially adversely affect ORMC's ability to meet its financial obligations.

PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP

The following discussion of risks to holders of the Series 2008 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2008 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 healthcare environment. These changes are a result of efforts by the Federal and state governments, managed care organizations, private insurance companies and business coalitions to reduce and contain healthcare costs, including, but not limited to, the costs of inpatient and outpatient care, physician fees, capital expenditures and the costs of graduate medical education. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Members of the Obligated Group to an extent that cannot be determined at this time.

General

The Series 2008 Bonds are not a debt or liability of the State 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 2008 Obligation, the funds and accounts held by the Trustee pursuant to the Series 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 2008 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 healthcare industry and the policies and practices of managed care providers, private insurers and other third party payors and private purchasers of healthcare services. The effect on the Institution of recently enacted statutes, regulatory changes and the effect on the Institution and any future Members 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 the Institution or future 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 healthcare 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 contracted discounted payment schedules with HMOs, 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 Institution's ability to make payments pursuant to the respective Loan Agreement and the Obligated Group's ability to make payments under the Series 2008 Obligation. See "PART 7 – ORANGE REGIONAL MEDICAL CENTER OBLIGATED GROUP" and Appendix B hereto.

Speculative Grade Ratings

The ratings borne by the Series 2008 Bonds are not considered to be "investment grade" by Moody's Investors Service and Fitch Ratings, the ratings services maintaining ratings on the Series 2008 Bonds. Bonds in the speculative category are considered to have significant credit uncertainties and risks, which could affect the ability of the obligor to make payments in the future. Moody's defines obligations in the "Ba" category as demonstrating "below average creditworthiness relative to other US municipal or tax-exempt issuers or issues". Fitch Ratings defines obligations in the "BB" category as "indicat[ing] that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met." See "PART 16 – RATINGS" herein.

Project Risks

The Project is subject to risks associated with construction projects including but not limited to delays in the issuance of required building permits or other necessary approvals or permits, strikes, terrorism, vandalism, shortages or material and adverse weather conditions. Such events could result in delaying occupancy of the Project and thus increase the level of expenditures of the Institution and reduce the Institution's anticipated revenues. It is anticipated that the proceeds from the sale of the Series 2008 Bonds, together with anticipated investment earnings thereon, fundraising proceeds, Institution equity and other available moneys, will be sufficient to complete the construction and equipping of the Project. Furthermore, cost overruns may occur due to change orders, delays in the construction schedule and other factors. The Institution has entered into a design/build construction contract for the construction portion of the Project. See "Replacement Hospital - Design/Build Contract" in Part 7 hereof. Cost overruns not subject to the lump sum guaranteed price contract could cause the cost of the Project to exceed expected costs. Possible sources of additional funds could include an additional equity contribution of the Institution, proceeds of additional bonds, or conventional bank financing.

In addition to risks associated with Project construction, the Institution is subject to risks inherent with relocating hospital operations from its existing facilities to the Replacement Hospital. The moving and relocation of equipment, patients and services can be expected to interfere with normal hospital functions and may adversely affect revenues during and following the period of the relocation. The Institution is developing a relocation plan in order to mitigate financial and operational risks associated with relocating to the Replacement Hospital; however, no assurance can be given that the plan will be implemented as anticipated or such plan, if so implemented, will have its desired effect.

Legislative, Regulatory and Contractual Matters Affecting Revenue

The healthcare 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 statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries, and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In recent years, there have been frequent and significant changes in methods and standards used by government agencies to reimburse and regulate the operation of hospitals. 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.

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 healthcare industry, including proposals to promote competition in the healthcare industry, to contain healthcare costs, to provide national health insurance and to impose additional requirements and restrictions on healthcare insurers, providers and other healthcare entities. The effects of future reform efforts on the Obligated Group cannot be predicted.

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 reimbursement formulas, including those for Medicaid and other third-party payors. Rising health care costs have resulted from, among other factors, health care costs exceeding inflation, staff shortages, pharmaceutical costs and the highly technical nature of the industry. The Obligated Group has been affected by the impact of such rising costs, and there can be no assurance that the Obligated Group will not be similarly affected by the impact of additional unreimbursed costs in the future.

The State has adopted for Medicaid, workers' compensation and no-fault insurance an inpatient hospital reimbursement system similar to the Medicare system. The financial viability of all health care facilities in the State

is dependent, in part, upon, among other things, the ability and willingness of the State Legislature and the State Department of Health to establish reimbursement rates under this hospital reimbursement system sufficient to reimburse the Institution at appropriate levels to meet their obligations. In recent years, a number of proposals to further limit or restrict the amounts provided for financing health care have been discussed and a number of related bills have been introduced in the State Legislature. In the future, similar proposals and bills, which could have an adverse impact on health care financing, may be adopted by the State Legislature.

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 healthcare 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.

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. Management believes the Institution, on a yearly contracting basis, has developed equitable pricing arrangements with most of the payors with which they contract. Some contracts contain provisions for advances and Periodic Interim Payments 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 healthcare services such as through the use of primary care physicians. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which healthcare 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.

Regulatory Reviews and Audits

The Institution, like other health care institutions, is subject to regulatory review, audit and investigation of its governmental reimbursement. Based on the results of such reviews, the Institution may be required to repay previously received reimbursement. One such audit is the Medicare Recovery Audit Contract Initiative. This review calls for a three-year recovery audit demonstration project in states with the highest per capita Medicare expenditure in order to test and ensure the accuracy of Medicare payments. The states under review for this demonstration project include New York, California and Florida. The review began in late 2005. The Institution cannot determine at this time whether the review will result in a material repayment obligation. To date, the Institution has experienced no impact due to the Medicare Recovery Audit Contract Initiative.

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 non-government contracts and prices. This may further increase competitive pressures on acute care hospitals, including the Institution. The Institution faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar healthcare 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 healthcare organizations at the local, regional and national level, in part due to the fact that a smaller number of students are considering careers in nursing and the allied health professions than in the past. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the 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 Institution has offered, and in the future intends to offer, competitive salaries to both newly recruited individuals and existing staff.

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.

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 healthcare program including, but not limited to, the Medicare or Medicaid programs. 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 the Inspector General ("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. The scope of prohibited payments in the Anti-Kickback Law is broad and includes many economic arrangements involving hospitals, physicians and other healthcare providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

DHHS has published certain safe harbor regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relations which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Failure to fall within a safe harbor does not mean that a particular arrangement violates the Anti-Kickback statute; it means only that the arrangement does not qualify for safe harbor protection.

The Institution may have or had certain relationships with physicians and other referral sources which do not meet all of the requirements of each applicable safe harbor under the safe harbor regulations. In light of the narrowness of the safe harbor regulations and the scarcity of the case law interpreting the Anti-Kickback Law, there can be no assurances that the Institution will not be found to have violated the Anti-Kickback Law, and if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Institution.

Federal False Claims Act

The 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 civil False Claims Act (“civil FCA”), one of the government’s primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any Federal agency through actions taken by the United States Attorney’s Office or the Department of Justice. The civil FCA also permits 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 FCA, health care providers may be liable if they obtain improper payments from the government by submitting false claims. Civil FCA violations have been pursued largely 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 FCA. Other civil 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.

Courts are divided on the question of whether 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 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.

Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Institution). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or qui tam action could have a materially adverse effect on such provider.

As noted above, false claims act liability may derive from the finding that an arrangement violates the Anti-Kickback statute, and, as a result, any claims submitted pursuant to that relationship are tainted. Such arrangements include joint business activities conducted by hospitals and physicians, practice purchases, physician recruiting and retention programs, various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities, physician referral services, hospital-physician service or management contracts, and space or equipment rentals between hospitals and physicians. The Institution conducts these and other similar activities, which pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Institution is not aware of any challenge or investigation concerning the Institution with respect to such matters, there can be no assurance that the Institution, or future Members of the Obligated Group, will not be charged with, or found to have violated, the FCA and, if so, that any fines or other penalties would not have a material adverse effect on its operations or the operations of the Obligated Group.

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, subject to certain exceptions, 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, 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.

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare provider for clinical laboratory services, x-ray 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 healthcare 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 physician (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in the 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.

As noted above, 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 does not 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, known violations may also create liability under the False Claims Act. 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.

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 Institution, 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, a hospital would be 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 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.

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.

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 Institution, or future Members of 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 Members of 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.

Department of Health Regulations

The Members of the Obligated Group are subject to regulations of the New York State Department of Health. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Obligated Group's ability to add services or beds and to modify existing services materially is also subject to Department of Health 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.

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, JCAHO, 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 Members of 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 Member's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

OIG Compliance Guidelines

In 1998, the OIG published Compliance Program Guidance for the hospital industry which it supplemented in 2005 with the publication of the Supplemental Compliance Program Guidance. 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. However, the presence of a compliance program is not an assurance that healthcare providers, such as the Members of the Obligated Group, will not be investigated by one or more Federal or state agencies that enforce healthcare fraud and abuse laws or that they will not be required to make repayments to various healthcare insurers (including the Medicare and/or Medicaid programs).

The Federal Deficit Reduction Act of 2005 added specific requirements to be effective January 1, 2007. Those requirements include creating a Medicaid Compliance Plan, as well as educating staff, agents and contractors about state and Federal anti-fraud and abuse laws. Having a Medicaid Compliance Plan is a prerequisite to entitlement to receive Medicaid payments.

Not-for-Profit Status

As a non-profit tax-exempt organization, the Institution is subject to Federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Institution conducts large-scale complex business transactions and is a significant employer in its geographic area. 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 non-profit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with Federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

Internal Revenue Code Limitations

The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of healthcare facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Obligated Group’s ability to finance its future capital needs using tax-exempt bonds 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 a tax-exempt organization, the Institution is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities, including 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, its tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital’s tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the Institution or assessment of significant tax liability could have a material adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Series 2008 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 2008 Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt healthcare providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the 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. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization's board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

The imposition of penalty excise tax in lieu of revocation based upon a finding that an exempt organization engaged in an excess benefit transaction is likely to result in negative publicity and other consequences that could have a material adverse effect on the operations, property, or assets of the organization.

Tax Audits

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

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, 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 healthcare 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 criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. 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 healthcare 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; and
- security mechanisms to guard against unauthorized access to health information.

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 if the information was obtained or used with the intent to sell, transfer, or use the information for commercial advantage, personal gain or malicious harm

The Institution's HIPAA program is administered by the Chief Compliance Officer (CCO) assisted by a multi-disciplinary team that involves departments throughout the Institution. The CCO works cooperatively with appropriate personnel in overseeing patient rights and inspects, amends, and restricts access to protected health information when appropriate. The Institution enters into Business Associate Agreements with all parties that use or disclose patient protected health information on the Institution's behalf.

Environmental Matters

Healthcare providers are subject to a wide variety of Federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for

employees. As owners and operators of properties and facilities, the 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, its 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.

Professional Liability Claims and General Liability Insurance

Although the number of malpractice lawsuits filed against physicians and hospitals has stabilized in recent years, the dollar amounts of patient damage recoveries still 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 Institution currently carries malpractice, directors' and officers' liability and general liability insurance, which management 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 – ORANGE REGIONAL MEDICAL CENTER - Insurance" herein.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2008 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

The Loan Agreement provides that the Institution shall make payments to the Trustee sufficient to pay the Series 2008 Bonds and the interest thereon as the same become due. The obligation of the Institution to make such payments is secured by the Series 2008 Obligation, which, in turn, is secured by, among other things, a security interest granted to the Master Trustee in the Gross Receipts of the Members of the Obligated Group. See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS – Obligations under the Master 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.

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 Members of the Obligated Group before paying debt service on the Series 2008 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 Series 2008 Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Series 2008 Bonds. See “PART 1 – INTRODUCTION – Security for the Series 2008 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 a Member of the Obligated Group and the joint and several obligation of the Members of the Obligated Group to make payments due under an Obligation, relating to indebtedness 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 is 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 healthcare 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 2008 Obligation) and may include nonpayment related defaults under documents such as the Loan Agreement, the Resolution or the Mortgage. The Master Indenture provides that upon an "Event of Default" thereunder, the Master Trustee may in its discretion, 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 except as provided in the Master Indenture. Consequently, upon the occurrence of an "Event of Default" under the Resolution with respect to the Series 2008 Bonds and an acceleration of the maturity of the Series 2008 Bonds, the Master Trustee may not be required to accelerate all Obligations Outstanding under the Master Indenture. See Appendix F hereto, "Summary of Certain Provisions of the Master Indenture and the Supplemental Indenture."

Bankruptcy

The Series 2008 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 2008 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement, the Mortgage 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 Loan Agreement, the Mortgage and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2008 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 2008 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Member of 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 a Member of the Obligated Group and its property, including the commencement of foreclosure proceedings under the Mortgage. The Member of the Obligated Group would not be permitted or required to make payments of principal or interest under the Loan Agreement (if the Institution) 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, including the transfer of amounts on deposit in the Debt Service Reserve Fund to the Debt Service Fund, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2008 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 Member 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 Member'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 Member under the Obligation, the Master Indenture, the Mortgages, and the 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.

A Member of 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 Member 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 thereunder. 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 thereunder and does not discriminate unfairly.

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Resolution and the Master Indenture, as amended and supplemented, 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 2008 Bonds.

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 2008 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 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, innovations in technology, competition from other providers, including from other hospitals and outpatient clinics in or around the Obligated Group's service area.
- 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” 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 2008 Bonds and the level of charitable donations to the Obligated Group.
- Increases in cost and limitations in the availability of any insurance, such as fire, and/or business interruption, automobile and comprehensive general liability, that the Institution generally carries.
- Developments affecting the Federal or state tax-exempt status of not-for-profit hospitals or of securities such as the Series 2008 Bonds.

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, 2008, the Authority had approximately \$35.2 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, 2008 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Bonds and Notes Outstanding</u>	<u>Notes Outstanding</u>
State University of New York Dormitory Facilities.....	\$2,120,821,000	\$873,355,000	\$0	\$873,355,000
State University of New York Educational and Athletic Facilities.....	11,757,912,999	5,004,985,745	0	5,004,985,745
Upstate Community Colleges of the State University of New York	1,397,910,000	589,930,000	0	589,930,000
Senior Colleges of the City University of New York	8,609,563,549	2,982,606,270	0	2,982,606,270
Community Colleges of the City University of New York.....	2,194,081,563	513,213,730	0	513,213,730
BOCES and School Districts	1,731,396,208	1,291,165,000	0	1,291,165,000
Judicial Facilities	2,161,277,717	738,632,717	0	738,632,717
New York State Departments of Health and Education and Other	4,233,285,000	2,849,490,000	0	2,849,490,000
Mental Health Services Facilities	5,682,130,000	3,558,845,000	0	3,558,845,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	913,895,000	809,250,000	0	809,250,000
Totals Public Programs	\$41,575,748,036	\$19,211,473,462	\$0	\$19,211,473,462
<u>Non Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
Independent Colleges, Universities and Other Institutions	\$14,899,256,020	\$7,001,777,344	\$190,230,000	\$7,192,007,344
Voluntary Non-Profit Hospitals	12,693,404,309	7,817,570,000	0	7,817,570,000
Facilities for the Aged.....	1,979,275,000	1,027,235,000	0	1,027,235,000
Supplemental Higher Education Loan Financing Program.....	95,000,000	0	0	0
Total Non-Public Programs	\$29,666,935,329	\$15,846,582,344	\$190,230,000	\$16,036,812,344
Grand Total Bonds and Notes.....	\$71,242,683,365	\$35,058,055,806	\$190,230,000	\$35,248,285,806

Outstanding Indebtedness of the Agency Assumed by the Authority

At March 31, 2008, the Agency had approximately \$401 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at March 31, 2008 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities	\$3,817,230,725	\$ 0
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program	\$226,230,000	\$3,605,000
Insured Mortgage Programs	6,625,079,927	389,564,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	8,255,000
Total Non-Public Programs	9,265,549,927	401,424,927
Total MCFFA Outstanding Debt	\$13,082,780,652	\$401,424,927

Governance

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

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

The current members of the Authority are as follows:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2010.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expired on March 31, 2008 and by law he continues to serve until a successor has been chosen and qualified.

BRIAN RUDER, Scarsdale.

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

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. He is a member of the Board of Directors of Natural Health Trends Inc., a public company, where he chairs the Audit Committee. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expired on August 31, 2007 and by law he continues to serve until a successor shall be chosen and qualified.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her

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

ROMAN B. HEDGES, Delmar.

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

KEVIN R. CARLISLE, Averill Park.

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

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

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

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

Ms. Anglin was appointed Budget Director on January 1, 2008. As Budget Director, she 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. Ms. Anglin previously served as First Deputy Budget Director from January 2007 to December 2007. She was appointed Deputy Comptroller of the Division of Retirement Services in January 2003 and was responsible for overseeing the administration and managing the operations of the New York State and Local Retirement System. From 1996-2003, Ms. Anglin worked in the New York State Assembly where she served as Director of Budget Studies for the Assembly Ways and Means Committee and as First Deputy Fiscal Director for the Committee. Ms. Anglin has also held the position of Econometrician in the Department of Taxation and Finance from 1992-1996 and began her career as an Economist for the Department of Environmental Conservation. Ms. Anglin holds a Bachelor of Arts degree and a Masters degree in Economics from the State University of New York at Albany.

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

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

The principal staff of the Authority is as follows:

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

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

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

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

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

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

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

Approvals Required

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 2008 Bonds.

The approval of the Governor, as required by Section 147(f) of the Internal Revenue Code of 1986, was obtained on April 24, 2008.

Legislation

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

Environmental Quality Review

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

Independent Auditors

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

PART 10 - LEGALITY OF THE SERIES 2008 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2008 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 legislations 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 2008 Bonds.

PART 11 - NEGOTIABLE INSTRUMENTS

The Series 2008 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, in the Series 2008 Bonds.

PART 12 - TAX MATTERS

Federal Income Taxes

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, and assuming compliance with the representations, certifications and covenants described in the immediately succeeding paragraph, interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes. Furthermore, Bond Counsel is of the opinion that interest on the Series 2008 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2008 Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Corporate purchasers of the Series 2008 Bonds should consult their tax advisors regarding the computation of any alternative minimum tax.

The Interest Revenue Code of 1986, as amended (the "Code") establishes certain requirements which must be met at the time of, and subsequent to, the issuance and delivery of the Series 2008 Bonds in order that interest on the Series 2008 Bonds be and remain not included in gross income for federal income tax purposes. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of bond proceeds and other moneys or properties, required ownership of a facility by an organization described in Section 501(c)(3) of the Code or a governmental unit, and the rebate to the United States of certain earnings in respect of investments. Noncompliance with such continuing requirements may cause the interest on the Series 2008 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008 Bonds irrespective of the date on which such noncompliance occurs. In the Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Institution have made certain representations and certifications, and have covenanted to comply with certain procedures, designed to assure compliance with the requirements of the Code. In rendering the above-described

opinion, Bond Counsel has assumed the accuracy of such representations and certifications and the continuing compliance by the Authority and the Institution with such covenants.

The difference between the principal amount of the Series 2008 Bonds maturing December 1, 2029, and December 1, 2037 (collectively, the “Discount Bonds”), and the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of Discount Bond acquired at such initial offering price by an initial purchaser of such an owner’s adjusted basis for purposes of determining an owner’s gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of Discount Bond that is a corporation will be included in the calculation of such corporation’s federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The Series 2008 Bonds maturing December 1, 2011 through 2016, inclusive, and December 1, 2021 (collectively, the “Premium Bonds”) are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner’s original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

Bond Counsel expresses no opinion regarding any other federal or state and local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2008 Bonds. The proposed form of the approving opinion of Bond Counsel is attached to this Official Statement as Appendix F.

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the Series 2008 Bonds should be aware that the accrual or receipt of tax-exempt interest on the Series 2008 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient’s particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of collateral federal income tax consequences of acquiring or holding the Series 2008 Bonds include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the Series 2008 Bonds, (ii) interest on the Series 2008 Bonds earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the Series 2008 Bonds, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2008 Bonds. In addition, the Code denies the interest deduction for indebtedness incurred or continued by a taxpayer, including without limitation, banks, thrift institutions, and certain other financial institutions to purchase or carry tax-exempt obligations, such as the Series 2008 Bonds. All prospective purchasers of the Series 2008 Bonds should consult with their tax advisors in order to understand the implications of the Code as to these and other federal and state tax consequences, as well as any local tax consequences, of purchasing or holding the Series 2008 Bonds.

Certain requirements and procedures contained or referred to in the General Resolution and other relevant documents may be changed, and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Series 2008 Bond or the interest thereon if any such change occurs or actions are taken upon the advice or approval of bond counsel other than Harris Beach PLLC.

State and Local Income Tax

Bond Counsel is also of the opinion that under existing statutes, including the Act, interest on the Series 2008 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof.

Any noncompliance with the Federal income tax requirements set forth above would not, however, affect the exemption of interest on the Series 2008 Bonds from personal income taxes imposed by New York State or any political subdivision thereof.

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2008 Bonds.

Interest on the Series 2008 Bonds may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion, however, as to the tax treatment of the Series 2008 Bonds under other state or local jurisdictions. Each purchaser of Series 2008 Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2008 Bonds in a particular state or local jurisdiction other than the State of New York.

Other Considerations

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2008 Bonds may adversely affect the value of, or the tax status of, interest on, the Series 2008 Bonds.

No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, regulations, administrative rulings, or court decisions, will not cause interest on the Series 2008 Bonds to be subject, directly or indirectly, to federal or State or local income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decisions or action of the Internal Revenue Service, including but not limited to regulation, ruling, or selection of the Series 2008 Bonds for audit examination or the course or result of any Internal Revenue Service examination of the Series 2008 Bonds, or obligations which present similar tax issues, will not affect the market price or marketability of the Series 2008 Bonds. Prospective purchasers of the Series 2008 Bonds should consult their own tax advisors regarding the forgoing matters.

On May 21, 2007, the United States Supreme Court agreed to review the decision of the Court of Appeals of Kentucky in *Davis v. Kentucky Dep't Of Revenue of the Finance and Admin. Cabinet, Commonwealth of Kentucky*, 197 S.W.3d 557 (2007) *Cert granted* 127 S.Ct. 245 (2007), which held that the disparate state tax treatment of interest on obligations issued by the State of Kentucky or its political subdivisions and obligations issued by other states or their political subdivisions violated the Commerce Clause of the United States Constitution. The Court heard oral arguments in this matter on November 5, 2007; no decision has yet been released. If the Kentucky decision is affirmed by the United States Supreme Court, a state, including New York State, could be required to eliminate any disparity between the tax treatment of obligations issued by such state and its political subdivisions or instrumentalities and the tax treatment of obligations issued by other states and their respective political subdivisions or instrumentalities.

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

PART 13 - STATE NOT LIABLE ON THE SERIES 2008 BONDS

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

Resolution specifically provides that the Series 2008 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 – FINANCIAL FEASIBILITY STUDY

The forecast financial statements of the Obligated Group for the five years ending December 31, 2012 as set forth in the Financial Feasibility Study of the Proposed Construction Project (the "Feasibility Study") included as Appendix C to this Official Statement, have been examined by Ernst & Young LLP, independent public accountants, as indicated in their report with respect thereto. The forecasts are based on assumptions that cannot be assured. As indicated in said report, certain assumptions will inevitably not materialize as unanticipated events and circumstances may occur. As a result, there will be differences between the forecast set forth in the feasibility study and actual results and these differences may be material. The Feasibility Study is an integral part of this Official Statement and should be read in its entirety.

PART 16 - RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") are expected to assign their ratings of "Ba1" and "BB+", respectively, to the Series 2008 Bonds. Such ratings reflect only the respective views of Moody's and Fitch and do not constitute a recommendation to buy, sell or hold the Series 2008 Bonds. Generally, rating agencies base their ratings on information and material furnished by the Authority and the Obligated Group and on investigations, studies and assumptions made by the rating agencies. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from the respective rating agencies at: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, telephone: (212) 553-0300; and Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone: (212) 908-0500. There is no assurance that any rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such revision or withdrawal of such rating may have an effect on the market price of the Series 2008 Bonds.

The ratings set forth in the preceding paragraph are considered "speculative grade" by the issuing rating agencies. See Part 8 hereto under the caption "Speculative Grade Ratings".

PART 17 - LEGAL MATTERS

Certain legal matters incidental to the offering of the Series 2008 Bonds by the Authority are subject to the approval of Harris Beach PLLC, Rochester, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2008 Bonds. The proposed form of the opinion of Bond Counsel is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the Obligated Group by Arent Fox, LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance, offering or delivery of the Series 2008 Bonds or questioning or affecting the validity of the Series 2008 Bonds or the proceedings and authority under which the Series 2008 Bonds are to be issued and offered.

PART 18 - UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2008 Bonds from the Authority at a purchase price of \$258,233,487 reflecting an underwriters' discount of \$1,872,713 and a net original issue discount of \$1,238,800, and to make a public offering of the Series 2008 Bonds at prices that are not in excess of the public offering prices or less than the yields indicated on the cover of this Official Statement. The Underwriters will be obligated to purchase all of such Series 2008 Bonds if any are purchased.

The Series 2008 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.

PART 19 - FINANCIAL ADVISOR

Shattuck Hammond Partners, a division of Morgan Keegan & Company, Inc. has served as Financial Advisor to the Obligated Group with respect to the issuance of the Series 2008 Bonds.

PART 20 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the SEC, the Members of the Obligated Group will undertake, pursuant to the Agreement to Provide Continuing Disclosure dated as of the date of delivery of the Series 2008 Bonds (the "Continuing Disclosure Agreement"), for the benefit of the holders of the Series 2008 Bonds to provide to the Disclosure Dissemination Agent, with a copy to the Authority and the Trustee, on or before one hundred fifty (150) days after the fiscal year of the Obligated Group, commencing with the fiscal year ending December 31, 2008 for filing by the Disclosure Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository (each a "Repository"), and, if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, financial and operating information of the type hereinafter described in this Official Statement as "Annual Financial Information," together with the Obligated Group's audited financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards. For a description of additional financial, operating and quarterly reporting requirements of Obligated Group Members set forth in the Master Indenture, see the second paragraph under the heading "PART – 21 MISCELLANEOUS" herein.

If, and only if, and to the extent that it receives the Annual Financial Information and audited financial statements described above from the Obligated Group, the Disclosure Dissemination Agent will undertake for the benefit of the holders of the Series 2008 Bonds, on behalf of the Authority, to provide such information and financial statements, as promptly as practicable but no later than three (3) days after receipt of the information from the Obligated Group, to each such Repository and, if and when established, to the State Information Depository. In addition, the Disclosure Dissemination Agent has undertaken, for the benefit of the holders of the Series 2008 Bonds, to provide to each such Repository or the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Information Depository, if any, in a timely manner, the Notices required to be provided by Rule 15c2-12 promulgated by the Securities and Exchange Commission and described below (the "Notices").

The Annual Financial Information means annual information concerning the Obligated Group, consisting of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in "PART 7 - ORANGE REGIONAL MEDICAL CENTER" herein relating to the following: (i) utilization statistics of the type set forth under the heading "Utilization"; (ii) revenue and expense data of the type set forth under the heading "Summary Statements of Operations" to the extent not set forth in the audited financial statements; (iii) data of the type set forth under the heading "Selected Liquidity Indicators"; and (iv) sources of patient service revenue of the type set forth in the table under the heading "Sources of Patient Services Revenue", (2) together with such narrative explanation, as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Obligated Group. To the extent that other entities become Members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The Notices include notices of any of the following events with respect to the Series 2008 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status (Federal or State) of the Series 2008 Bonds; (7) modifications to the rights of holders of the Series 2008 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2008 Bonds; (11) rating changes; and (12) failure to provide the Annual Financial Information as required by the Continuing Disclosure Agreement.

The sole and exclusive remedy for breach or default by the Obligated Group or the Disclosure Dissemination Agent under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of the Obligated Group and/or the Disclosure Dissemination Agent, and no person, including any holder of the Series 2008 Bonds, may recover monetary damages thereunder under any circumstances. The Disclosure Dissemination Agent or the Obligated Group may be compelled to comply with their 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 2008 Bonds or by the Trustee on behalf of the owners of Outstanding Series 2008 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 2008 Bonds; provided, however, that the Trustee shall not be required to take any enforcement action challenging the adequacy of the information provided except at the direction of the owners of not less than 25% in aggregate principal amount of the Series 2008 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without the consent of the holders of the Series 2008 Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement are on file at the principal office of the Authority.

PART 21 - MISCELLANEOUS

References in this Official Statement to the Act, the Revenue Bond Resolution, the Series Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture and the Series 2008 Obligation do not purport to be complete. Refer to the Act, the Revenue Bond Resolution, the Series Resolution, the Loan Agreement, the Mortgage, the Master Indenture, the Supplemental Indenture, and the Series 2008 Obligation for full and complete details of their provisions. Copies of the Revenue Bond Resolution, the Series Resolution, the Loan Agreement, the Mortgage, the Master Indenture, Supplemental Indenture, and the Series 2008 Obligation are on file with the Authority and the Trustee.

The Members of the Obligated Group pursuant to the Master Indenture have agreed to furnish, or cause to be furnished, no later than forty-five (45) days subsequent to the last day of each of the first three quarters and no later than sixty (60) days subsequent to the last day of the fourth quarter in each fiscal year commencing June 30, 2008 to the Disclosure Dissemination Agent, each Bondholder who has so requested, and certain other parties, the following information: (a) the unaudited combined financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, and as of the end of the prior Fiscal Year, the statement of operations, changes in net assets and cash flows for the quarter and for the year-to-date and the comparable prior year periods; (b) utilization statistics of each Member of the Obligated Group for such quarter, for the year-to-date and for the applicable prior year periods, including certified beds, aggregate discharges, patient days, average length of stay, average percentage of occupancy (based on certified beds), emergency room visits, ambulatory surgery procedures and outpatient clinic visits; and (c) discharges of the Institution by major payor mix for the year-to-date. In addition, the Obligated Group has agreed to furnish, or cause to be furnished, to each of the parties identified in clauses (1) and (2) above, the audited financial statements of the Obligated Group, within one hundred fifty (150) days after the completion of the Obligated Group's fiscal year. To the extent that other entities become Members of the Obligated Group, comparable information will be provided with respect to the entire Obligated Group.

The Institution has retained Levien Rich Associates, Inc. to serve as an independent construction monitor with respect to the Project. The construction monitor contract provides that it will perform quarterly site reviews, review construction draws and prepare reports with respect thereto. Such reports are to be made available to the Authority, the Master Trustee and to any Series 2008 Bondholder who so requests.

The agreements of the Authority with the holders of the Series 2008 Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2008 Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2008 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 Obligated Group, the Master Indenture, the Supplemental Indenture and the 2008 Obligation 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 D - Summary of Certain Provisions of the Loan Agreement," "Appendix E - Summary of Certain Provisions of the Resolution" and "Appendix G - Proposed Form of Approving Opinion of Bond Counsel", have been prepared by Harris Beach PLLC, Rochester, New York, Bond Counsel to the Authority. "Appendix F - Summary of Certain Provisions of the Master Trust Indenture and Supplemental Indenture" has been prepared by Arent Fox LLP, special counsel to the Institution.

The consolidated financial statements of Orange Regional Medical Center as of December 31, 2007 and 2006 and for the years then ended included in Appendix B have been audited by KPMG LLP, independent auditors, as stated in their report appearing therein.

The Institution has reviewed the information contained in this Official Statement describing the Institution, the Obligated Group and the Master Indenture, including but not limited to "PART 1 - INTRODUCTION", "PART 4 - PLAN OF FINANCING", "PART 7 - ORANGE REGIONAL MEDICAL CENTER", "PART 8 - RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE OBLIGATED GROUP", "PART 15 - FINANCIAL FEASIBILITY STUDY" and "Appendix B - Consolidated Financial Statements of Orange Regional Medical Center as of December 31, 2007 and 2006". The Institution has certified as of the date hereof and will certify as of the date of delivery of the Series 2008 Bonds that such information does 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 execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by the Authority.

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

By /s/ David D. Brown, IV
Authorized Officer

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Appendix A
Certain Definitions

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CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement.

“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 Health Care 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 annual fee for the general administrative expenses of the Authority in the amount or percentage stated in the Loan Agreement.

“Applicable” means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, Debt Service Reserve Fund or any other fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to a particular Project(s), (ii) with respect to any Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the Applicable Series Resolution or Bond Series Certificate, (iii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for particular Projects, (v) with respect to any Loan Agreement, the Loan Agreement by and between the Authority and any one or more Institutions and the contractual obligations contained therein relating to particular Projects for each such Institution, (vi) with respect to any Institution, the Institution identified in the Applicable Series Resolution, (vii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution (viii) with respect to any Credit Facility, if any, or Credit Facility Issuer, if any, the Credit Facility or Credit Facility Issuer relating to a particular Series of Bonds and (ix) with respect to a Supplemental Indenture entered into pursuant to and an Obligation authorized to be issued thereunder, the Supplemental Indenture and Obligation issued under the Master Indenture for the purpose of securing an Applicable Series of Bonds.

“Arbitrage Rebate Fund” means each fund so designated and established by the Applicable Series Resolution pursuant to the Resolution with respect to a Series of Tax-Exempt Bonds.

“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 succeeds 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 Loan Agreement, unless otherwise provided in the Applicable Series Resolution.

“Authorized Newspaper” means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at

least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

“Authorized Officer” means (i) in the case of the Authority, the Chair, the Vice-Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the General Counsel and any other person authorized by a resolution or the by-laws of the Authority, from time to time, to perform any specific act or execute any specific document; (ii) in the case of 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.

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

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

“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.

“Bond Year” means, unless otherwise stated in the Applicable Series Resolution, a period of twelve (12) consecutive months beginning December 2 in any calendar year and ending on December 1 of the succeeding calendar year.

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

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

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

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

“Cost” or “Costs of Issuance” means the items of expense incurred in connection with the authorization, sale, issuance and delivery of a Series of Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee and any Credit Facility Issuer

and Remarketing Agent, 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, commitment fees or similar costs in connection with obtaining any Credit Facility and any Liquidity Facility, Reserve Fund Facility, or interest rate exchange agreement or other hedge instrument, costs and expenses of refunding of other bonds or notes of the Authority with proceeds of such Series including termination fees for any interest rate exchange agreement in connection with such refunding such Bonds and other costs, charges and fees, including those of the Authority, incurred in connection with the foregoing.

“Cost” or “Costs of the Project(s)” means, with respect to a Project(s), the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such Project(s), including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project(s), (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project(s), which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of the Project(s), (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project(s), (vii) any sums required to reimburse the 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(s) (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(s), and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project(s) or pursuant to the Resolution or to the Loan Agreement, or a Reserve Fund Facility relating to such Project(s).

“Credit Facility” means (i) 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, redemption premium on the Bonds of any Series when due and issued and delivered to the Trustee, (ii) a letter of credit issued by a Credit Facility Issuer with respect to any Series of Bonds or one or more Series of Bonds on the date of issuance of such Series of Bonds or (iii) similar insurance or credit enhancement or guarantee facility if so designated, all in accordance with the Applicable Series Resolution.

“Credit Facility Default” means with respect to a Credit Facility Issuer any of the following: (a) there shall occur a default in the payment of principal of or any interest on any Bond or Purchase Price thereof by the Credit Facility Issuer when required to be made under the terms of the Credit Facility, (b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction or (c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy,

insolvency or other similar law now or in effect after the date of the Resolution, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

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

“Credit Facility Repayment Fund” means each fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution.

“Debt Service Fund” means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution.

“Debt Service Reserve Fund” means each fund so designated, created and established pursuant to the Resolution and by the Applicable Series Resolution.

“Debt Service Reserve Fund Requirement” means, unless otherwise specified in an Applicable Series Resolution or an Applicable Bond Series Certificate, as of any particular date of computation, an amount equal to the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Bonds of a Series payable during such year, excluding interest accrued thereon prior to December 1 of the next preceding year and (ii) the principal and the Sinking Fund Installments of such Bonds except that if, upon the issuance of a Series of Bonds, such amount would require a deposit of moneys therein, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Series of Bonds, the Debt Service Reserve Fund Requirement shall mean the maximum amount permitted under the Code to be deposited therein from the proceeds of such Series of Bonds, as certified by an Authorized Officer of the Authority.

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

irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

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

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

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

“Fitch” means Fitch IBCA, Inc., its successors and assigns.

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

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

“Institution” means with respect to any Applicable Series of Bonds or any portion thereof, the not-for-profit hospital corporation, nursing home corporation or other entity or person that is a Member of the Obligated Group and for whose benefit the Authority has, as authorized under the Public Health Law or any other law or regulation, issued such Series of Bonds or any portion thereof.

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

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

“Loan Agreement” means the Loan Agreement executed by the Authority and any Applicable Institution, or other agreement, by and between the Authority and an Applicable Institution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by such Loan Agreement.

“Master Indenture” means the Master Trust Indenture by and among the Obligated Group and the Master Trustee dated as of May 1, 2008, as may be amended and supplemented from time to time.

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

“Maximum Interest Rate” means, with respect to any Applicable Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the maximum rate of interest Bonds of such Series may bear at any time.

“Minimum Interest Rate” means, with respect to any Applicable Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the minimum rate of interest Bonds of such Series may bear at any time.

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

“Obligation” means an Obligation issued pursuant to the Master Indenture and a Supplemental Indenture to secure indebtedness of a Member of the Obligated Group.

“Obligated Group” means the Orange Regional Medical Center Obligated Group of which Orange Regional Medical Center is currently the sole member; and such other organizations as may from time to time be added as members of such Obligated Group, and excluding such organizations as may from time to time withdraw as members of such Obligated Group, all as provided in the Master Indenture, pursuant to which such Obligated Group was created.

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

“Outstanding” when used in reference to Bonds of any Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with the Resolution; (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the Purchase Price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds.

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

“Permitted Collateral” means any of the following: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; (iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and (iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated by Best's Insurance Guide or a nationally recognized statistical rating service in the highest rating category.

“Permitted Investments” means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) Collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; and (vi) Investment Agreements that are fully collateralized by Permitted Collateral.

“Project” means, any eligible hospital project, nursing home project or other project qualified under the Act or otherwise eligible to be financed by the Authority through the issuance of obligations under the laws of the State of New York, as defined in the Applicable Loan Agreement.

“Provider Payments” means any payments made by a Facility Provider pursuant to its Reserve Fund Facility on deposit in the Applicable Debt Service Reserve Fund.

“Purchase Price” means, except as otherwise set forth in an Applicable Bond Series Certificate, 100% of the principal amount of any Option Bond tendered or deemed tendered for purchase to the tender agent for such Bonds, plus accrued and unpaid interest thereon to the date of purchase; provided, however, that if the date of purchase is an Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

“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 statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under the Resolution as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or Applicable Credit Facility Issuer;

(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 statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or Applicable Credit Facility Issuer;

(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 statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under the Resolution as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or Applicable Credit Facility Issuer;

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

(v) a corporation whose obligations, including any investments of any moneys held under the Resolution purchased from such corporation, are insured by a Credit Facility Issuer that meets 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 shall have assigned a rating on any Bonds Outstanding as requested by or on behalf of the Authority, and which rating is then currently in effect.

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

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

“Refunding Bonds” means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to 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.

“Remarketing Agent” means the person or entity, appointed by or pursuant to the Applicable Series Resolution authorizing the issuance of a particular Series of Variable Interest Rate Bonds, to remarket such Variable Interest Rate Bonds tendered or deemed to have been tendered for purchase in accordance with such Series Resolution or the Applicable Bond Series Certificate relating to such Variable Interest Rate Bonds.

“Remarketing Agreement” means, with respect to a particular Series of Variable Interest Rate Bonds, an agreement between the Authority and the Remarketing Agent, between the Institution and the Remarketing Agent, or among the Authority, the Institution and the Remarketing Agent, relating to the remarketing of such Variable Interest Rate 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” means the Orange Regional Medical Center Obligated Group Revenue Bond Resolution, adopted March 26, 2008, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions of the Resolution.

“Revenues” means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement, and payments made or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation and all amounts realized upon liquidation of collateral securing the Applicable Obligation, which payments and amounts are pledged and 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 Applicable Arbitrage Rebate Fund and Applicable Credit Facility Repayment Fund

and except as otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate relating to a Series of Bonds).

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

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

“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.

“Substitute Credit Facility” means any municipal bond insurance policy, a letter of credit issued by a Credit Facility Issuer or similar credit enhancement or guarantee facility constituting a Credit Facility within the meaning of the Resolution issued and delivered to the Trustee in connection with a particular Series of Bonds and effective upon the expiration or earlier termination of the then existing Credit Facility relating to such Series of Bonds in replacement such existing Credit Facility, all in accordance with the provisions of the Applicable Series Resolution and the Applicable Bond Series Certificate.

“Supplemental Indenture” means any Supplemental Indenture under the Master Indenture authorizing the issuance of an Obligation to secure a Series of Bonds.

“Supplemental Resolution” means any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution.

“Tax Exempt Bonds” means any Bonds authorized to be issued under the Resolution and under an Applicable Series Resolution, the interest on which Bonds is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Code.

“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 Manufacturers and Traders Trust Company or any other bank or trust company appointed as Trustee for an Applicable Series of the Bonds pursuant to the Resolution or any Applicable Series Resolution or any Applicable Bond Series Certificate delivered under the Resolution and having the duties, responsibilities and rights provided for in the Resolution and any Applicable Series Resolution and Bond Series Certificate 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.

“Variable Interest Rate” means the rate or rates of interest to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds which is or may be varied from time to time in accordance with the method of computing such interest rate or rates specified in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds and which shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) which may be in effect from time to time or at a particular time or times, provided, however, that such variable interest rate may be subject to a maximum interest rate and a minimum interest rate and that there may be an initial rate specified, in each case, as provided in such Applicable Series Resolution or Applicable Bond Series Certificate, or (ii) a stated interest rate that may be changed from time to time as provided in such Applicable Series Resolution or Applicable Bond Series Certificate provided, further, that such Applicable Series Resolution or Applicable Bond Series Certificate shall also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each variable interest rate shall remain in effect or (y) the time or times at which any change in such variable interest rate shall become effective or the manner of determining such time or times.

“Variable Interest Rate Bond” means any Bond which bears a Variable Interest Rate; provided, however, that a Bond, the interest rate on which shall have been fixed for the remainder of the term thereof, shall no longer be a Variable Interest Rate Bond.

Appendix B

**Orange Regional Medical Center
Consolidated Financial Statements and Consolidating Information
as of December 31, 2007 and 2006**

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ORANGE REGIONAL MEDICAL CENTER

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Orange Regional Medical Center:

We have audited the accompanying consolidated balance sheets of Orange Regional Medical Center and subsidiaries (ORMC or the Hospital) as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orange Regional Medical Center and subsidiaries as of December 31, 2007 and 2006, and the 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.

As discussed in notes 3(v) and 9(e) to the consolidated financial statements, the Hospital adopted the provisions of Statement of Financial Accounting Standard No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of Financial Accounting Standards Board Statements No. 87, 88, 106, and 132 (R) as of December 31, 2007.

KPMG LLP

March 24, 2008

ORANGE REGIONAL MEDICAL CENTER

Consolidated Balance Sheets

December 31, 2007 and 2006

(In thousands)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 35,289	41,730
Patient accounts receivable, net	35,170	38,739
Investments	18,408	18,076
Other current assets	11,280	9,695
Total current assets	100,147	108,240
Assets limited or restricted as to use	8,591	12,450
Property, plant, and equipment, net	68,423	49,125
Interest in net assets of Orange Regional Medical Center Foundation, Inc., net	11,704	2,304
Other assets, net	3,421	5,961
Total assets	\$ 192,286	178,080
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 4,010	5,157
Accounts payable and accrued expenses	35,702	38,437
Deferred revenue	855	899
Estimated third-party payor liabilities, net	822	70
Total current liabilities	41,389	44,563
Long-term debt, net of current installments	34,913	39,030
Other liabilities, net	12,717	13,804
Deferred revenue, net of current portion	5,180	6,035
Accrued retirement benefits	13,311	20,582
Total liabilities	107,510	124,014
Commitments and contingencies		
Unrestricted	68,538	47,902
Temporarily restricted	14,244	3,993
Permanently restricted	1,994	2,171
Total net assets	84,776	54,066
Total liabilities and net assets	\$ 192,286	178,080

See accompanying notes to consolidated financial statements.

ORANGE REGIONAL MEDICAL CENTER

Consolidated Statements of Operations

Years ended December 31, 2007 and 2006

(In thousands)

	<u>2007</u>	<u>2006</u>
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 274,210	269,251
Investment income	3,811	2,702
Other revenue	6,168	5,719
Net assets released from restrictions used for operations	111	178
Total unrestricted revenues, gains, and other support	<u>284,300</u>	<u>277,850</u>
Expenses:		
Salaries and wages	122,892	118,381
Employee benefits	39,856	39,028
Supplies	47,403	46,635
Purchased services and other	47,264	44,225
Interest	2,754	2,962
Depreciation and amortization	10,789	12,004
Provision for bad debts, net of recoveries	7,131	11,356
Loss from extinguishment of debt	—	808
Total expenses	<u>278,089</u>	<u>275,399</u>
Income from operations	6,211	2,451
Nonoperating income	<u>733</u>	<u>1,034</u>
Excess of revenues, gains, and other support over expenses	6,944	3,485
Other changes in net assets:		
Change in net unrealized gains on investments other than trading securities	10	1
Reclassification of investment portfolio to trading	(611)	—
Net assets released from restrictions used for property, plant, and equipment	170	454
Grant for capital expenditures	6,124	—
Change in minimum pension obligation	7,046	4,509
Effect of adoption of recognition provisions of SFAS No. 158	953	—
Increase in unrestricted net assets	<u>\$ 20,636</u>	<u>8,449</u>

See accompanying notes to consolidated financial statements.

ORANGE REGIONAL MEDICAL CENTER

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2007 and 2006

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at December 31, 2005	\$ 39,453	3,731	2,216	45,400
Excess of revenues, gains, and other support over expenses	3,485	—	—	3,485
Gifts, grants, and bequests	—	801	—	801
Change in net unrealized gains on investments other than trading securities	1	—	—	1
Net assets released from restrictions:				
Operating purposes	—	(178)	—	(178)
Property, plant, and equipment	454	(454)	—	—
Change in interest in net assets of Orange Regional Medical Center Foundation, Inc.	—	80	—	80
Change in minimum pension obligation	4,509	—	—	4,509
Investment income	—	13	1	14
Rental income	—	—	51	51
Direct fund expenses	—	—	(97)	(97)
Total changes in net assets	<u>8,449</u>	<u>262</u>	<u>(45)</u>	<u>8,666</u>
Net assets at December 31, 2006	<u>47,902</u>	<u>3,993</u>	<u>2,171</u>	<u>54,066</u>
Excess of revenues, gains, and other support over expenses	6,944	—	—	6,944
Gifts, grants, and bequests	—	1,106	—	1,106
Change in net unrealized gains on investments other than trading securities	10	—	—	10
Reclassification of investment portfolio to trading	(611)	—	—	(611)
Net assets released from restrictions:				
Operating purposes	—	(111)	—	(111)
Property, plant, and equipment	170	(170)	—	—
Grant for capital expenditures	6,124	—	—	6,124
Change in interest in net assets of Orange Regional Medical Center Foundation, Inc.	—	9,400	—	9,400
Change in minimum pension obligation	7,046	—	—	7,046
Effect of adoption of recognition provisions of SFAS No. 158	953	—	—	953
Investment income	—	26	1	27
Rental income	—	—	106	106
Direct fund expenses	—	—	(284)	(284)
Total changes in net assets	<u>20,636</u>	<u>10,251</u>	<u>(177)</u>	<u>30,710</u>
Net assets at December 31, 2007	\$ <u>68,538</u>	<u>14,244</u>	<u>1,994</u>	<u>84,776</u>

See accompanying notes to consolidated financial statements.

ORANGE REGIONAL MEDICAL CENTER

Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

(In thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Changes in net assets	\$ 30,710	8,666
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(205)	(202)
Loss from extinguishment of debt	—	808
Depreciation and amortization	10,789	12,004
Amortization of cost of bond issuance	290	366
Accretion of asset retirement obligation	230	220
Amortization of deferred revenue	(899)	(226)
Decrease (increase) in intangible pension asset	803	(604)
Restricted contributions and restricted income, net	(1,015)	(769)
Provision for bad debts, net of recoveries	7,131	11,356
(Gain) loss on sale of property, plant, and equipment	(4)	74
Impairment on investment in joint venture	570	—
Change in interest in net assets of Orange Regional Medical Center Foundation, Inc.	(9,400)	(80)
Change in minimum pension obligation	(7,046)	(4,509)
Effect of adoption of recognition provisions of SFAS No. 158	(953)	—
Changes in assets and liabilities:		
Patient accounts receivable	(3,562)	(10,813)
Other current assets	(1,585)	(1,442)
Other noncurrent assets	407	(981)
Accounts payable and accrued expenses	(2,735)	564
Estimated third-party payor liabilities, net	752	(900)
Other liabilities, net	(1,317)	(1,302)
Accrued retirement benefits	728	42
Net cash provided by operating activities	<u>23,689</u>	<u>12,272</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(29,613)	(6,938)
Purchases of investments and assets limited or restricted as to use	(36,682)	(87,208)
Sales of investments and assets limited or restricted as to use	40,414	92,043
Proceeds from sale of Medical Pavilion, net	—	17,963
Net cash (used in) provided by investing activities	<u>(25,881)</u>	<u>15,860</u>
Cash flows from financing activities:		
Payment of long-term debt	(5,264)	(16,950)
Proceeds from lease line of credit	—	3,694
Proceeds from notes and mortgage payable	—	4,000
Proceeds from restricted contributions and restricted income, net	1,015	769
Net cash used in financing activities	<u>(4,249)</u>	<u>(8,487)</u>
Net (decrease) increase in cash and cash equivalents	(6,441)	19,645
Cash and cash equivalents at beginning of year	<u>41,730</u>	<u>22,085</u>
Cash and cash equivalents at end of year	\$ <u>35,289</u>	<u>41,730</u>
Supplemental disclosure of noncash investing and financing activities:		
Cash paid during the year for interest	\$ 2,114	2,420

See accompanying notes to consolidated financial statements.

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

(1) Organization

Orange Regional Medical Center (ORMC or the Hospital) was formed in September 2002 by way of the merger of Arden Hill Hospital and Horton Medical Center. The main campuses are located in Goshen and Middletown, New York, with several off-site locations in the surrounding area. The Hospital is affiliated with Orange Regional Medical Center Foundation, Inc. whose purpose is to raise funds for the Hospital and the health and welfare of the community.

ORMC is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes and other related income pursuant to Section 501(a) of the Code.

ORMC provides acute, psychiatric, and rehabilitative inpatient services, as well as ambulatory surgery, emergency care, and other outpatient services for residents of Orange County, New York and surrounding areas.

On June 25, 2007, Catskill Regional Medical Center (Catskill Regional) and Greater Hudson Valley Health System (GHVHS), the sole member of the Hospital, announced plans to form an affiliation for the purposes of enhancing healthcare in the Hudson Valley Region. Catskill Regional is located in Sullivan County and is licensed for a total of 179 beds maintained on two campuses in Harris, New York and Calicoon, New York.

As part of the affiliation, GHVHS agreed to become the sole member of Catskill Regional and a Certificate of Need application is being prepared for submission to the New York State Department of Health seeking approval for GHVHS to become the active parent of Catskill Regional. In addition, GHVHS agreed to assume responsibility for day-to-day management of Catskill Regional following approval from New York State Department of Health, pursuant to a management contract. These management services are to be provided by the senior management team of ORMC. ORMC and Catskill Regional will maintain independent financial operations and neither will be liable for the other's obligations.

(2) New Hospital Project

During 2005, Governor Pataki and State legislature of New York established the Commission on Health Care Facilities in the 21st Century (the Berger Commission), the purpose of which was to review and strengthen New York State's acute and long-term healthcare delivery system. In December 2006, the Berger Commission issued *A Plan to Stabilize and Strengthen New York's Health Care System* (the Report), which included a recommendation that ORMC, contingent upon financing, should close its existing campuses and consolidate operations at a new, smaller replacement facility that will be licensed for approximately 350 beds. Effective January 1, 2007, the recommendations of the Report became law. The recommendations must be implemented no later than June 30, 2008.

During 2004, ORMC acquired 61 acres to construct a 374-bed facility of which 20 beds will be held in reserve for high volume situations. The project will include a total of approximately 606,000 square feet over seven floors to accommodate adult medical/surgical, pediatric, obstetrical/gynecological, rehabilitative, and behavioral health service needs. The estimated cost to construct such a facility has been estimated at \$302,000, including net capitalized interest cost of approximately \$47,000. The Board of

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

Directors has hired investment bankers, feasibility consultants and is pursuing several financing alternatives.

In May 2006, in connection with the Health Care Efficiency and Affordability Law for New Yorkers Grant Program, Phase II: Capital Restructuring Initiatives (HEAL NY Phase II), ORMC submitted a grant application. In November 2006, ORMC was awarded \$24,600 to be applied against \$8,000 in planning/design fees, \$1,600 other planning/preconstruction fees, and \$15,000 in new construction costs. The Grant will be for a period of two years and it is a matching funds grant with quarterly reimbursements. As required by HEAL NY Phase II, ORMC will utilize current available cash to fund its portion of the cost.

For the year ended December 31, 2007, ORMC recorded grant for capital expenditures income in the amount of \$6,124 in the accompanying consolidated statement of operations. As of December 31, 2007, ORMC has accrued a receivable of \$3,426 recorded in other current assets in the consolidated balance sheet.

In July 2007, in connection with the Health Care Efficiency and Affordability Law for New Yorkers Grant Program, Phase IV: Implementation of Commission Mandates, ORMC submitted a grant application. In September 2007, ORMC was awarded \$24,000 to be applied towards retiring debt on the two campuses slated for closure. The retirement will occur upon issuance of Indebtedness relating to new hospital project.

Management plans to issue revenue bonds issued through the Dormitory Authority of the State of New York during 2008 yielding bond proceeds of approximately \$263,100. Additionally, the Hospital will provide equity of approximately \$45,400, consisting of donor contributions of approximately \$17,200, funds from the sale of the Arden Hill and Horton campuses of approximately \$10,000, and available funds of approximately \$18,200. Grant funds from the HEAL grant of \$24,600 will also be used to fund construction. A portion of bond proceeds will be used to fund a debt service reserve fund of approximately \$21,900 and costs of issuance of approximately \$9,200.

During 2007, the Hospital's Board of Directors approved the sale of the Arden Hill and Horton campuses with net book value of approximately \$9,293, net of depreciation and asset retirement obligations, as of December 31, 2007. The Hospital has entered into an agreement for sale in the amount of \$10,000, which includes a leaseback provision for a period of five years, and expects to complete the transaction in 2008.

(3) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting and include the activities of the Hospital and East Main Street Management Corporation (EMS), The Alpha Network, Inc (the PHO) and Synera Corporation, all dormant corporations. All significant intercompany balances and transactions have been eliminated in preparation of the consolidated financial statements (see note 11).

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

(b) Investments

In 2007, the Hospital changed the classification of debt and equity securities included in investments and assets limited as to use from other than trading to trading. Prior to 2007, these securities were considered other than trading.

Investments in equity securities with readily determinable fair values and all investments in debt securities classified as trading are measured at fair value in the accompanying consolidated balance sheets.

Prior to 2007, unrealized gains and losses on other than trading securities were reported as a separate component of total changes in net assets. In 2007, unrealized gains and losses on trading securities were included in excess of revenue over expenses. Prior to the change to a trading portfolio in the current year, the Hospital evaluated on an ongoing basis its investments to determine whether other-than-temporary impairments exist.

Investment income or loss (including realized gains and losses on investments, interest, and dividends in 2007 and 2006 and unrealized gains and losses on investments in 2007) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

The equity method of accounting is used for joint venture investments in which the Hospital has neither the ability to exercise control nor significant influence.

(c) Impairment of Long-Lived Assets

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

(d) Net Assets

The net assets of ORMC and changes therein are classified and reported as follows:

Unrestricted Net Assets – all funds not restricted by a donor or grantor and assets limited or restricted as to use through contractual or regulatory control of a third-party payor or under debt agreements.

Temporarily and Permanently Restricted Net Assets – temporarily restricted net assets are those whose use by ORMC has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

(e) Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(f) Charity Care

ORMC provides charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because ORMC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The amount of charges foregone for services under ORMC's charity care policy is as follows:

	<u>2007</u>	<u>2006</u>
Charges foregone based on established rates	\$ 10,789	8,494

(g) Assets Limited or Restricted as to Use

Assets limited or restricted as to use primarily include assets held by trustees under indenture agreements, unused lease line-of-credit agreements, and assets associated with the donor restricted net assets.

(h) Revenue Recognition

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

The Hospital establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management based on general factors such as payor mix, the aging of the receivables, and historical collection experience. At December 31, 2007 and 2006, accounts receivable are recorded net of an allowance for doubtful accounts of \$53,440 and \$58,583, respectively.

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

(i) Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party-payor agreements. The mix of receivables from third-party payors and patients at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Medicare	\$ 26%	22%
Medicaid	12	11
Commercial and HMO's	24	26
Blue Cross	18	15
Self-pay patients	18	24
Others	<u>2</u>	<u>2</u>
	<u>\$ 100%</u>	<u>100%</u>

(j) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Estimated useful lives of the assets are as follows:

Land improvements	5 to 20 years
Buildings and building improvements	15 to 40 years
Equipment	5 to 15 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest cost on borrowings is capitalized as a cost of the qualifying assets during the construction period.

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

(k) *Supplies*

Supplies are stated at the lower of cost (first-in, first-out method) or market (net realizable value). Supplies are included in other current assets.

(l) *Cash and Cash Equivalents*

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less.

(m) *Use of Estimates*

The preparation of consolidated 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 and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Included in excess of revenues over expenses are changes relating to third-party payors, which are disclosed in note 13(b).

(n) *Excess of Revenues, Gains, and Other Support Over Expenses*

The consolidated statements of operations include excess of revenues, gains, and other support over expenses. Changes in unrestricted net assets that are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, changes in minimum pension obligation, effect of adoption of recognition provisions of Financial Accounting Standards Board No. 158, unrealized gains on investments other than trading securities, net assets released from restrictions for property, plant, and equipment, and grants for capital expenditures.

(o) *Estimated Malpractice, Workers' Compensation Costs, and Health Insurance Costs*

The provision for estimated medical malpractice, workers' compensation, and health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported (IBNR).

(p) *Cost of Bond Issuance*

In connection with the issuance of the Orange County Industrial Development Agency bonds, the Hospital incurred costs of issuance of approximately \$3,400. During 2005, in connection with debt covenant modifications, the Hospital incurred an additional cost of approximately \$1,300. These costs are included in the accompanying consolidated balance sheets as long-term other assets, net. The costs are amortized based on the interest method over the lives of the bonds. Accumulated amortization of cost of issuance amounted to \$1,227 and \$937 at December 31, 2007 and 2006, respectively.

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During 2006, in connection with the Hospital's sale of the West Hudson Medical Pavilion (the Medical Pavilion), the Hospital defeased Series 2002A Variable Rate Demand Civic Facility Revenue Bonds. The Hospital wrote off \$1,100 of cost of bond issuance and related accumulated amortization in the amount of \$300, which is included in loss from extinguishment of debt in the consolidated statement of operations for the year ended December 31, 2006.

(q) Goodwill

Goodwill of \$3,028, reported in the accompanying consolidated balance sheets as long-term other assets, net, represents acquisition of physician practices amortized on a straight-line basis not to exceed five years. Accumulated amortization of goodwill amounted to \$2,782 and \$2,312 at December 31, 2007 and 2006, respectively. Amortization expense amounting to \$470 and \$575 for the years ended December 31, 2007 and 2006, respectively, is included in depreciation and amortization in the consolidated statement, of operations.

(r) Commitments and Contingencies

Accruals for estimated losses relating to environmental remediation obligations (see note 8d) generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of expected future expenditures for environment remediation obligations are not discounted to their present value.

(s) Conditional Asset Retirement Obligation

The Hospital applies the provisions of the FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. The interpretation requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation in which the timing or method of settlement are conditional on a future event that may or may not be under the control of the entity. The New York State Department of Labor Industrial Code Rule 56 requires the controlled removal or encapsulation of asbestos by a licensed contractor in commercial and public buildings including renovation and partial or complete demolition activities, such legislation being applicable to the Hospital.

FIN 47 requires that an asset retirement obligation (ARO) liability be recognized at its net present value with a corresponding increase to the carrying amount of the long-lived asset to which the ARO relates.

(t) Guarantees

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees*. The interpretation enhances the disclosure for guarantees and clarifies the requirements of guarantors to recognize a liability at the inception or modification of a guarantee (see note 8g for details). In November 2005, the FASB issued FASB Staff Position FIN 45-3, *Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners* (FIN 45-3). FIN 45-3 further clarifies FIN 45 by requiring hospitals to record a liability for the fair value of minimum revenue guarantees at the inception of contracts and requires

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the disclosure of the maximum amount that could be paid under all guarantees. FIN 45-3 was effective for the Hospital as of January 1, 2006.

(u) *Deferred Revenue*

Deferred revenue consists of the gain associated with the Hospital's sale of the Medical Pavilion (see note 5). As part of the transaction the Hospital leased back the entire building, and accordingly the gain on sale is being amortized over the lives of the respective lease commitments (see note 8(f)).

(v) *Accounting for Defined Benefit Pensions and Other Postretirement Plans*

Effective December 31, 2007, the Hospital adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R) (refer to note 9 for information regarding the impact of adopting the recognition provisions of SFAS No. 158).

(w) *Accounting for Uncertainty in Income Taxes*

In June, 2006 the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109*. FIN 48 addresses the accounting for uncertainties in income taxes recognized in an enterprises's financial statements and prescribes a threshold of more-likely-than-not for recognition and de recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties disclosure. There was no material impact to the Hospital's consolidated financial statements as a result of adoption of FIN 48.

(x) *Reclassifications*

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

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(4) Investments and Assets Limited or Restricted as to Use

The composition of investments and assets limited or restricted as to use as of December 31 is set forth in the following table:

	2007	2006
Assets limited or restricted as to use:		
Under lease line-of-credit agreements	\$ 742	5,060
Under indenture agreement (note 6)	3,315	3,792
Temporarily or permanently restricted assets (excluding net assets of Orange Regional Medical Center Foundation, Inc. of \$11,704 and \$2,304 in 2007 and 2006, respectively)	4,534	3,598
Total assets limited or restricted as to use	8,591	12,450
Investments	18,408	18,076
Investments and assets limited or restricted as to use	\$ 26,999	30,526

Investment income and gains from investments, assets limited or restricted as to use, cash equivalents, and other investments comprise the following for the years ended December 31:

	2007	2006
Investment income:		
Interest and dividend income	\$ 3,005	2,501
Realized gains on sales of securities	195	201
Unrealized gains on trading investments	611	—
	\$ 3,811	2,702
Other changes in unrestricted net assets:		
Unrealized gains on investments other-than-trading securities	\$ 10	1
Reclassification of investment portfolio to trading	(611)	—

The effect of the change in classification of investments to trading resulted in \$611 of unrealized gains being reclassified to investment income at December 31, 2007.

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A summary of the Hospital's investments and assets limited or restricted as to use at December 31 is as follows:

	Fair value	
	2007	2006
Cash and cash equivalents	\$ 5,763	4,846
Certificates of deposit	—	878
Equity securities	1,796	3,571
Government and agencies securities	8,888	10,958
Corporate bonds and notes	9,810	5,213
Unused lease lines of credit	742	5,060
	\$ 26,999	30,526

At December 31, 2006, gross unrealized losses on other-than-trading investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows as of:

	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Equities	\$ —	—	(69)	375	(69)	375
Government and agency securities	(2)	496	(89)	4,094	(91)	4,590
Corporate bonds	(2)	199	(352)	3,675	(354)	3,874
	\$ (4)	695	(510)	8,144	(514)	8,839

Management reviewed the securities with unrealized losses, summarized in the preceding tables, and determined that the securities were not other than temporarily impaired. As of December 31, 2006, management reached this conclusion in consultation with its investment consultant and portfolio managers, who relied on industry analyst reports, credit ratings, current market conditions, and other information, they deemed relevant to their assessment.

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(5) Property, Plant, and Equipment

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

	<u>2007</u>	<u>2006</u>
Land	\$ 4,478	4,478
Land improvements	3,347	3,202
Buildings and building improvements	80,097	78,343
Equipment	<u>138,307</u>	<u>127,646</u>
	226,229	213,669
Less accumulated depreciation	<u>177,734</u>	<u>167,593</u>
	48,495	46,076
Construction in progress	<u>19,928</u>	<u>3,049</u>
Property, plant, and equipment, net	<u>\$ 68,423</u>	<u>49,125</u>

Construction in progress consists of several patient-service related projects and preconstruction costs associated with the new hospital, with an estimated cost to complete of \$302,000 (see note 2 regarding New Hospital Project).

During 2006, the Hospital sold the Medical Pavilion with a historical cost of approximately \$18.8 million and accumulated depreciation of \$8.0 million for a sales price of \$18,890. Simultaneously, the Hospital's Series 2002A Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center West Hudson Facility Project) in the amount of \$9.8 million were defeased and the Hospital received cash proceeds of approximately \$8.2 million relating to the disposal of the building. As part of the transaction the Hospital leased back the entire building through 2016. Accordingly the gain of \$7,160 has been recognized in the accompanying consolidated balance sheets as deferred revenue and is being recognized as an offset to rental expense over the life of the new operating leases (see note 8(f)).

ORMC capitalizes interest cost incurred in connection with construction projects. Capitalized interest for the year ended December 31, 2007 was \$422.

Equipment under capitalized lease obligations as of December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 6,276	2,737
Less accumulated depreciation	<u>1,343</u>	<u>466</u>
	<u>\$ 4,933</u>	<u>2,271</u>

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(6) Long-Term Debt

A summary of long-term debt at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Bonds payable (a)	\$ 31,680	33,080
Lease lines of credit (b)	3,815	6,305
Term loan (c)	22	90
Term loan (d)	500	1,000
Term loan (e)	1,333	1,767
Term loan (f)	765	959
Term loan (g)	808	986
	<u>38,923</u>	<u>44,187</u>
Current installments	<u>4,010</u>	<u>5,157</u>
Long-term debt, net of current installments	<u>\$ 34,913</u>	<u>39,030</u>

(a) During 2002, the Orange County Industrial Development Agency issued on behalf of the Hospital (Obligated Group) a total of \$48,950 of Bonds (Bonds). The components of the debt are as follows:

- \$15,910 Variable Rate Demand Civic Facility Revenue Bonds (Arden Hill Hospital Project) Series 2002;
- \$17,475 Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center Project) Series 2002;
- \$10,830 Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center West Hudson Facility Project) Series 2002A; and
- \$4,735 Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center West Hudson Facility Project) Series 2002B (Taxable).

Principal and interest on the Bonds are payable on an annual basis on December 1, beginning in 2003. The bonds are repayable in annual installments varying in amounts from \$1,400 in 2007 to \$2,925 in 2022, maturing December 1, 2022. The Bonds have a variable interest rate (3.247% and 3.839% as of December 31, 2007 and 2006, respectively) and a maturity date of December 1, 2022. During 2006, the Hospital defeased the Series 2002A Variable Rate Demand Civic Facility Bonds.

The Hospital funded the initial requirement of the Debt Service Reserve Fund of approximately \$4,200 from the proceeds of the original issuance. The current funding requirement is \$3,300. This amount is included in the accompanying consolidated balance sheets as assets limited or restricted as to use (see note 4). With the previously discussed defeasance during 2006, funds held in the Debt Service Reserve Fund in the amount of \$1,400 associated with the 2002A Bonds were released.

Bonds are collateralized by land and building of the Hospital.

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- (b) The Hospital has lease lines of credit with several entities with interest rates ranging from 4.71% to 6.08%, with monthly payments ranging from \$29 to \$87, and maturity dates through November, 2011.

The Hospital has unused portions of lease lines of credit of \$742 and \$5,060 as of December 31, 2007 and 2006, respectively, recorded as assets limited or restricted as to use (see note 4) in the accompanying consolidated balance sheets. If the Hospital does not utilize the remaining lease line of credit, the balance will be credited towards the outstanding principal balance of the obligation.

- (c) The Hospital entered into a loan with a financing company in 2003, for certain medical equipment amounting to \$271, which matures in April 2008, with an interest rate of 9.23% and a monthly payment of \$6.
- (d) The Hospital has a \$2,000 unsecured term loan of which \$500 and \$1,000 is outstanding at December 31, 2007 and 2006, respectively, with a one month LIBOR interest rate plus 200 basis points or a floating rate of prime (6.97% and 7.35% at December 31, 2007 and 2006, respectively), with monthly principal installments of \$42 and a maturity date of December 2008.
- (e) The Hospital has a \$2,000 unsecured term loan of which \$1,333 and 1,767 is outstanding at December 31, 2007 and 2006 respectively, with a one-month LIBOR interest rate plus 175 basis points (7.00% and 7.125% at December 31, 2007 and 2006, respectively), with monthly principal installments of \$33 plus interest, and a maturity date of April, 2011.
- (f) The Hospital has a \$1,000 unsecured term loan of which \$765 and \$959 is outstanding at December 31, 2007 and 2006, respectively, with an interest rate of 6.3%, with monthly installments of \$20, and a maturity date of September, 2011.
- (g) The Hospital has a \$1,000 unsecured term loan of which \$808 and \$986 is outstanding at December 31, 2007 and 2006, respectively, with an interest rate of 6.2%, with monthly installments of \$19, and a maturity date of November, 2011.

Aggregate principal payments on long-term debt for the next five years are as follows: 2008 – \$4,010; 2009 – \$3,771; 2010 – \$3,370; 2011 – \$2,431; 2012 – \$1,785; and thereafter – \$23,556.

(7) Derivative Financial Instruments

The Hospital has derivative financial instruments principally to manage the risk associated with the fluctuations of its variable-rate debt obligations.

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The Hospital entered into a interest-rate swap with UBS AG. The notional value of this swap contract is \$24,460 and \$26,560 as of December 31, 2007 and 2006, respectively. Under this contract, the Hospital is required to make fixed-rate interest payments monthly on the notional value of the swap (such rate being 4.54%), and UBS AG is required to make floating-rate payments at the Municipal Weekly Index based on the notional value of the swap. The current variable interest rate as of December 31, 2007 and 2006 was 3.294% and 3.643%, respectively. The Hospital has recorded its obligation of \$2,041 and \$1,459 in other long-term liabilities on the consolidated balance sheets representing the total value of the swap as of December 31, 2007 and 2006, respectively.

This derivative instrument does not qualify for hedge accounting, accordingly, for the years ended December 31, 2007 and 2006, ORMC recorded an increase (reduction) in interest expense in the accompanying consolidated statements of operations of \$582 and \$(44), respectively, relating to the change in fair value of this swap.

(8) Commitments and Contingencies

(a) Professional Liability

ORMC has professional liability claims-made commercial insurance coverage for the first \$1,000 per occurrence, \$3,000 in the aggregate for malpractice claims and excess insurance for \$5,000 per occurrence, and \$5,000 in the aggregate.

The Hospital has engaged an independent actuary to estimate the liability for claims IBNR claims. Based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors, management, with the assistance of an external actuary, has recorded an accrual for ultimate undiscounted cost. The accrual recorded is included in other liabilities in the accompanying consolidated balance sheets in the amounts of \$2,456 and \$2,298 of December 31, 2007 and 2006, respectively.

The Hospital has been named as a defendant in various malpractice cases, some of which are potentially in excess of malpractice insurance coverage. While the outcome of these lawsuits cannot be determined at this time, it is the opinion of management that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position, results of operations, or liquidity of ORMC.

(b) Workers' Compensation

ORMC had claims-made based insurance policies for workers' compensation liabilities for the years 2001 and prior. Accordingly, a liability related to IBNR incidents exists. Based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors, management has recorded an accrual in the accompanying consolidated balance sheets in other liabilities of \$160 and \$217 at December 31, 2007 and 2006, respectively.

Effective January 1, 2002, the Hospital became a participating member of the Hudson Healthcare Workers Compensation Group Trust (the Trust).

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The Hospital has entered into an indemnity agreement with the Trust to have the Trust provide risk management services and workers' compensation and employers' liability coverage. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation and employers' liability obligations of the Trust, irrespective of the subsequent termination of a member's membership in the Trust, the insolvency or bankruptcy of another member of the Trust or other facts or circumstances. However, recourse for any and all payments of workers' compensation and employers' liability benefits covered by the Trust's certificate of coverage to a member shall first be made by the Trust's assets.

The Trust provides workers' compensation insurance (medical, indemnity, and legal costs) to Trust members. Such coverage is provided up to the per occurrence New York State statutory limits. The Trust also provides employer's liability insurance with the following limits:

Bodily injury by accident	—	\$100 each accident
Bodily injury by disease	—	\$100 each employee
Bodily injury by disease	—	\$500 policy limit

The Trust engaged an independent actuary to estimate the liability for uninsured claims for all workers' compensation occurrences beginning January 1, 2002 for both reported claims and IBNR claims.

As of December 31, 2007, the audited financial statements of the Trust indicated that the assets of the Trust exceed liabilities by approximately \$1,929. The Hospital has a 33% member interest in this Trust; accordingly, the Hospital accounts for this investment on the equity basis of accounting. As of December 31, 2006, the audited financial statements of the Trust indicated that the assets of the Trust exceed liabilities by approximately \$160.

(c) Employee Health

The Hospital is self-insured for employee health insurance. The Hospital records an estimate for IBNR claims based on information provided by its third-party administrator. The amount accrued was approximately \$1,788 and \$1,988 at December 31, 2007 and 2006, respectively, and is recorded in accounts payable and accrued expenses in the consolidated balance sheets.

(d) Environmental

The New York State Department of Environmental Conservation (DEC) commenced litigation against ORMC and approximately 35 other business entities seeking contribution for the costs of remediating a certain landfill located in the Town of Goshen, Orange County, New York, known as the Orange County Landfill. The amount of contribution sought from all entities has been estimated at up to \$13,000. In April 2006, the State of New York accepted an offer of potentially responsible parties named by the State in this matter to resolve it for sum of \$5,000. The Hospital's portion of the settlement was approximately \$148. Final payment was made in June, 2007.

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(e) Asset Retirement Obligation

The Hospital has AROs arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings are disposed of. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The following table presents the activity for the AROs for the years ended December 31, 2007 and 2006:

	2007	2006
Balance at beginning of year	\$ 5,060	4,840
Accretion expense	230	220
Balance at end of year	\$ 5,290	5,060

The ARO is recorded in other liabilities in the consolidated balance sheets. Accretion expense is recorded as a component of interest expense in the consolidated statements of operations.

(f) Operating Lease Obligations

The following is a schedule of minimum lease payments, sublease income, and deferred revenue (associated with the sale of the Medical Pavilion) under noncancelable operating lease and sublease agreements as of December 31, 2007:

	Lease obligations	Sublease income	Deferred revenue	Net rent expense
Year ending December 31:				
2008	\$ 4,698	(846)	(855)	2,997
2009	4,176	(844)	(769)	2,563
2010	4,008	(844)	(642)	2,522
2011	3,588	(844)	(628)	2,116
2012	3,611	(844)	(628)	2,139
Thereafter	9,623	—	(2,513)	7,110

Net rent expense was \$3,354 and \$4,010 for the years ended December 31, 2007 and 2006, respectively.

(g) Guarantees of Affiliated P.C.

The Hospital entered into a net revenue guarantee agreement in 2006 with a group of physicians for the purpose of recruiting physicians to the local area to provide quality medical services. Under the agreement the Hospital provides financial assistance to assist physicians in establishing medical services in Middletown and surrounding communities. The agreement term is for a three-year period, under which the Hospital will provide monthly financial assistance and guarantee that the

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physicians' cash collections will equal a predetermined agreed-upon amount for the contract period (the agreement period). In return, the physicians must maintain a full-medical practice for the term of the agreement among other duties and obligations, as defined by the agreement. This agreement may be terminated by the Hospital upon the second anniversary without cause.

The Hospital has recorded a current asset and current liability of \$1,100 at December 31, 2007 in connection with the guarantee. The Hospital had recorded a current asset and current liability of \$1,400 and a long-term asset and long-term liability of \$1,000 as of December 31, 2006.

(h) General

Various suits and claims arising in the normal course of operations are pending. While the outcome of these suits cannot be determined at this time, management believes that such suits and claims are either specifically covered by insurance or are not material to ORMC's overall consolidated financial position.

(i) Collective Bargaining Agreements

Approximately 84% of the Hospital's employees are union employees covered under the terms of various collective bargaining agreements. The collective bargaining agreement with Local 1199 SEIU covering service, technical, professional and clerical staff expired December 31, 2007. A new contract effective from January 1, 2008 through December 31, 2011 was signed on January 19, 2008. The collective bargaining agreement with Local 1199 SEIU covering nursing staff is in effect from July 1, 2006 through June 30, 2010. The collective bargaining agreement with Local 530 Security Police Fire Professionals of America covering security staff is in effect from April 1, 2004 through March 31, 2008.

(9) Pension and Other Postretirement Benefits

- (a) ORMC maintains a noncontributory defined benefit pension plan, which covers substantially all employees of ORMC, except for nurse, technical/service, and clerical staff members of Local 1199 SEIU. The pension plan provides benefits based on the participants' years of service and compensation. The funding policy is to fund annually amounts intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

Effective January 1, 2006, ORMC froze participation in the defined benefit pension plan. Any nonunion employees hired after December 31, 2005 became participants in a new defined contribution retirement plan.

Effective July 1, 2006, pension plan provisions were amended to provide a uniform formula for plan participants. The amendment will provide uniform benefits for all retirees regardless of which pension plan the employee entered into originally.

ORMC froze their defined benefit plan effective January 1, 2008. This impacts the remaining 425 active participants in the Plan by stopping the accrual of credited service and compensation under the Plan after December 31, 2007.

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ORMC's defined contribution retirement plan includes a base employer contribution to a 403(b) account equal to a percentage of compensation, to a maximum of 5% based on years of service. ORMC also matches contributions equal to 25% of the employee's 403(b) contribution. The employee's contribution that equals more than 4% of compensation is unmatched. In no event will ORMC's matching contribution exceed 1% of an employee's compensation.

Effective January 1, 2008, as a component of the defined contribution plan, ORMC has changed its employer 403(b) matching policy to match 100% of the employee's 403(b) contribution up to a maximum of 4% of compensation for all employees not covered by a collective bargaining agreement.

- (b) Contributions are made to a multi-employer Local 1199 defined benefit pension plan for participating staff. During 2007 and 2006, the expense related to this union plan totaled approximately \$6,100 and \$5,700, respectively.
- (c) In 2005, ORMC made available a 457(b) Deferred Compensation Plan. This is a supplemental retirement savings program that allows an employee to make contributions on a pretax basis. The Hospital does not match the employees' contribution.
- (d) In addition to the defined benefit pension plan, Horton and Arden Hill sponsor defined contribution healthcare plans that provide postretirement medical, dental, and life insurance benefits to employees who meet the eligibility requirements under the plan.

Effective January 1, 1994, the postretirement benefit plans were amended to establish a new eligibility rule and a 100% contribution by the retiree toward the dental plan. This resulted in a negative prior service cost of \$706, which is being amortized over the expected years of service of 20.5 years.

Effective March 1, 1996, the plans were amended to discontinue the basic hospital and major medical benefit plans and introduce a point-of-service plan. This resulted in a negative prior service cost of \$86, which is being amortized over the expected years of service of 12 years. Effective January 1, 2002, the postretirement plan was amended to increase the cap on pre-65 medical and eliminate post-65 coverage for post-March 1, 2000 retirees. This resulted in a negative prior service cost of \$686, which is to be amortized over the expected years of service of 5.1 years.

Effective January 1, 2006, ORMC enhanced the postretirement benefits by offering executives under age 65 medical coverage to age 65 based on years of service. Prior to January 1, 2006 executives were required to pay the full monthly premium for medical insurance at age 55 with 5 years of service. The medical coverage was no cost if they were age 59 with at least 25 years of service or age 62 with at least 20 years of service.

Nonunion and security employees who retired prior to age 65 with 5 years of service were offered medical insurance at 55% of the full monthly benefit. Prior to January 1, 2006, they were required to pay the full monthly premium for medical insurance at age 55 with 5 years of service. The medical coverage was no cost if they were 59 with at least 25 years of service or 62 with at least 20 years of

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service. Effective January 1, 2008, nonunion and security retirees may maintain individual medical coverage to age 65 by paying 55% of the premium. Effective January 1, 2009, no postretirement benefits will be offered to these employees.

The discount policy on ORMC inpatient and outpatient services for current and future retirees was discontinued effective May 1, 2007. The policy had allowed for the write-off of balances after insurance payments. Effective May 1, 2007, retirees are billed, if appropriate, after insurance payments are collected. In addition, effective July, 2007, individual dental coverage that had been offered at no cost for life is now only provided through age 65.

- (e) As disclosed in note 3(v), the Hospital adopted the provisions of SFAS No. 158 as of December 31, 2007. SFAS No. 158 requires an employer to recognize the funded status (i.e. difference between the fair value of plan assets and projected benefit obligations for pension and difference between the fair value of plan assets and accumulated postretirement benefit obligation for post retirement plans) of their defined benefit pension plan and postretirement plans as an asset or liability in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The adjustment to net assets by ORMC at the adoption of SFAS No. 158 represents the net unrecognized actuarial losses and prior service costs, both of which were previously netted against ORMC's funded status on the consolidated balance sheet, pursuant to the provisions of SFAS No. 87, *Employers' Accounting for Pensions*, title in italics, in prior periods. These amounts would be recognized in future periods as net periodic pension cost, as required by SFAS No. 87.

The Hospital uses a December 31, 2007 measurement date. The effects of adopting the provisions of SFAS No. 158 on ORMC's consolidated balance sheet at December 31, 2007 are presented in the following table. The effect of recognizing the addition in ORMC's additional minimum pension liability for the ORMC Retirement Plan and the postretirement plans are included in the table below in the column labeled "prior to adopting SFAS 158":

	December 31, 2007		
	Prior to adopting SFAS No. 158	Effect of adopting SFAS No. 158	As reported at December 31, 2007
Accrued retirement benefits	\$ (14,556)	953	(13,603)
Unrestricted net assets	67,585	953	68,538

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The following table sets forth the benefit obligations and fair value of plan assets at December 31, 2007 and 2006:

	Pension benefits		Postretirement plans	
	2007	2006	2007	2006
Reconciliation of the benefit obligation:				
Benefit obligation at beginning of year	\$ 90,480	88,651	9,672	7,119
Service cost	1,460	3,165	301	480
Interest cost	5,195	4,833	510	538
Actuarial (gain) loss	(7,183)	(4,373)	1,796	(460)
Curtailment/amendment	(3,814)	689	(6,685)	2,700
Benefits paid and administrative expenses	<u>(2,881)</u>	<u>(2,485)</u>	<u>(471)</u>	<u>(705)</u>
Projected benefit obligation at end of year	<u>\$ 83,257</u>	<u>90,480</u>	<u>5,123</u>	<u>9,672</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 65,256	55,522	—	—
Actual return on plan assets	4,510	6,060	—	—
Employer contributions	7,892	6,159	471	705
Benefits paid and administrative expenses	<u>(2,881)</u>	<u>(2,485)</u>	<u>(471)</u>	<u>(705)</u>
Fair value of plan assets at end of year	<u>\$ 74,777</u>	<u>65,256</u>	<u>—</u>	<u>—</u>

The funded status and amounts in the consolidated balance sheet at December, 2007, pursuant to SFAS No. 158, are as follows:

	Pension benefits	Postretirement benefits
Funded status, end of year:		
Fair value of plan assets	\$ 74,777	—
Projected benefit obligation	<u>(83,257)</u>	<u>(5,123)</u>
Accrued pension obligation	<u>\$ (8,480)</u>	<u>(5,123)</u>

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

As required by SFAS No. 87, the following information is presented for December 31, 2006 (this disclosure is no longer applicable under SFAS No. 158, therefore, 2007 information is not presented):

	<u>Pension benefits</u>	<u>Postretirement benefits</u>
Reconciliation of funded status:		
Fair value of plan assets	\$ 65,256	—
Projected benefit obligation	<u>(90,480)</u>	<u>(9,672)</u>
Funded status	(25,224)	(9,672)
Unrecognized prior service cost	803	2,020
Unrecognized net actuarial loss	<u>18,092</u>	<u>2,469</u>
Net amount recognized – accrued pension cost	<u>\$ (6,329)</u>	<u>(5,183)</u>
Amounts recognized in consolidated balance sheet, end of year:		
Accrued benefit liability	\$ (21,927)	(5,183)
Intangible asset	803	—
Accumulated changes in unrestricted net assets	<u>14,795</u>	<u>—</u>
Net amount recognized, end of year	<u>\$ (6,329)</u>	<u>(5,183)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$83,257 and \$87,183 at December 31, 2007 and 2006, respectively.

The components of net periodic pension cost for the year ended December 31 is as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 1,460	3,165	301	480
Interest cost	5,195	4,833	510	538
Expected return on assets	(5,591)	(4,575)	—	—
Amortization of prior service cost	59	84	(215)	104
Recognized net actuarial loss	425	1,693	297	181
Amendment	<u>744</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net periodic benefit cost	<u>\$ 2,292</u>	<u>5,200</u>	<u>893</u>	<u>1,303</u>

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Weighted average assumptions used to determine obligations:				
Discount rate	6.50%	5.90%	6.35%	5.90%
Rate of compensation increase	—	4.50	—	—
Weighted average assumptions used to determine net benefit cost:				
Discount rate	6.35	5.50	6.30	5.50
Expected return on plan assets	8.00	8.00	—	—
Rate of compensation increase	—	4.50	—	—

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Effective December 31, 2007, the annual rate of increase in the per capita cost of covered healthcare benefits was 10% and assumed to decrease to 5% by 2012. For measurement purposes, a 10% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2007. The rate was assumed to decrease gradually to 5% over the next five years.

Plan Assets

The weighted average asset allocation of the pension benefits at December 31, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Asset category:		
Equity securities	79%	83%
Fixed income	14	13
Other	7	4
	<u>100%</u>	<u>100%</u>

The Hospital's financial and investment objectives are to meet present and future obligations to beneficiaries while minimizing the Hospital's contributions over the long term, by earning an adequate return on assets with moderate volatility.

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one percentage-point change in assumed healthcare cost trend rates would have the following effects:

	<u>One- percentage- point increase</u>	<u>One- percentage- point decrease</u>
Effect on total of service and interest cost components	\$ 45	(38)
Effect on postretirement benefit obligation	462	(396)

Cash Flows

The Hospital expects to contribute \$6,500 to the pension plan and \$292 to its other benefit plans in 2008.

Estimated Future Benefit Payments

The benefits expected to be paid in each year from 2008 to 2012 for the pension plan are \$3,062, \$3,191, \$3,351, \$3,542, and \$4,108, respectively. The aggregate benefits expected to be paid in the five years from 2013 to 2017 are \$27,188. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31, 2007 and include estimated future employee service.

The benefits expected to be paid in each year from 2008 to 2012 for the postretirement plan are \$292, \$285, \$324, \$365, and \$400, respectively. The aggregate benefits expected to be paid in the five years from 2013 to 2017 are \$2,013. The expected benefits are based on the same assumptions used to measure the Hospital's benefit obligation at December 31, 2007 and include estimated future employee service.

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

(10) Temporarily and Permanently Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Temporarily restricted:		
Interest in net assets of Orange Regional Medical Center Foundation	\$ 11,663	2,263
Programs, capital equipment, and improvements	2,380	1,535
Health education	173	168
Scholarships	28	27
	<u>\$ 14,244</u>	<u>3,993</u>
Permanently restricted:		
Interest in net assets of Orange Regional Medical Center Foundation	\$ 41	41
Investments held in perpetuity, with income from which is restricted to equipment purchases	1,825	1,868
Operation of the Townsend Medical Arts Buildings	128	262
	<u>\$ 1,994</u>	<u>2,171</u>

Net assets released from donor temporary restrictions by incurring expenditures satisfying the restricted purposes are as follows:

	<u>2007</u>	<u>2006</u>
Healthcare services:		
Purchase of equipment	\$ 170	454
Health education	111	178
	<u>\$ 281</u>	<u>632</u>

(11) Related-Party Transactions

- (a) Certain individuals serving on the Board of the Hospital also serve on the Boards of the Foundation.
- (b) SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, establishes standards for transactions in which a donor makes a contribution by transferring assets to a not-for-profit organization or charitable trust that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to another beneficiary organization that is specified by the donor. It also establishes standards for transactions that take place in a similar manner but are not contributions because the transfers are revocable, repayable, or reciprocal. The Hospital incurred and

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

paid expenses on behalf of the Foundation in the amount of \$873 and \$596 for the years ended December 31, 2007 and 2006, respectively.

- (c) As part of the affiliation agreement between GHVHS and Catskill Regional entered into in 2007, the senior management of ORMC is providing consulting and administrative services to Catskill Regional. These services are billed at a base annual fee of \$560, to be paid in monthly installments of \$47. The Hospital recorded this fee in other revenue in the accompanying consolidated statements of operations in the amount of \$187 for the year ended December 31, 2007.

(12) Joint Venture Agreements

(a) *Hudson Valley Ambulatory Surgery, LLC (HVA)*

In October 2004, the Hospital entered into an agreement with HVA to operate a diagnostic and treatment center (the Center) for the performance of ambulatory surgery services. HVA was organized as a for-profit corporation for income tax purposes. The Hospital has a 26% ownership interest in HVA at December 31, 2007 and 2006, and records its investment on the equity basis. The Hospital reviewed the operating results and financial position of HVA and concluded the Hospital's investment of \$570 at December 31, 2007 was impaired. Accordingly, the Hospital recorded loss on impairment in purchased services and other expenses in the accompanying consolidated statement of operations of \$570 for the year ended December 31, 2007. The Center became operational in 2007.

(b) *The Community Health Information Platform, LLC (CHIP)*

In July 2005, the Hospital entered into an agreement with Waiting Room Solutions, LLLP (WRS) to evaluate, host, license, market, distribute, and implement software solutions to connect patients, physicians, hospitals, pharmaceutical companies and ancillary service providers, insurance companies, fiscal intermediaries, and laboratories in the healthcare industry. CHIP was organized as a for-profit corporation for income tax purposes. The Hospital does not have significant influence or control of CHIP. The Hospital has a 50% ownership interest in CHIP and records its investment on the equity basis. The Hospital's investment of \$350 at December 31, 2007 and 2006, respectively, is fully impaired.

(13) Net Patient Service Revenue

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

(a) *Medicare*

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient acute and rehabilitative services. Under the Hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis-related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Under the outpatient

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

PPS (OPPS), services are paid based on service groups called ambulatory payment classifications (APCs).

Effective January 1, 2002, the Hospital's medical rehabilitation unit became subject to inpatient rehabilitation PPS (IRF-PPS). IRF-PPS pays the Hospital based on case mix groups (CMGs) that are determined based on the intensity of the services provided and underlying diagnosis.

Medicare also requires rehabilitation facilities to comply with the "75% Rule" for inpatient rehabilitation services. The 75% Rule mandates that in order for an inpatient rehabilitation facility to maintain its exemption from the Inpatient Prospective Payment System (IPPS), at least 75% of the patients treated must carry at least one of thirteen approved medical conditions identified by Medicare. Currently, rehabilitation facilities are operating under an approved glide path toward compliance with the rule, with compliance being measured at 50% for year one and gradually increasing to 75% by the end of year five. The Medicare, Medicaid and SCHIP Extension Act of 2007 was enacted repealing the 75% rule for inpatient rehabilitation services returning the compliance threshold to 60% effective January 1, 2008.

(b) *Medicaid and Other Third-Party Payors*

The New York Health Care Reform Act of 1996, as amended, governs payments to hospitals in New York State and has been extended to June 30, 2008. Under the New York Health Care Reform Act of 1996, Medicaid, workers' compensation, and no-fault payors pay rates are promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity, similar to a Medicare DRG. All other third-party payors, including Blue Cross, other private insurance companies, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements can vary from DRG-based payment systems, per diems, case rates, and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges.

New York State regulations provide for the distribution of funds from an indigent care pool, which is intended to partially offset the cost of services provided to the uninsured. The funds are distributed to hospitals based on each hospital's level of bad debt and charity care in relation to all other hospitals. For the years ended December 31, 2007 and 2006, the Hospital received distributions of \$1,668 and \$1,964, respectively, from the indigent care pool.

Both Federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industrywide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors and amounts due from the indigent care pool for such adjustments.

There are various proposals at the federal and state levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, or increase managed care penetration,

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Revenue from Medicare and Medicaid programs accounted for approximately 35% and 5%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2007 and 37% and 7%, respectively, for the year ended December 31, 2006. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs. Net patient service revenue for the years ended December 31, 2007 and 2006 increased by approximately \$2,754 and \$200, respectively, due to the addition/removal of estimated liabilities that are no longer necessary as a result of final settlements related to prior years and changes in estimates to reflect the most recent information available. The last year subjected to final settlement was 2004, with tentative settlements received for all subsequent years through 2006.

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse legislation. Recent federal initiatives have prompted a national review of federally funded healthcare programs. The Hospital has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and interpretation exists. The ultimate outcome of any such reviews, which may be initiated by regulatory agencies, cannot be determined.

(14) Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value.

Assets limited as to use – These assets consist primarily of cash and short-term investments and interest receivable. The carrying amounts reported in the consolidated balance sheets are at fair value.

Patients' accounts receivable – The carrying amounts reported in the consolidated balance sheets for patients' accounts receivable approximate their fair value.

Accounts payable and accrued expenses – The carrying amounts reported in the consolidated balance sheets for accounts payable and accrued expenses approximate their fair value.

ORANGE REGIONAL MEDICAL CENTER

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(In thousands)

Estimated third-party payor settlements – The carrying amounts reported in the consolidated balance sheets for third-party payor settlements approximate their fair value.

Long-term debt – The carrying value of the Hospital’s revenue bonds represents the fair value, based on the fact that the interest rate is variable. The fair value of the Hospital’s remaining long-term debt approximates its carrying value.

Derivative financial instruments – The carrying amounts reported in the consolidated balance sheets for derivatives approximate their fair value.

(15) Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location, including acute and psychiatric inpatient services, as well as ambulatory surgery, emergency care, and other outpatient services. Expenses related to providing these services for the years ended December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Health care services	\$ 200,224	198,285
General and administrative	77,865	77,114
	<u>\$ 278,089</u>	<u>275,399</u>

Appendix C

Financial Feasibility Study

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***Financial Feasibility Study of the Proposed
Construction Project***

Orange Regional Medical Center

April 2008

Report of Independent Accountants

The Board of Directors
Orange Regional Medical Center
Goshen, New York

We have prepared a financial feasibility study of Orange Regional Medical Center's (Orange Regional's or the Medical Center's) proposed construction project (the Project). The study was undertaken at the request of the Medical Center's Management (Management) to evaluate the ability of Orange Regional to meet operating expenses, working capital needs, other financial requirements and debt service requirements associated with the assumed \$266,865,000 Dormitory Authority of the State of New York (DASNY) Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008 (the Series 2008 Bonds) during each of the five fiscal years in the period ending December 31, 2012. Management anticipates receiving the proceeds from DASNY's sale of the Series 2008 Bonds on May 7, 2008, with the first principal payment due on December 1, 2011 and the first interest payment being due on June 1, 2008.

In addition to the proceeds of the Series 2008 Bonds, Management plans to provide equity of approximately \$45,448,000, consisting of donor contributions of approximately \$17,248,000, funds from the sale of the Arden Hill and Horton campuses of approximately \$10,000,000, Medical Center funds of approximately \$18,200,000. In addition, grant monies from the Healthcare Efficiency and Affordability Law (HEAL) of \$24,600,000 and interest earnings on various related Project funds of approximately \$9,101,000 will also be available for Project construction costs. Management plans to use approximately \$254,980,000 for Project construction costs, approximately \$59,529,000 for capitalized interest, approximately \$22,163,000 for the establishment of the debt service reserve fund and approximately \$9,341,000 for cost of issuance.

Also, the Medical Center would redeem the Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Arden Hill Hospital Project) Series 2002, the Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center Project) Series 2002 and the Orange County Industrial Development Agency Variable Rate Demand Facility Revenue Bonds (Horton Medical Center/West Hudson Facility Project) Series 2002B (Taxable) (collectively the 2002 Bonds) outstanding in the total amount of \$31,680,000 and approximately \$2,500,000 for a swap termination payment. The Medical Center would redeem the 2002 Bonds and the swap termination with equity of \$5,751,000, grant funds received from New York State under the HEAL Program of \$24,000,000 and remaining Series 2002 debt service fund and debt service reserve fund moneys of \$4,428,000.

Management plans to construct a 374-bed facility that will include a total of approximately 606,000 square feet over seven floors to accommodate adult medical/surgical, pediatric, obstetrical/gynecological, rehabilitative, and behavioral health service needs. The consolidated facility will allow for new technologies to support greater patient safety, operational efficiencies, and patient privacy.

The scope of our study included an assessment of future utilization and forecasted revenue, expenses and cash flows that may be generated to meet the cash requirements of the Medical Center's operations. We also participated in gathering other information, assisted Management in identifying and formulating its assumptions, and assembled the accompanying financial forecast based upon those assumptions.

Our study approach included an evaluation of the following utilization factors related to Orange Regional:

- Orange Regional's health care delivery role in its defined service area and the demographic and economic factors affecting future utilization in the service area;
- The potential effect of expansion, modernization and/or program changes of the other service area health care providers; and
- The attitudes of Orange Regional's medical staff toward Orange Regional, as well as planned medical practice changes and recruiting efforts, which may impact future utilization.

Our study approach incorporated the forecasted patient utilization of Orange Regional in the assembly of the financial forecast and included an evaluation of the following factors:

- Anticipated changes in pricing;
- Contracts, regulations, government payment programs, and third-party payor agreements currently in effect;
- Uncollectible accounts and charity care;
- Sources of other revenue and income;
- Staffing estimates and salary and related fringe benefit costs;
- Non wage expenses;
- The timing, cost, and financing assumptions related to the Project and the associated mortgage loan; and
- Other anticipated sources and uses of cash during the forecast period including changes in working capital requirements.

The section "Summary of Significant Assumptions" sets forth the assumptions on which the accompanying financial forecast is based. These assumptions are integral and essential to an understanding of this financial forecast.

The accompanying financial forecast for each of the five years in the period ending December 31, 2012 is based upon assumptions that were provided by or reviewed with and approved by Management. The financial forecast includes the following:

- Forecasted Consolidated Statements of Operations;
- Forecasted Consolidated Statements of Changes in Net Assets;
- Forecasted Consolidated Statements of Cash Flows; and
- Forecasted Consolidated Balance Sheets

We have examined the accompanying financial forecast. Medical Center Management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included those procedures we considered necessary to evaluate both the assumptions used by Management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

Legislation and regulation at all levels of government have affected and may continue to affect the revenues and expenses of Orange Regional. Health care reform is a subject of great national debate. This debate may lead to a variety of changes having an effect on the short-term and long-term operations and financial results of health care organizations. The scope of the elements under debate is far-reaching and comprehensive. Consequently, the composition of any future legislation is unknown.

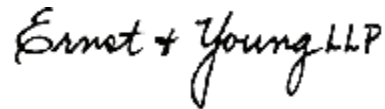
The accompanying forecast has been made considering legislation currently in effect. If new legislation related to health care operations is subsequently enacted, this legislation could have a material effect on the future operations of the Medical Center.

The interest rates, principal payments, debt service reserve fund requirements, issue costs, and other financial assumptions with respect to the Series 2008 Bonds are described in the section entitled "Summary of Significant Assumptions." If actual interest rates, principal payments, and funding requirements are different from those assumed in this study, the amount of the proposed Series 2008 Bonds and debt service requirements could require adjustments. If such interest rates, principal payments, and funding requirements are lower than those assumed in this study, then such adjustments should not adversely affect the forecast.

The accompanying forecast indicates sufficient funds could be generated to meet Orange Regional's operating expenses, working capital needs, and other financial requirements, including the debt service requirements associated with the proposed Series 2008 Bonds, during the forecast. However, the achievement of any forecast is dependent upon future events, the occurrence of which cannot be assured.

In our opinion, the accompanying forecast is presented in conformity with applicable guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for Management's forecast. However, there will be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and these differences may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

A handwritten signature in black ink that reads 'Ernst & Young LLP' in a cursive, script font.

New York, New York
April 2, 2008

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Forecasted Consolidated Statements of Operations
Orange Regional Medical Center

	Year Ending December 31				
	2008	2009	2010	2011	2012
	<i>(In thousands)</i>				
Unrestricted revenues, gains, and other support:					
Net patient service revenue	\$ 288,733	\$ 307,554	\$ 326,373	\$ 344,049	\$ 364,158
Investment income	2,954	3,764	6,283	10,340	9,545
Other revenue	6,174	6,180	6,186	6,191	6,197
Net assets released from restrictions used for operations	111	111	111	111	111
Total unrestricted revenues, gains, and other support	<u>297,972</u>	<u>317,609</u>	<u>338,953</u>	<u>360,691</u>	<u>380,011</u>
Expenses:					
Salaries and wages	129,808	135,509	141,351	143,292	149,914
Employee benefits	42,459	44,368	46,328	47,011	49,233
Supplies	47,973	51,054	54,178	56,002	59,340
Purchased services and other	47,576	49,662	52,132	53,703	54,632
Interest	1,222	1,189	1,302	10,252	19,033
Depreciation and amortization	9,320	9,996	9,810	20,065	21,090
Provision for bad debts, net of recoveries	7,509	8,229	8,895	9,549	10,290
Total expenses	<u>285,867</u>	<u>300,007</u>	<u>313,996</u>	<u>339,874</u>	<u>363,532</u>
Income from operations	12,105	17,602	24,957	20,817	16,479
Nonoperating Income	660	627	542	512	512
Loss from retirement of debt	(2,374)	-	-	-	-
Loss from sale of Horton and Arden Hill	(3,703)	-	-	-	-
Excess of revenues, gains, and other support over expenses	<u>6,688</u>	<u>18,229</u>	<u>25,499</u>	<u>21,329</u>	<u>16,991</u>
Other changes in net assets:					
Gifts, grants and bequests and other, net	43,483	20,433	220	220	220
Increase in unrestricted net assets	<u>\$ 50,171</u>	<u>\$ 38,662</u>	<u>\$ 25,719</u>	<u>\$ 21,549</u>	<u>\$ 17,211</u>

See accompanying Summary of Significant Assumptions.

**Forecasted Consolidated Statements of Changes in Net Assets
Orange Regional Medical Center**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
	<i>(In thousands)</i>			
Net assets at December 31, 2007	\$ 68,538	\$ 14,244	\$ 1,994	\$ 84,776
Excess of revenues, gains, and other support over expenses	6,688			6,688
Gifts, grants and bequests	43,483	111		43,594
Net assets released from restriction:				
Operating purposes		(111)		(111)
Total changes in net assets	50,171	-	-	50,171
Net assets at December 31, 2008	118,709	14,244	1,994	134,947
Excess of revenues, gains, and other support over expenses	18,229			18,229
Gifts, grants and bequests	20,433	111		20,544
Net assets released from restriction:				
Operating purposes		(111)		(111)
Total changes in net assets	38,662	-	-	38,662
Net assets at December 31, 2009	157,371	14,244	1,994	173,609
Excess of revenues, gains, and other support over expenses	25,499			25,499
Gifts, grants and bequests	220	111		331
Net assets released from restriction:				
Operating purposes		(111)		(111)
Total changes in net assets	25,719	-	-	25,719
Net assets at December 31, 2010	183,090	14,244	1,994	199,328
Excess of revenues, gains, and other support over expenses	21,329			21,329
Gifts, grants and bequests	220	111		331
Net assets released from restriction:				
Operating purposes		(111)		(111)
Total changes in net assets	21,549	-	-	21,549
Net assets at December 31, 2011	204,639	14,244	1,994	220,877
Excess of revenues, gains, and other support over expenses	16,991			16,991
Gifts, grants and bequests	220	111		331
Net assets released from restriction:				
Operating purposes		(111)		(111)
Total changes in net assets	17,211	-	-	17,211
Net assets at December 31, 2012	\$ 221,850	\$ 14,244	\$ 1,994	\$ 238,088

See accompanying Summary of Significant Assumptions.

Forecasted Consolidated Statements of Cash Flows Orange Regional Medical Center

	Year Ending December 31				
	2008	2009	2010	2011	2012
	<i>(In thousands)</i>				
Cash flows from operating activities:					
Increase in net assets	\$ 50,171	\$ 38,662	\$ 25,719	\$ 21,549	\$ 17,211
Adjustments to reconcile increase in net assets to net cash provided by operating activities:					
Net realized and unrealized (gains) losses on investments	-	-	-	-	-
Loss from extinguishment of debt	2,374	-	-	-	-
Depreciation and amortization	8,718	9,394	9,208	19,463	20,488
Amortization of cost issuance	602	602	602	602	602
Loss from sale of Horton and Arden Hill	3,703				
Provision for bad debts, net of recoveries	7,509	8,229	8,895	9,549	10,290
Patient accounts receivable	(13,881)	(10,937)	(11,603)	(12,092)	(13,183)
Other current assets	(5,505)	(36,138)	(46,458)	(421)	(15,002)
Other non-current assets	-	-	-	-	-
Accounts payable and accrued expenses	6,235	1,970	2,063	903	2,029
Accrued retirement benefits	-	-	-	-	-
Pledges receivable	(7,231)	838	2,638	2,238	1,517
Net cash provided by (used in) operating activities	52,695	12,620	(8,936)	41,791	23,952
Cash flows from investing activities:					
Purchase of property, plant and equipment, net	(65,156)	(86,221)	(86,221)	(89,186)	(9,577)
(Purchases) sales of investments and assets limited or restricted as to use	(224,427)	73,432	95,780	36,038	1,574
Sales of investments and assets limited or restricted as to use	-	-	-	-	-
Deferred gains	(1,083)	(712)	(572)	(512)	(512)
Net cash provided by (used in) investing activities	(290,666)	(13,501)	8,987	(53,660)	(8,515)
Cash flows from financing activities:					
Proceeds (payment) of long term debt	241,168	(190)	(3,990)	(4,235)	(4,485)
Proceeds (payment) from lease line of credit	5,284	916	2,200	(1,200)	200
Proceeds (payment) of other long term debt	1,371	893	2,516	(355)	(1,150)
Payment of financing fees for 2008 Bond	(9,346)	-	-	-	-
Net cash provided by (used in) financing activities	238,477	1,619	726	(5,790)	(5,435)
Net (decrease) increase in cash and cash equivalents	506	738	777	(17,659)	10,002
Cash and cash equivalents at beginning of the year	35,289	35,795	36,533	37,310	19,651
Cash and cash equivalents at the end of the year	\$ 35,795	\$ 36,533	\$ 37,310	\$ 19,651	\$ 29,653
Supplemental disclosure of noncash investing and financing activities:					
Cash paid during the year for interest	\$ 11,898	\$ 19,486	\$ 19,588	\$ 19,390	\$ 19,033
See accompanying Summary of Significant Assumptions.					

Forecasted Consolidated Balance Sheets Orange Regional Medical Center

	December 31				
	2008	2009	2010	2011	2012
	<i>(In thousands)</i>				
Assets					
Current assets:					
Cash and cash equivalents	\$ 35,795	\$ 36,533	\$ 37,310	\$ 19,651	\$ 29,653
Patient accounts receivables, net	41,542	44,250	46,958	49,501	52,394
Investments	25,553	61,167	107,086	107,076	121,532
Other current assets	16,871	16,557	14,458	12,651	11,680
Total current assets	<u>119,761</u>	<u>158,507</u>	<u>205,812</u>	<u>188,879</u>	<u>215,259</u>
Assets limited or restricted to use	226,941	153,509	57,729	21,691	20,117
Property, plant and equipment, net	118,022	194,982	272,128	341,984	331,206
Interest in net assets of Orange Regional Medical Center foundation, Inc., net	11,704	11,704	11,704	11,704	11,704
Other assets, net	9,658	8,923	8,188	7,453	6,718
Total assets	<u>\$ 486,086</u>	<u>\$ 527,625</u>	<u>\$ 555,561</u>	<u>\$ 571,711</u>	<u>\$ 585,004</u>
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$ 5,381	\$ 6,274	\$ 8,790	\$ 8,435	\$ 7,285
Accounts payable and accrued expenses	41,178	43,148	45,211	46,114	48,143
Deferred revenue	627	542	512	512	512
Estimated third party payor liabilities, net	822	822	822	822	822
Total current liabilities	<u>48,008</u>	<u>50,786</u>	<u>55,335</u>	<u>55,883</u>	<u>56,762</u>
Long-term debt, net of current installments	266,735	266,545	262,555	258,320	253,835
Other liabilities, net	18,001	18,917	21,117	19,917	20,117
Deferred revenue, net of current portion	4,325	3,698	3,156	2,644	2,132
Accrued retirement benefits	14,070	14,070	14,070	14,070	14,070
Total liabilities	<u>351,139</u>	<u>354,016</u>	<u>356,233</u>	<u>350,834</u>	<u>346,916</u>
Commitments and contingencies					
Unrestricted	118,709	157,371	183,090	204,639	221,850
Temporarily restricted	14,244	14,244	14,244	14,244	14,244
Permanently restricted	1,994	1,994	1,994	1,994	1,994
Total net assets	<u>134,947</u>	<u>173,609</u>	<u>199,328</u>	<u>220,877</u>	<u>238,088</u>
Total liabilities and net assets	<u>\$ 486,086</u>	<u>\$ 527,625</u>	<u>\$ 555,561</u>	<u>\$ 571,711</u>	<u>\$ 585,004</u>

See accompanying Summary of Significant Assumptions.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

This forecast presents, to the best of Management's knowledge and belief, Orange Regional Medical Center's (Orange Regional's or the Medical Center's) expected financial position, results of operations, and cash flows for the forecast period. Accordingly, the forecast reflects Management's judgment as of April 2, 2008, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that Management believes are significant to the forecast. There will be differences between forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The forecast was prepared in connection with the issuance of the proposed Series 2008 Bonds as discussed in the section entitled, "Plan of Financing." Management does not intend to update the forecast to reflect events occurring after the date of the forecast.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying forecasted financial statements include the accounts of the Medical Center, East Main Street Management Corporation (EMS), a non profit corporation formed to support charitable, scientific and educational purposes of the Medical Center, and The Alpha Network, Inc., a physician-hospital organization (the PHO), a for-profit taxable corporation controlled by the Medical Center to identify and contact payors to negotiate, renegotiate or facilitate contracts with such payors for the provision of health care services to enrollees of the payer's health plan. Only minimal activity is recorded for EMS and PHO. The Medical Center has over 99% of the activity of the consolidated financial statements. The beginning balances for the accounts included in the Forecasted Consolidated Balance Sheets are based on the ending balances in the Medical Center's audited financial statements as of December 31, 2007. As of the date of this report, Management knows of no significant adjustments to those balances.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is determined based on quoted market prices. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in investment income in the accompanying forecasted consolidated statements of operations, unless the income or loss is temporarily or permanently restricted by explicit donor stipulations or by law. Unrealized gains and losses on investments are included in the excess of revenues, gains, and other support over expenses due to the Medical Center's designation of the investments in 2007 as trading securities.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

The equity method of accounting is used for investments in which the Medical Center has neither the ability to exercise control nor significant influence.

Impairment of Long-Lived Assets: The Medical Center records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

Net Assets: The net assets of Orange Regional and changes therein are classified and reported as follows:

Unrestricted Net Assets: All funds not restricted by a donor or grantor and assets limited or restricted as to use through contractual or regulatory control of a third-party payor or under debt agreements.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by Orange Regional has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

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

Charity Care: Orange Regional provides charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Orange Regional does not pursue collection of accounts that qualify as charity care; they are not reported as revenue.

Assets Limited or Restricted as to Use: Assets limited or restricted as to use primarily include assets held by trustees under indenture agreements, unused lease line-of-credit agreements, and assets associated with the donor restricted net assets.

Revenue Recognition: Net operating revenues are recognized in the period services are performed and consist primarily of net patient service revenue that is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The Medical Center establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management based on general factors such as payor mix, the aging of the receivables, and historical collection experience.

Property, Plant, and Equipment: Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying forecasted consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Supplies: Supplies are stated at the lower of cost (first-in, first-out method) or market (net realizable value). Supplies are included in other current assets.

Cash and Cash Equivalents: Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less.

Excess of Revenues, Gains, and Other Support over Expenses: The forecasted consolidated statements of operations include excess of revenues, gains, and other support over expenses. Changes in unrestricted net assets which are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include cumulative effect for a change in accounting principle, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, changes in minimum pension obligation, and net assets released from restrictions for property, plant, and equipment, and grants for capital expenditures.

Goodwill: Goodwill is reported in the accompanying forecasted consolidated balance sheets as long-term other assets, net, and represents the acquisition of physician practices amortized on a straight-line basis not to exceed five years.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Deferred Revenue: Gain associated with the Medical Center's sale of the Medical Pavilion in 2006 and is being amortized over ten years.

GENERAL DESCRIPTION OF ORANGE REGIONAL MEDICAL CENTER

Orange Regional, which is a subsidiary of Greater Hudson Valley Health System (see below for overview), was formed in 2002 through the merger of two well-established independent community hospitals: Arden Hill Hospital (Arden Hill) in Goshen, New York and Horton Medical Center (Horton) in Middletown, New York. The two campuses are located approximately eight miles apart. Orange Regional, currently licensed for 450 beds, provides adult medical/surgical, pediatric, obstetrical/gynecological, rehabilitation, and behavioral health services to the residents of Orange County and surrounding towns.

Orange Regional was named to Thomson Healthcare's 100 Top Performance Improvement Leaders in 2007. Orange Regional was the only New York State hospital named in the large community hospital (250 or more acute care beds) category. Orange Regional is accredited by the Joint Commission on Accreditation of Healthcare Organizations, the Commission on Cancer of the American College of Surgeons, the American College of Radiology Accreditation, the American Association of Cardiovascular and Pulmonary Rehabilitation, the Rehabilitation Accreditation Commission, and the American Diabetes Association.

Prior to Orange Regional's merger, Arden Hill and Horton were independent hospitals that served their immediate communities in Goshen and Middletown for almost 100 years. Arden Hill was formed in 1908 as a two-bed emergency medical service called the Goshen Emergency Hospital. By the 1950s, Goshen Emergency Hospital relocated and became a fully accredited facility known as the Goshen Hospital. The Goshen Hospital continued to expand its volume and services, and in 1967 assumed the name of Arden Hill Hospital and relocated to its current location with a total of 174 licensed beds.

Through the efforts of the Middletown Hospital Association, the City of Middletown received its first hospital in 1892, as the result of funds donated by Mrs. S. Maretta Thrall. Thrall Hospital served the residents of Middletown for the next 37 years until a generous donation led to the construction of the Elizabeth A. Horton Memorial Hospital. The new expanded facility commenced operations in 1929 at its current location in Middletown. Since its opening, the facility has undergone a series of additions and modernization projects; the most recent included the construction of a patient tower in 1980. In 1994, Horton Memorial Hospital changed its name to Horton Medical Center with 276 licensed beds.

As time passed, each hospital continued to develop expanding market areas that increasingly overlapped, leading to competition between the two hospitals. By the late 1990s, it became increasingly evident to the Board of Directors of both institutions (the Boards) that resources were being expended in redundant operations and competitive initiatives. Therefore, in 2000 the

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

decision was made by the Boards to merge. The underlying objective was to combine the best of both hospitals and create a critical mass that would both improve existing services and bring new services into the community.

In November 2000, the two hospitals consolidated operationally with shared Boards and integrated executive management. The hospitals voluntarily restructured in 2002 by merging into a single organization and adopting the name Orange Regional Medical Center. The economies of scale and critical mass created by the merger has allowed Orange Regional to support new programs and recruit specialists, particularly in the areas of neonatology, cardiac catheterization, orthopedics, imaging, and radiation therapy.

Greater Hudson Valley Health System

Greater Hudson Valley Health System (GHVHS) is a New York State not-for-profit corporation located in Middletown, New York. GHVHS serves as the sole member of and parent company for Orange Regional and has the privileges of electing Orange Regional's Board of Directors and approving its strategic plan, operating budgets, and the incurrence of long-term debt in excess of certain limits. Additionally, Orange Regional holds corporate relationships with several subsidiary organizations, including the following:

- Synera Corporation: A real estate holding company which operates exclusively for the purpose of acquiring, holding title to, and collecting income from real property to be used exclusively in support of Orange Regional.
- East Main Street Management Corporation: A not-for-profit corporation formed to support the purposes of Orange Regional for certain administrative employees.
- The Alpha Network, Inc.: A for-profit physician hospital organization in which Orange Regional has a 50% membership interest.
- Hudson Valley Ambulatory Surgery, LLC: A joint venture between Orange Regional and a group of surgeons to operate a freestanding ambulatory surgery center. Orange Regional has a 30.4% interest in the limited liability corporation.

In June 2007, Catskill Regional Medical Center (Catskill Regional) and GHVHS announced plans to form an affiliation for the purposes of enhancing health care in the Hudson Valley Region. As part of the affiliation, a certificate of need (CON) application is being submitted to the New York State Department of Health for GHVHS to become the active parent of Catskill Regional. Additionally, GHVHS agreed to assume responsibility for day-to-day management of Catskill Regional after approval from the New York State Department of Health, pursuant to a management agreement. The CON is expected to be submitted in the spring of 2008.

In the interim, GHVHS will provide consulting services to Catskill Regional. These consulting and management services are being provided by the senior management team of Orange Regional pursuant to a services and expense sharing agreement between Orange Regional and

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

GHVHS. This corporate organization ensures that Orange Regional and Catskill Regional maintain independent financial operations. Management of Orange Regional has arranged the structure to ensure that there is no mutual liability for each other's debt.

Orange Regional Service Line Descriptions

Orange Regional, currently a 450-licensed bed facility, provides a full range of adult medical/surgical, intensive care, pediatric, obstetrical/gynecological, rehabilitation, and behavioral health services to Orange County and surrounding towns. Orange Regional is the provider of choice in Orange County for inpatient services. Orange Regional also provides the following certified services:

- | | |
|--|--|
| <ul style="list-style-type: none">• Acute renal dialysis• Ambulatory surgery• Cardiac catheterization (adult diagnostic)• Emergency angioplasty• MRI and CT scanning• Linear accelerator• Therapeutic nuclear medicine | <ul style="list-style-type: none">• Diagnostic nuclear medicine• Cystoscopy• Lithotripsy• Therapeutic radiology• Speech-language pathology• Emergency department• Social work services |
|--|--|

In addition to providing a high level of inpatient care to the community at its hospital campuses, Orange Regional also operates a network of nine satellite facilities, which provide a range of diagnostic and therapeutic services. Orange Regional employs over 2,500 health care professionals and maintains a medical staff of nearly 500 physicians.

The 2002 merger and the critical mass that it created has enabled Orange Regional to support new programs, recruit additional specialists, enhance existing programs, and acquire the most technologically advanced medical equipment available. Services that were added or expanded as a result of the merger are described below.

- *Neonatology*: The merger allowed Orange Regional to achieve the threshold of 2,000 annual deliveries needed to develop a formal neonatal/perinatal affiliation agreement with the Westchester Medical Center.
- *Cardiac Services*: Orange Regional opened Orange County's first diagnostic cardiac catheterization lab in September 2004 and has performed approximately 400 procedures annually from 2005-2007. Electrophysiology services were added in 2006 and emergency angioplasty commenced operations in February 2008.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

- Orthopedics: In March 2006, Orange Regional's dedicated Bone & Joint Center began operations. Volume at the Center has increased from 138 total cases in 2004 to 453 cases in 2006, an increase of over 225%. The increase continued in 2007 with 546 total cases, a 20% increase over 2006. Prior to the merger, Orange Regional had insufficient volume to attract major joint replacement specialists. Currently, the Medical Center has two such specialists on staff.
- Diagnostic Imaging: During the previous three years, Orange Regional has made developments toward becoming one of the most technologically advanced imaging hospitals in the State of New York. Advancements include: 1) Orange County's first 64-slice CT scanner acquired in December 2005; and 2) the installation of three digital mammography units in March 2006, making Orange Regional a 99% digital organization. Orange Regional has also implemented a Picture Archive Communication System (PACS), which allows physicians remote access to all diagnostic imaging results on their personal computers.
- Radiation Therapy: Various radiation therapy and diagnostic imaging services have also become available including:
 - The Intensity Modulated Radiation Therapy (IMRT) program was introduced in 2004. IMRT treatments are ideally suited for cancer sites where critical normal structures are extremely close to the target tumors.
 - IMPAC, a state-of-the-art record and verification system, serving both the Horton and Arden Hill campuses, provides the vital link between Orange Regional's treatment and planning software and the linear accelerator (which delivers the radiation). In addition to providing communication between treatment planning and the accelerator, this software provides connectivity between Orange Regional's two radiation oncology sites. The end result is a united patient database that allows for enhanced communications for patient management between physicians, physicists, radiation therapists, and the nursing staff.
 - MammoSite Therapy System for breast cancer patients is a treatment option for select patients wherein a catheter containing a radioactive source is inserted into the breast so that radiation can be administered specifically into the cancer site. This procedure typically reduces radiation therapy time from seven weeks to approximately five days.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Orange Regional maintains clinical affiliations with three tertiary medical centers in the region. These affiliations have enhanced the level of care at Orange Regional through increased collaboration between Orange Regional's medical staff and the affiliated medical centers as described below.

- Montefiore Medical Center (Bronx, New York): Orange Regional maintains a cardiac affiliation with Montefiore in diagnostic catheterization and primary angioplasty. This academic medical center affiliation, which is required by the New York State Department of Health to offer these services provides the Medical Center with clinical training, quality oversight and expedited transfers.
- Westchester Medical Center (Valhalla, New York): Orange Regional maintains an affiliation agreement with Westchester Medical Center (WMC) in obstetrics/gynecology and pediatrics/newborn care. The relationship presently includes clinical services such as full-time neonatology coverage and pediatric subspecialty consultation in Orange County, as well as arrangements for expedited transfer of infants, mothers and children to WMC.
- Hospital for Joint Diseases Orthopaedic Institute (New York, New York): Orange Regional is affiliated with Hospital for Joint Diseases in orthopedics. This agreement provides clinical support and training to patients and staff in Orange Regional's new Bone & Joint Center, and provides for expedited transfers as well.

Orange Regional also has local affiliations with area nursing homes and health centers including the Middletown Community Health Center (the Health Center). Orange Regional accepts inpatient referrals from the Health Center and provides physician coverage for the Health Center's obstetric patients. Orange Regional also offers Health Center patients access to specialty clinics in orthopedics, cardiology, and ENT.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

DESCRIPTION OF THE PROPOSED CONSTRUCTION PROJECT

To meet the current demand for its services and support the future needs of its patient population, Orange Regional plans to construct a 374-bed replacement hospital in the Town of Wallkill. The 374-bed facility will include 20 beds which will be held in reserve for high volume situations. The bed complement upon operational commencement inclusive of the 20 add-in reserve beds will be: 296 medical/surgical/pediatric beds, 24 obstetrics beds, 24 rehabilitation beds, and 30 behavioral health beds. The proposed replacement hospital will be located on a 61-acre site between the two existing campuses, four miles from Horton and six miles from Arden Hill. The site location is easily accessible and is adjacent to the intersection of Route 17 (future Interstate 86) and Interstate 84 (two major roadways) and their entrance ramps.

Orange Regional's decision to construct a replacement hospital is based on several key factors including: (i) the growing demand for health care due to the increasing and aging population in this region, (ii) the increasing need to improve accessibility and availability by attracting specialists and providing services that otherwise would not be available to residents, (iii) the inability of its existing facilities to accommodate upgraded technologies, new services, and advances in patient safety, and (iv) the opportunity to gain greater operational efficiencies through the elimination of duplicative functions.

The proposed replacement hospital will be designed with an inpatient focus that features patient-centered care and enhanced patient safety measures. The vast majority of outpatient services will be shifted to Orange Regional's ten outpatient satellites. Specifically, the new hospital will include:

- All private rooms to provide patient privacy and enhanced infection control;
- Smaller, more efficient inpatient bed units to maximize staff efficiencies;
- Wiring for the latest information technology that includes electronic medical records, medication reconciliation, and tracking of quality measures;
- Grouping of similar services (e.g., invasive center, diagnostic center) that allows for operating efficiencies and patient convenience;
- Spacious operating rooms; and
- Flexibility for future growth and technology.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Medical Center Design Concepts/Principles

Orange Regional plans to construct a “greenfield” hospital, which means it can consider the latest design techniques. Concepts such as “patient-centered care” (care provided with a focus on the needs of the patient rather than on the operational needs of the institution) and “evidenced-based design” (an approach to health care design guided by research linking the physical environment of hospitals to patient and staff outcomes) have been taken into consideration in the planning and design initiatives.

The Medical Center was also guided by several design principles that were identified in a series of focus groups and community presentations. The design principles include the following:

- **Create a “Campus Feel”**: In addition to constructing the hospital, Orange Regional will preserve areas within the 61-acre site for future uses such as physician offices and ambulatory care.
- **Preserve Green Space**: A goal of the Project is to preserve the maximum amount of green space possible to maintain a natural setting for the facility and to minimize the environmental impact of the Project.
- **Focus the Medical Center on Inpatient Programs**: The Medical Center was conceived and is being designed with inpatient care as the primary focus. This replacement hospital will specifically address the needs of a more highly acute inpatient population. Ambulatory patients will be directed to one of Orange Regional’s ten satellite facilities.
- **Provide Private Rooms**: The Medical Center is being designed to provide all patients with a private room as part of a patient-centered philosophy and effort to improve the quality of their stay. The primary benefits of private rooms are enhanced patient safety and operational efficiency. Research indicates that private rooms reduce patient infection rates, result in fewer patient transfers and associated medical errors, reduce excess noise, increase privacy and confidentiality, improve communication, provide superior accommodation of family members, and promote consistently higher satisfaction with overall quality of care.¹ Moreover, private rooms also translate into operational efficiencies due to the reduced incidence of patient falls and patient transfers, and the avoidance of gender and age issues that arise when placing patients in a semi-private room.
- **Create Efficient Bed Units**: The facility is designed with 24-bed inpatient units to maximize staff efficiencies. The design equips each unit with its own nursing station and support functions.

¹ Ulrich, R., Zimring, C., *The Role of the Physical Environment in the Hospital of the 21st Century: A Once-in-a-Lifetime Opportunity*, p 24.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

- Ensure Patient/Public Separation: To the extent possible, the Medical Center design separates patient and public circulation spaces. Also, the behavioral health unit is separated from the general acute population.
- Create Adjacencies for Similar Functions: To maximize operational efficiencies, staffing and patient flow, the hospital's design groups related clinical functions and/or spaces. For example, an invasive center includes all surgical suites, invasive cardiology, and interventional radiology.
- Provide for Flexibility: Considerable flexibility is being built into the facility to accommodate future facility expansions and new technology. The structure is being designed to provide options for horizontal expansion. Diagnostic and surgical suites are properly sized for robotic technology. In addition, 20 rooms are being designed to accommodate higher volume situations.
- Provide Accessible Parking: The lack of adequate, accessible parking at the existing campuses is an ongoing problem. The replacement hospital provides Orange Regional with the opportunity to provide adequate parking to accommodate patients, visitors, physicians, and employees in a safe and secure manner.

Orange Regional is utilizing a “design/build” approach and has retained HBE Corporation to handle both the design and construction of the new facility. The design/build approach offers savings in project costs due to a single contract that eliminates redundant functions, helps reduce fees and provides for the standardization of the overall planning and building process.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
 ORANGE REGIONAL MEDICAL CENTER

SUMMARY OF PROJECT COSTS

Total Project construction costs (exclusive of financing costs) including architect/engineering/other fees, land acquisition, new construction and equipment are approximately \$255,000,000 as summarized below.

SUMMARY OF PROJECT CONSTRUCTION COSTS	
Item	Cost
	<i>(In thousands)</i>
Architect/engineering/other fees	\$ 30,265
Land acquisition	3,400
Movable equipment	33,045
New construction	188,270
	<u>\$ 254,980</u>

The construction period is anticipated to be approximately 36 months. The construction cost estimates are based on information provided by the Medical Center’s design and build firm, HBE Corporation. The Medical Center has secured a guaranteed maximum price. Financing, carrying, and capitalized interest cost estimates were provided by Management and the Medical Center’s lead underwriter, Merrill Lynch & Co.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

PLAN OF FINANCING

A summary of the estimated sources and uses of funds related to the Project, as provided by Management and Merrill Lynch & Co., Orange Regional's lead underwriter follows.

SOURCES AND USES OF FUNDS				
<i>(In thousands)</i>				
	Delivery Date	During Construction Period		Total
Sources of Funds:				
Par amount of bonds	\$ 266,865	\$ -		\$ 266,865
HEAL Grant II	-	24,600		24,600
HEAL Grant IV	24,000	-		24,000
Donor contributions*	12,332	4,916		17,248
Equity contribution**	18,200	-		18,200
Sale of Arden Hill and Horton Medical Center	10,000	-		10,000
Series 2002 Bonds remaining debt service reserve fund	3,332	-		3,332
Series 2002 Bonds remaining debt service fund	513	-		513
Series 2002B Bonds Remaining debt service reserve fund	510	-		510
Series 2002B Bonds remaining debt service fund	73	-		73
Cash contribution to redeem 2002 & 2002B Bonds	5,751	-		5,751
Interest earned on project fund	-	4,762		4,762
Interest earned on capitalized interest fund	-	1,559		1,559
Interest earned on debt service reserve fund	-	2,780		2,780
Total Sources of Funds	\$ 341,576	\$ 38,617		\$ 380,193
Uses of Funds:				
Deposits to project fund	\$ 220,702	\$ 34,278	\$	254,980
Deposits to capitalized interest fund	55,190	4,339		59,529
Series 2008 debt service reserve fund	22,163	-		22,163
Costs of issuance	9,341	-		9,341
Redemption of Series 2002 Bonds	27,740	-		27,740
Redemption of Series 2002B Bonds	3,940	-		3,940
Swap termination fee	2,500	-		2,500
Total Uses of Funds	\$ 341,576	\$ 38,617		\$ 380,193
*Does not include \$3,753,000 in capital campaign contributions expected in 2011 and 2012 after the end of the construction period. The capital campaign contributions from 2007 through 2012 are expected to total \$21,000,000.				
**Orange Regional Medical Center has already spent the required \$18,200,000 of equity contribution. In addition, the Medical Center has also spent \$8,117,112 of additional equity above its required contribution. The Medical Center will be reimbursed for those costs at closing. The total project cost is \$254,979,000, \$26,317,112 of which has already been spent.				

Orange Regional will be assuming \$266,865,000 of new debt at an assumed average fixed rate of 6.9%. The Medical Center has finalized the sale of the Arden Hill and Horton Campuses through a "sale/lease back" with a local foundation. The Medical Center will have access to \$10,000,000 from the sale of these facilities upon delivery of the Series 2008 Bonds. Management has also assumed that for the proposed Project \$21,000,000 in donor contributions will be collected during the forecast period. To date the Medical Center has received approximately \$14,537,000 in cash and pledges.

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In addition to the new Project, the Medical Center would redeem the Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Arden Hill Hospital Project) Series 2002, the Orange County Industrial Development Agency Variable Rate Demand Civic Facility Revenue Bonds (Horton Medical Center Project) Series 2002 and the Orange County Industrial Development Agency Variable Rate Demand Facility Revenue Bonds (Horton Medical Center/West Hudson Facility Project) Series 2002B (Taxable) (collectively the 2002 Bonds) outstanding in the total amount of \$31,680,000 and approximately \$2,500,000 for a swap termination payment. The Medical Center would redeem the 2002 Bonds and the swap termination with equity, grant funds received from New York State under the Healthcare Efficiency and Affordability Law (HEAL) and remaining Series 2002 debt service fund and debt service reserve fund moneys.

ASSESSMENT OF FACILITY UTILIZATION

The assessment of facility utilization is based on a review of historical data and consideration of future demand for the health care services provided by Orange Regional. The forecast of utilization serves as a basis for the financial forecast and is based on the following factors:

- Patient origin data and service area definition;
- Projected population in Orange Regional's service area;
- Socioeconomic characteristics of the service area;
- Competitive environment;
- Orange Regional's medical staff;
- Service area use rate trends; and
- Orange Regional's market share trends.

Service Area Analysis

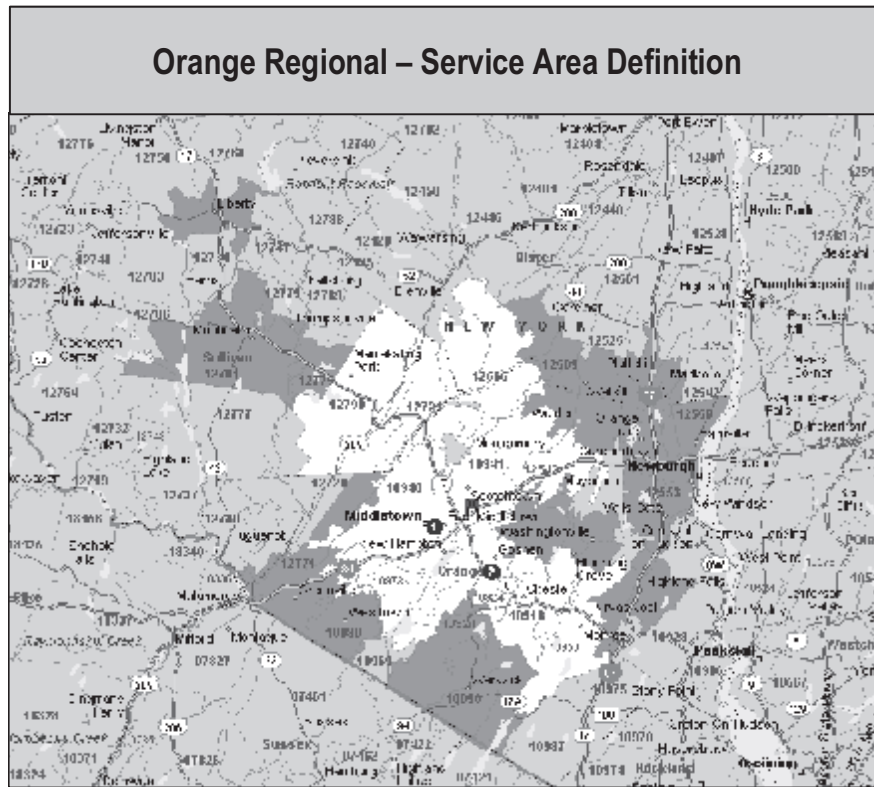
Patient Origin

A patient origin study was performed for discharges (excluding normal newborns) from 2004 to 2006 to identify the primary service area (PSA) and secondary service area (SSA) served by Orange Regional. The defined service area is the basis for calculating use rates, analyzing market share, performing a market analysis and establishing the parameters for the socio-demographic analysis which includes population projections, per capita income and other socio-economic indicators.

Orange Regional draws the majority of its patients from eleven zip codes that are primarily concentrated in Orange County. Orange Regional's PSA accounted for 64.9% of total facility discharges in 2006. Orange Regional's SSA accounted for an additional 20.9% of the facility discharges in 2006 and incorporated 20 additional zip codes located in Orange, Ulster, and

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 ORANGE REGIONAL MEDICAL CENTER

Sullivan counties. Combined, the PSA and SSA accounted for 85.8% of Orange Regional’s total discharges throughout the historical period, with the remaining 14.2% being from other areas.



*Map created with Microsoft MapPoint

	Primary Service Area
	Secondary Service Area

1: Horton Campus
2: Arden Hill Campus



*Key: ORMC Replacement Facility Site Location

Data contained in the table below indicate that the eleven zip code PSA constitutes a significant portion of Orange Regional’s volume. The majority of the PSA zip codes are located in Orange County (nine) while two zip codes are located in Sullivan County. The area representing the highest percentage of Orange Regional’s discharge base in 2006 (33.1%) encompass two zip codes in Middletown (10940, 10941), where the Horton Campus is located. The remaining zip codes each comprise less than 10.0% of the overall discharge base. For 2006, zip codes defined within the PSA have at least a 52.6% Orange Regional market share with the exception of one zip code (Monroe) which was included since it contributes the third highest number of discharges to Orange Regional.

From 2004 to 2006, Orange Regional discharges within the PSA declined from 67.5% to 64.9% of total facility discharges reflecting the Medical Center’s expanded service area. Even though

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the percentage decreased, the discharges from the PSA increased from 13,429 in 2004 to 13,469 in 2006, which reflects the expanding service area. Please refer to the table below for the data supporting the PSA analysis.

SUMMARY OF PATIENT ORIGIN DATA - ORANGE REGIONAL PSA (1 of 2)											
Town	Zip Code	County	2004 ORMC	% of Total	2005 ORMC	% of Total	2006 ORMC	% of Total	2004	2005	2006
			Discharges	ORMC 2004	Discharges	ORMC 2005	Discharges	ORMC 2006	Market	Market	Market
			(a)	Discharges	(a)	Discharges	(a)	Discharges	Share	Share	Share
Primary Service Area											
Middletown	10940	Orange	5,832	29.3%	5,790	29.5%	5,846	28.2%	77.4%	76.3%	76.6%
Goshen	10924	Orange	1,562	7.9%	1,691	8.6%	1,766	8.5%	76.3%	75.8%	74.3%
Monroe	10950	Orange	1,250	6.3%	1,163	5.9%	1,181	5.7%	31.7%	29.9%	27.3%
Middletown	10941	Orange	1,039	5.2%	979	5.0%	1,038	4.9%	70.3%	67.8%	71.3%
Pine Bush	12566	Orange	738	3.7%	708	3.6%	779	3.8%	60.8%	59.4%	61.5%
Chester	10918	Orange	737	3.7%	714	3.6%	702	3.4%	49.4%	50.6%	52.6%
Montgomery	12549	Orange	725	3.6%	690	3.5%	702	3.4%	55.9%	52.9%	58.0%
Bloomington	12721	Sullivan	612	3.1%	511	2.6%	534	2.6%	66.2%	63.5%	66.3%
Wurtsboro	12790	Sullivan	414	2.1%	386	2.0%	416	2.0%	59.1%	54.6%	55.8%
New Hampton	10958	Orange	307	1.5%	304	1.5%	279	1.3%	68.2%	69.7%	67.6%
Slate Hill	10973	Orange	213	1.1%	256	1.3%	226	1.1%	67.6%	72.1%	65.3%
Total Discharges PSA			13,429	67.5%	13,192	67.1%	13,469	64.9%	62.8%	61.7%	61.5%

(a) Discharges were obtained from SPARCS (NY Statewide Planning and Research Cooperative System) and the New Jersey Department of Health and Senior Services. Data excludes normal newborns.

Orange Regional’s historical SSA is defined based on a wider geographic region of twenty zip codes, which comprised 20.9% of total 2006 discharges. Orange Regional experienced discharge growth from its SSA of 3.1% from 2005 to 2006. Based on population projections in the region (see population discussion below), Orange Regional should continue to draw an increasing number of patients from its SSA as it expands tertiary services.

The Medical Center also experienced an increase in SSA market share from 14.7% in 2004 to 15.8% in 2006. Please refer to the table below for details on patient origin in the SSA.

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SUMMARY OF PATIENT ORIGIN DATA - ORANGE REGIONAL SSA (2 of 2)											
Town	Zip Code	County	2004 ORMC Discharges (a)	% of Total ORMC 2004 Discharges	2005 ORMC Discharges (a)	% of Total ORMC 2005 Discharges	2006 ORMC Discharges (a)	% of Total ORMC 2006 Discharges	2004 Market Share	2005 Market Share	2006 Market Share
Secondary Service Area											
Walden	12586	Orange	397	2.0%	435	2.2%	443	2.1%	26.7%	28.4%	30.1%
Washingtonville	10992	Orange	409	2.1%	451	2.3%	460	2.2%	33.0%	34.6%	35.9%
Port Jervis	12771	Orange	410	2.1%	386	2.0%	464	2.2%	17.7%	17.1%	19.9%
Campbell Hall	10916	Orange	369	1.9%	363	1.8%	317	1.5%	61.4%	61.2%	57.7%
Warwick	10990	Orange	308	1.5%	335	1.7%	345	1.7%	14.5%	15.0%	15.1%
Otisville	10963	Orange	234	1.2%	260	1.3%	266	1.3%	62.6%	66.7%	66.0%
Maybrook	12543	Orange	219	1.1%	263	1.3%	221	1.1%	51.2%	55.3%	48.8%
Newburgh	12550	Orange	252	1.3%	209	1.1%	196	0.9%	3.0%	2.6%	2.5%
Wallkill	12589	Ulster	194	1.0%	201	1.0%	161	0.8%	12.0%	12.1%	10.5%
Florida	10921	Orange	177	0.9%	185	0.9%	218	1.1%	42.0%	41.4%	45.2%
Monticello	12701	Sullivan	205	1.0%	197	1.0%	280	1.3%	10.9%	9.0%	13.7%
Highland Mills	10930	Orange	176	0.9%	173	0.9%	173	0.8%	22.2%	25.3%	22.7%
New Windsor	12553	Orange	152	0.8%	161	0.8%	153	0.7%	5.1%	5.6%	5.4%
Westtown	10998	Orange	168	0.8%	207	1.1%	150	0.7%	48.3%	50.6%	40.0%
Harriman	10926	Orange	120	0.6%	117	0.6%	144	0.7%	34.3%	37.3%	41.7%
Liberty	12754	Sullivan	94	0.5%	97	0.5%	132	0.6%	6.3%	5.5%	8.7%
Rock Hill	12775	Sullivan	89	0.4%	94	0.5%	105	0.5%	37.7%	41.8%	39.9%
Greenwood Lake	10925	Orange	82	0.4%	65	0.3%	101	0.5%	13.8%	10.6%	15.5%
Newburgh	12551	Orange	-	0.0%	-	0.0%	-	0.0%	0.0%	0.0%	0.0%
Newburgh	12552	Orange	-	0.0%	-	0.0%	-	0.0%	0.0%	0.0%	0.0%
Total Discharges SSA			<u>4,055</u>	<u>20.5%</u>	<u>4,199</u>	<u>21.3%</u>	<u>4,329</u>	<u>20.9%</u>	14.7%	14.9%	15.8%
Total Service Area Discharges			17,484	88.0%	17,391	88.4%	17,798	85.8%			
Other Area Discharges			<u>2,401</u>	<u>12.1%</u>	<u>2,267</u>	<u>11.5%</u>	<u>2,955</u>	<u>14.2%</u>			
Total Discharges			<u>19,885</u>	<u>100.0%</u>	<u>19,658</u>	<u>100.0%</u>	<u>20,753</u>	<u>100.0%</u>			

(a) Discharges were obtained from SPARCS (NY Statewide Planning and Research Cooperative System) and the New Jersey Department of Health and Senior Services.

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Demographic Characteristics of the Service Area

Population information for the Medical Center’s service area, the State of New York, and the United States was compiled by the Environmental Systems Research Institute (ESRI). The data is based on the 2000 census, with 2007 estimates and 2012 projections as shown below. The tables below also show the compound annual growth rate (CAGR) for each age cohort and the total population.

COMPARATIVE POPULATION DATA - ORANGE REGIONAL						
Age Cohorts	Census 2000	2007 Estimated	2012 Projected	% Change 2007 - 2012	CAGR* 2007 - 2012	% Change 2000 - 2012
<u>Primary Service Area</u>						
Age 0-19	50,621	55,489	57,728	4.0%	0.8%	14.0%
Age 20-44	53,961	56,012	58,873	5.1%	1.0%	9.1%
Age 45-64	33,919	45,104	51,552	14.3%	2.7%	52.0%
Age 65+	<u>15,269</u>	<u>17,414</u>	<u>20,592</u>	18.2%	3.4%	34.9%
Total Primary Service Area	<u>153,770</u>	<u>174,019</u>	<u>188,745</u>	8.5%	1.6%	22.7%
<u>Secondary Service Area</u>						
Age 0-19	60,121	63,654	63,957	0.5%	0.1%	6.4%
Age 20-44	70,995	71,462	74,700	4.5%	0.9%	5.2%
Age 45-64	44,367	58,966	66,894	13.4%	2.6%	50.8%
Age 65+	<u>22,130</u>	<u>25,918</u>	<u>29,325</u>	13.1%	2.5%	32.5%
Total Secondary Service Area	<u>197,613</u>	<u>220,000</u>	<u>234,876</u>	6.8%	1.3%	18.9%
<u>Total Service Area</u>						
Age 0-19	110,742	119,143	121,685	2.1%	0.4%	9.9%
Age 20-44	124,956	127,474	133,573	4.8%	0.9%	6.9%
Age 45-64	78,286	104,070	118,446	13.8%	2.6%	51.3%
Age 65+	<u>37,399</u>	<u>43,332</u>	<u>49,917</u>	15.2%	2.9%	33.5%
Total Service Area	<u>351,383</u>	<u>394,019</u>	<u>423,621</u>	7.5%	1.5%	20.6%
New York State	18,976,457	19,581,872	19,995,757	2.1%	0.4%	5.4%
United States	281,421,906	302,378,182	324,578,203	7.3%	1.4%	15.3%

Source: ESRI, 2007. *Compounded Annual Growth Rate (CAGR) is calculated by: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

According to the 2000 U.S. Census, the population for the entire service area was 351,383 and has been projected to grow by 20.6% to approximately 423,621 persons between 2000 and 2012. Projections indicate that compound annual growth rates from 2007 to 2012 are slightly higher in the PSA (1.6%) as compared to the SSA (1.3%).

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The 45-64 age cohort, the fastest growing segment of the U.S. population, is anticipated to be over one-quarter of the patient population in 2012 for Orange Regional’s total service area. This age cohort is projected to grow at 2.6% per year from 2007 to 2012 in the overall service area.

Overall, the 1.5% projected compounded annual growth rate for the total service area population will outpace both New York State’s rate of 0.4% per year and the United States’ rate of 1.4% per year.

The CAGR for Orange County’s population (table below) from 2007 to 2012 is approximately 1.4% per year, which is more than three times the growth rate forecasted for New York State and is one of the fastest growing counties in the State and the fastest growing with a population over 250,000.

LEADING NEW YORK COUNTY POPULATION GROWTH							
	Census 2000	2007 Estimated	2012 Projected	Growth 2000 to 2007	CAGR 2000 to 2007*	Growth 2007 to 2012	CAGR 2007 to 2012*
Orange County	341,367	382,014	410,038	11.9%	1.6%	7.3%	1.4%
Tompkins County	96,501	101,681	113,515	5.4%	0.7%	11.6%	2.2%
Saratoga County	200,635	220,758	236,170	10.0%	1.4%	7.0%	1.4%
Sullivan County	73,966	80,096	85,073	8.3%	1.1%	6.2%	1.2%
Richmond County	443,728	482,225	511,069	8.7%	1.2%	6.0%	1.2%
Warren County	63,303	67,837	71,273	7.2%	1.0%	5.1%	1.0%
Ontario County	100,224	106,743	111,605	6.5%	0.9%	4.6%	0.9%
Dutchess County	280,150	302,282	315,921	7.9%	1.1%	4.5%	0.9%
New York County	1,537,195	1,630,965	1,699,498	6.1%	0.8%	4.2%	0.8%
Clinton County	79,894	84,129	87,517	5.3%	0.7%	4.0%	0.8%
Suffolk County	1,419,369	1,506,021	1,561,288	6.1%	0.9%	3.7%	0.7%
Putnam County	95,745	101,697	105,179	6.2%	0.9%	3.4%	0.7%
New York State	18,976,457	19,581,872	19,995,757	3.2%	0.4%	2.1%	0.4%

Source: ESRI, 2007.

*Compounded Annual Growth Rate (CAGR) is calculated by: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

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Socioeconomic Characteristics of the Service Area

Labor Force and Economics

The distribution of the labor force in the Poughkeepsie-Newburgh-Middletown, NY Metropolitan Area is based on the latest available economic data provided by the U.S. Department of Labor’s (USDOL’s) Bureau of Labor Statistics. The analysis of non farm wage and salary employment indicates the following distribution of jobs and the percent change from the prior year, as well as a comparison to statewide indicators.

Comparative Labor Force Distribution Data – December 2007						
Industry Sector	Poughkeepsie-Newburgh-Middletown, NY (a)			State of New York		
	Non-Farm Employment (in thousands)	% of Total Jobs	12-Month % Change	Non-Farm Employment (in thousands)	% of Total Jobs	12-Month % Change
Total	261.5	100.0%	0.6%	8,723.2	100.0%	0.8%
Trade, Transportation, and Utilities	58.7	22.4%	0.2%	1,512.9	17.3%	0.5%
Government	52.2	20.0%	0.4%	1,497.0	17.2%	0.4%
Educational and Health Services	49.9	19.1%	2.3%	1,615.8	18.5%	1.6%
Professional and Business Services	22.0	8.4%	1.4%	1,139.4	13.1%	2.0%
Manufacturing	21.8	8.3%	-3.1%	541.0	6.2%	-3.8%
Leisure and Hospitality	19.4	7.4%	0.0%	691.8	7.9%	1.5%
Construction and Mining (b)	12.4	4.7%	2.5%	353.4	4.1%	2.1%
Financial Activities	10.3	3.9%	1.0%	740.6	8.5%	1.2%
Other Services	9.9	3.8%	0.0%	361.9	4.1%	0.5%
Information	4.9	1.9%	4.3%	269.4	3.1%	0.0%

(a) The Poughkeepsie-Newburgh-Middletown, NY Metropolitan Area comprises Dutchess and Orange counties.

(b) For the New York State, Construction and Mining, includes the categories of Natural Resources & Mining and Construction.

Source: Source: “Regions, States, and Areas at a Glance,” U.S. Department of Labor - Bureau of Labor Statistics website, www.bls.gov.

As displayed above, the Metropolitan Area employment base is distributed across a number of industries with the largest portion of the work force employed by the *Trade, Transportation, and Utilities, Government, and Education and Health* sectors and overall more heavily weighted toward service industries. Collectively, these sectors account for over 60% of employment in the region and experienced growth of 2.9% from December 2006 to December 2007. Orange Regional’s unique location in close proximity to Interstates 84 and 87 and State Route 17 (soon to be Interstate 86), position it as an ideal location for the delivery of health services to its PSA, SSA and other outlying areas.

Stewart International Airport located in Orange County offers over 40 departures and arrivals for airline passengers daily and is a primary cargo hub for the Hudson Valley Region. In January 2007, the Port Authority of New York took over the lease at Stewart International Airport. Many expect the change to result in increased utilization of the facility, creating an integrated airport system alongside John F. Kennedy International Airport (JFK), Liberty-Newark International

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Airport, and LaGuardia International Airport.² Stewart Airport is now the fourth major regional airport in the area.

As of December 2007, *Educational and Health Services* accounted for 19.1% of total work force employment and grew by 2.3% over the past 12-month period (through December 2007). Further development is planned as the State University of New York Orange is planning a branch campus in downtown Newburgh. Plans entail relocating the administrative office from Middletown to Newburgh to create a center for workforce development and corporate training.³

Professional and Business Service, which comprises 8.4% of total employment, also experienced significant growth over the past 12-month period (through December 2007) of 1.4%. According to Orange County market publications, nine new office buildings were constructed in 2006 and over a million square feet of planned industrial development is scheduled to come on line over the next two years.⁴

Manufacturing experienced a decrease of 3.1% over the past 12-month period in the region. Plans are in place to reverse this trend through two initiatives. As of January 2007 a joint venture between Pratt & Whitney and Advanced Coating Technologies plans to invest \$60 million to expand operations in Orange County. This venture will specialize in the production of coatings for jet engine blades and is proposing to create over 80 additional jobs in the next two years. In addition, seven manufacturers, producing items ranging from de-icers to doughnuts, will invest \$98 million in Orange County creating 600 new jobs. These jobs will be in the Towns of New Windsor, Newburgh, Wallkill, and the City of Middletown.⁵

Leisure and Hospitality remained steady over the past 12-month period and is 7.4% of the total workforce. The U.S. Military Academy at West Point located in Orange County hosts nearly three million visitors each year. According to the State Department of Tourism, West Point is one of the top three tourist destinations in New York.⁶

Between 2002 and 2007, 200 companies chose Orange County as the place to expand or relocate creating 4,500 new jobs. Companies come to Orange County in part due to the incentives offered through the Empire Zone Program (provides tax breaks for companies that promise to create or retain jobs), the Industrial Development Agency (grants tax abatements to companies planning to expand or create new jobs), and the Foreign Trade Zone (designed to expedite and encourage foreign commerce – six such sites in Orange County).⁷ Orange County received funding for a Job Access/Reverse Commute program in August 2006. The \$198,000 in funding

² “4th Major Hub for Air Traffic Moves Ahead”, *The New York Times*, January 25, 2007.

³ Orange County Partnership – Newburgh Corridor, Crossroads of Economic Diversity.

⁴ Orange County Partnership – Major Market Confidence, 2006, Volume XVI, Issue 2.

⁵ “Forecast Promise 600 New Jobs for Orange”, *Times Herald-Record*, December 21, 2006.

⁶ Economic Trends in the Hudson Valley, Report June 2006.

⁷ “State of Orange County Address 2007”, *Times Herald-Record*, March 1, 2007.

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will provide low-income workers in Newburgh and Middletown transportation to warehouse jobs in Montgomery and Chester.⁸

Housing Market Overview

The regional housing market has also paralleled the population growth in Orange County. Based upon the price of housing, Orange County is a desirable and affordable location to establish residency while remaining in close proximity to major area employers. As a result, the housing market in Orange County experienced consistent growth in single-family home sales from 3,281 in 2000 to 3,685 in 2005 (latest available), or an increase of 12.3%. Increases were also significant based on single-family home permits. Orange County single-family home permits increased from 790 in 1990 to 1,480 in 2004.⁹

Counter to the national downward trend in the housing market since mid-2005, in 2006 (latest data available), Orange County issued 1,033 construction permits for single-family homes. Construction permits for single-family homes have exceeded 1,000 per year since 1998. In addition to growth, housing values have increased by 29.0% since 2003 from \$226,426 to \$292,200.¹⁰

The number of housing units in Orange County has grown from approximately 123,000 in 2000 to 133,000 in 2006 (latest available) representing an increase of approximately 8%.

⁸ “Orange Will get \$198,000 for New Jobs”, *Times Herald-Record*, August 4, 2006.

⁹ Bureau of the Census; Construction and Statistics Division.

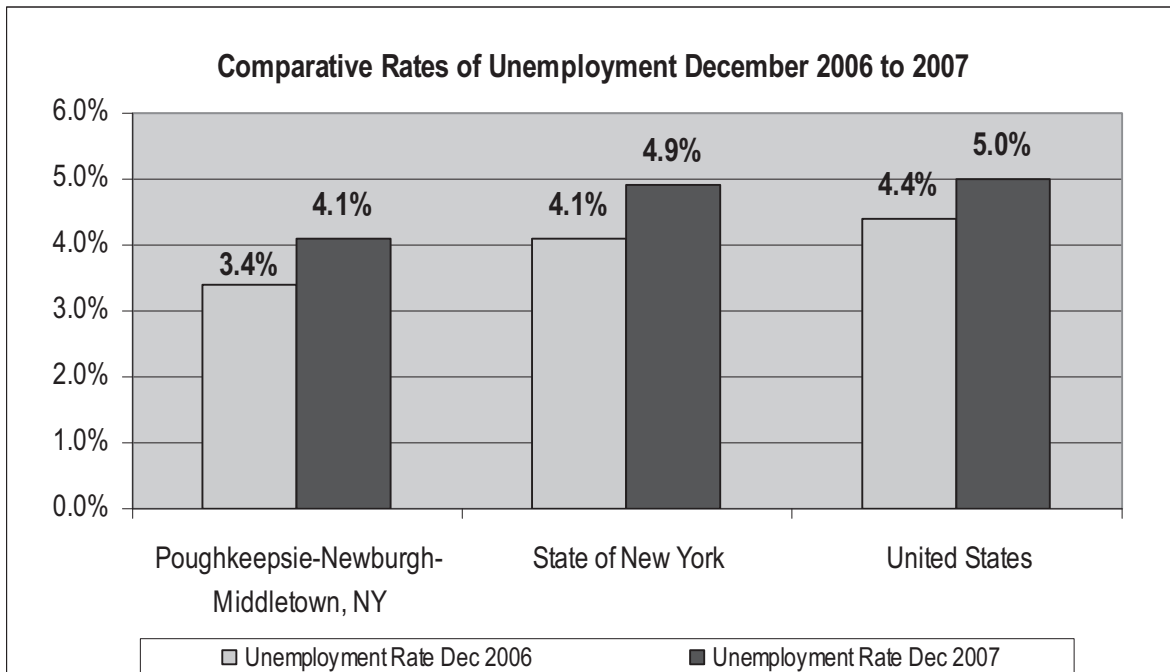
¹⁰ Bureau of the Census; Construction and Statistics Division.

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Employment

As shown in the following table, employment statistics from the USDOL indicate that as of December 2007, there were approximately 326,400 persons employed in the Poughkeepsie-Newburgh-Middletown, NY Metropolitan Area. The December 2007 unemployment rate of 4.1% in the Poughkeepsie-Newburgh-Middletown, NY Metropolitan Area is below both the State of New York (4.9%) and the United States (5.0%).

LABOR FORCE AND UNEMPLOYMENT STATISTICS			
Area	Civilian Labor Force		Unemployment Rate Dec 2007
	Dec 2007 (in thousands)	Unemployment Rate Dec 2006	
Poughkeepsie-Newburgh-Middletown, NY	326.4	3.4%	4.1%
State of New York	9,529.9	4.1%	4.9%
United States	153,869.6	4.4%	5.0%



Source: "Regions, States, and Areas at a Glance," US Dept of Labor- Bureau of Labor Statistics website, www.bls.gov;

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As compared to the United States, the unemployment rate in the Metropolitan Area is almost 1.0% lower. This reflects the economic development which has taken place in the region. The unemployment rate in the Metropolitan Area increased from 3.4% in December 2006 to 4.1% in 2007 paralleling the national economic trend.

The largest Orange County employers (in excess of 400 or more employees), their primary area of business, and number of employees are indicated in the table below. Education and health care represent a significant number of the County's primary employers. West Point continues to be the nation's top ranked military academy and remains the county's largest employer followed by Orange Regional.

In addition to Orange Regional, St Luke's Hospital and Bon Secours Hospital are large health care employers in Orange County. Other large health care employers in Orange County include Valley View Center for Nursing Care and Rehabilitation (long-term care), Crystal Run Healthcare (physician multi-specialty group) and Elant, Inc. (senior housing).

LARGEST EMPLOYERS - ORANGE COUNTY				
Rank	Company Name	City	Service	No. of employees
1	United States Military Academy	West Point	Colleges & Technical Institutes	3,000
2	Orange Regional Medical Ctr.	Middletown	Healthcare	2,524
3	St Luke's Cornwall Hospital	Newburgh	Healthcare	1,700
4	Elant, Inc.	Goshen	Healthcare (Senior Housing)	1,200
5	SUNY Orange	Middletown	Colleges & Technical Institutes	900
6	Empire Blue Cross/Blue Shield	Middletown	Health Insurance	825
7	Kolmar Laboratories Inc.	Port Jervis	Manufacturing Cosmetics	700
8	AHRC	Newburgh	Non-Profit (Services to individuals with disabilities)	650
9	Occupations Inc.	Middletown	Non-Profit Organizations (Rehabilitation Services)	618
10	105th Airlift Wing	Newburgh	Military Operation (Air National Guard Base)	600
11	Bon Secours Community Hospital	Port Jervis	Healthcare	600
12	C&S Wholesale Grocers, Inc.	Newburgh	Food Distribution	600
13	Valley View Center for Nursing Care & Rehab	Goshen	Healthcare (Long-term Care)	600
14	Crystal Run Healthcare	Middletown	Healthcare (Multi-Specialty Physicians' Practice)	550
15	Mid-Hudson Processing and Distribution USPS	Newburgh	Mail Distribution	550
16	Yellow Transportation Inc.	Maybrook	Cargo and Freight Trucking	550
17	Production Resource Group LLC	New Windsor	Manufacturers (Scenic & Theatrical Production)	500
18	Mt. St. Mary College	Newburgh	Colleges/Vocational Training	429
19	Times Herald Record	Middletown	Newspaper Publishing	420
20	Staples	Montgomery	Office Supplies Distribution	400
21	Verla International LTD	New Windsor	Manufacturing Cosmetics	400

Source: *Orange County New York-Directory of Major Employers 2005 Updated*, published by Orange County Partnership.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Median Household Income

Median household income data (median income) for Orange Regional’s service areas, Orange County and the State of New York were obtained from ESRI. As shown in the following table, the median income for Orange County was approximately \$52,734 in 2000 and is projected to grow at a compounded annual growth rate of 3.7% per year to approximately \$80,829 in 2012. The county income levels are comparable to Orange Regional’s PSA and slightly higher than the SSA. The 2012 projected median income levels in the PSA and SSA, respectively, are \$80,613 and \$75,712. Both are greater than New York State projected median income of \$68,033.

MEDIAN HOUSEHOLD INCOME DATA						
Area	2000 Estimated Median	2007 Estimated Median	2012 Projected Median	% Change 2007-2012	CAGR* 2007- 2012	% Change 2000-2012
<u>Service Area</u>						
Primary Service Area	\$ 52,788	\$ 67,785	\$ 80,613	18.9%	3.5%	52.7%
Secondary Service Area	50,039	63,944	75,712	18.4%	3.4%	51.3%
Orange County, NY	52,734	67,557	80,829	19.6%	3.7%	53.3%
State of New York	43,643	56,940	68,033	19.5%	3.6%	55.9%

Source: Median household income data provided by ESRI. *Compounded Annual Growth Rate (CAGR) is calculated by: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

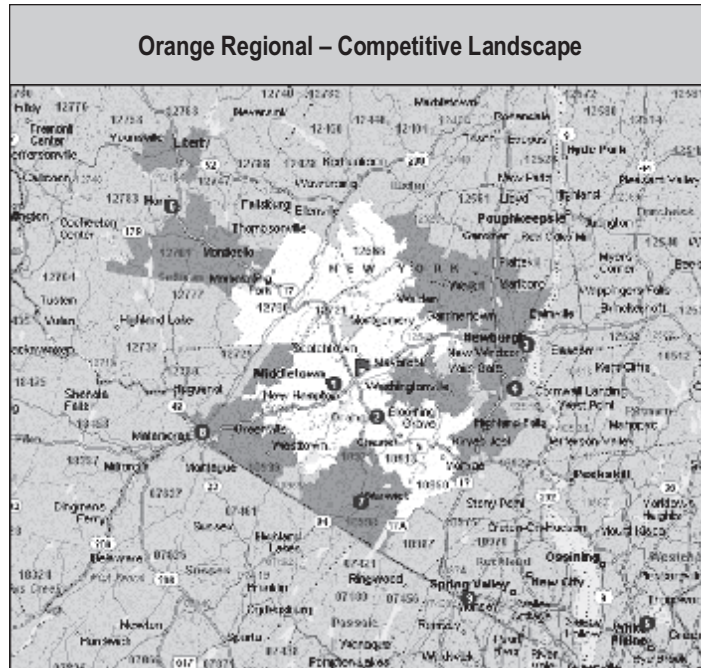
Over the past 20 years, more than 18,550 new jobs have been created in Orange County and over 430 companies have moved to the county or expanded operations. Over the same period, more than \$3.8 billion has been invested in construction projects. Orange County also has an overall higher level of education when compared to national levels (28.3% of Orange County residents attended at least 2 years of college as compared to a national average of 25.3%).¹¹

¹¹ Orange County – New York: A Demographic Resource Guide, published in 2006 by the Orange County Partnership (which promotes economic development for Orange County).

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Competitive Environment

Orange Regional’s Management has identified the following hospitals as competitors based on their location in Orange Regional’s market and percentage of discharges in the primary and secondary service areas.



*Map produced with MapPoint North America.



*Key: ORMC Replacement Facility Site Location

Key	Facility Name	Location	County	Certified Beds (a)	Total 2006 Discharges (b)	Distance from Replacement Facility (Mi) (c)
1	Orange Regional - Horton Campus	Middletown, NY	Orange	276	15,207	4.1
2	Orange Regional - Arden Hill Campus	Goshen, NY	Orange	174	7,576	6.4
	Total ORMC Combined			450	22,783	NA
3	St. Lukes Corn. Hospital- Cornwall Campus (d)	Cornwall, NY	Orange	147	11,650	26.8
4	St. Lukes Corn. Hospital- Newburgh Campus (d)	Newburgh, NY	Orange	242	NA	21.0
	Total St. Lukes/Cornwall Combined			389	11,650	NA
5	Westchester Medical Center	Valhalla, NY	Westchester	635	19,991	51.0
6	Catskill Regional Medical Center	Harris, NY	Sullivan	161	5,235	33.2
7	St. Anthony Community Hospital	Warwick, NY	Orange	73	2,569	15.5
8	Bon Secours Community Hospital	Port Jervis, NY	Orange	137	4,070	21.4
9	Good Samaritan Hospital of Suffern (e)	Suffern, NY	Rockland	370	11,427	37.7

- (a) Bed counts for Orange Regional, provided by Management, are certified beds. Certified bed counts were obtained from the American Hospital Directory. Certified bed counts include acute care, neonatal intensive care, behavioral health, and rehabilitation beds.
- (b) Discharges include normal newborns.
- (c) Distances calculated using MapQuest North American mapping software.
- (d) St. Luke’s Cornwall’s two campuses are reported on a combined basis and therefore could not be displayed separately.
- (e) Good Samaritan primarily provides obstetrical services to patients within Orange Regional’s service area.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

In the PSA, Orange Regional maintains approximately 61.5% of the market. St. Luke's Cornwall Hospital, Westchester Medical Center, and the three Bon Secours Hospitals (St. Anthony Community Hospital, Bon Secours Community Hospital, and Good Samaritan Hospital of Suffern) each generate a PSA market share below 6.0%. In the SSA, Orange Regional holds almost a 16.0% market share, second only to St. Luke's Cornwall Hospital, which is located within the SSA (refer to market share discussion below).

St. Luke's Cornwall Hospital (St. Luke's Cornwall) was formed in 2002 through the merger of St. Luke's Hospital and Cornwall Hospital. It has two campuses where acute medical and surgical services are delivered; however, most inpatient services are provided at the Newburgh Campus. It has six satellite facilities, which include dialysis, radiology, and rehabilitation centers. Each hospital maintains its own emergency department, both of which recently underwent a renovation project. Recently, St. Luke's Cornwall entered into a clinical affiliation with the Mount Sinai Medical Center to bring additional diagnostic, treatment, and surgical specialties into the community.¹² Both campuses have been designated Primary Stroke Centers by the New York State Department of Health.

- ***Newburgh Campus:*** The 242-bed nonprofit Newburgh Campus, founded in 1874, is a regional center for neonatology and offers pediatric subspecialties, in part through its affiliation with the New York Presbyterian Hospital. The Newburgh campus hosts the Center for Joint Replacement and the daVinci Robot. In addition, the Newburgh Campus also provides cardiac rehabilitation, pain management, and maintains a speech and swallowing center. The Campus opened a diagnostic cardiac catheterization program in 2005.
- ***Cornwall Campus:*** The 147-bed nonprofit facility, founded in 1931, has 22 beds dedicated to behavioral health. Other services provided include a full array of ancillary services, such as radiology, physical therapy, respiratory care, infusion therapy, ambulatory surgery and wound care. The Cornwall campus will be the location for the Cancer Treatment Center currently in development.

Westchester Medical Center (WMC) is a 635-bed nonprofit academic medical center and the region's Level 1 Trauma Center providing care to over 3.5 million patients in the seven-county Hudson Valley region, northern New Jersey, and lower Connecticut. WMC provides a full spectrum of tertiary medical and surgical acute care services, including six specialty Centers of Excellence spanning every adult and pediatric medical specialty – Heart, Children's Hospital, Cancer, Transplant, Neuroscience, Trauma, and Burn. Orange Regional utilizes WMC as a tertiary referral center.

The Heart Center provides cardiac medical diagnosis, treatment, and surgery to infants, children, and adults. As the primary teaching hospital for New York Medical College, the Heart Center

¹² St. Luke's Cornwall Press Release, 2007.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

has an active clinical research program and participates in most of the nation's major cardiac studies on new techniques and drug therapies. The Heart Center's Cardiac Catheterization Laboratory performs more than 5,000 diagnostic cardiac catheterizations and 1,600 angioplasty and stent procedures annually. The Cancer Institute delivers comprehensive diagnostic, preventive, therapeutic, and supportive oncology services. It offers a range of specialty cancer services and programs for leukemia, lymphoma, melanoma, prostate, brain, breast, lung, and gynecologic services.

WMC provides specialized pediatric services at its Maria Fareri Children's Hospital (Children's Hospital), which serves as a teaching facility. The Children's Hospital provides care across a number of pediatric sub-specialties ranging from cardiothoracic surgery to orthopedics.

Catskill Regional Medical Center (Catskill Regional) is a 161-bed nonprofit community hospital serving the residents of Sullivan County at its campuses in Harris and Callicoon, New York. Catskill Regional offers a range of general medical, surgical, obstetrical, and inpatient behavioral health services. Catskill Regional maintains a 12-bed maternity center at Harris which underwent a renovation project in 2007.

Catskill Regional recently announced an affiliation with the GHVSH, which is the sole member and parent company of Orange Regional. The affiliation agreement will not involve a full asset merger and both Orange Regional and Catskill Regional will continue to operate independently. (Refer to the description of the Greater Hudson Valley Health System for greater detail.¹³)

St. Anthony Community Hospital (St. Anthony) is a 73-bed nonprofit community hospital located in Warwick, New York providing emergency, medical, surgical, and obstetrical and gynecological services to residents of southern Orange and Sullivan Counties, New York, and Sussex and Passaic Counties, New Jersey. Other services include pain management and diabetes education. As part of the Bon Secours Health System, St. Anthony has provided care to its community for over 60 years.

Recent developments include the installation of an Open Bore MRI, an emergency room expansion and adding a one-story patient care unit (a \$9.7 million project).¹⁴

Bon Secours Community Hospital (Bon Secours Community) is a 137-bed nonprofit community hospital located in Port Jervis, New York, which serves western Orange and Sullivan Counties, New York; northern Sussex County, New Jersey and Pike County, Pennsylvania. As part of the Bon Secours Health System, the facility provides a range of services including cardiovascular rehabilitation, emergency, orthopedics, vascular, and oncology services. Bon Secours Community is recognized as a bariatric surgery Center of Excellence by the Surgical Review Corporation.

¹³ Orange Regional Press Release, "Affiliation Agreement", June 25, 2007.

¹⁴ "Community Residents Involved with St. Anthony Community Hospital Construction Forecast" St Anthony Press, September 14, 2006.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Good Samaritan Hospital of Suffern (Good Samaritan) is a 370-bed nonprofit community hospital providing emergency, medical, surgical, and obstetrical/gynecological services to residents of Rockland and southern Orange Counties, New York, and northern Bergen County, New Jersey. Good Samaritan also serves these communities as a Level II Trauma Center.

Good Samaritan provides regional specialty services including comprehensive cancer treatment, maternal/child health, a Level II special care nursery, and the Children's Diagnostic Center, which utilizes the services of pediatric sub specialists from Westchester Medical Center.

Recently, Good Samaritan received New York State approval to begin performing cardiac surgery in its Active International Cardiovascular Institute, which is the first program of its kind in Lower Hudson Valley. In addition to open heart surgery, the Institute provides emergency angioplasty for acute heart attacks, elective angioplasty to relieve potential blockages, electrophysiology and a wide range of cardiovascular procedures.¹⁵

Outpatient Competition

A number of private, multi-specialty physician groups in the Orange County region compete with Orange Regional in the outpatient setting. The largest of these groups is Crystal Run Healthcare with over 100 physicians located in Middletown and Goshen (Orange County), as well as Rockhill and Liberty (Sullivan County). On an inpatient basis, these identified physician groups comprise a significant portion of Orange Regional's admissions and are reliant on Orange Regional as a partner in providing medical care to the community.

¹⁵ Good Samaritan Public Relations - "Good Samaritan Hospital Receives Final New York State Approval for Cardiac Surgery" January 22, 2007.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Certificate of Need Process and Applications

To determine health care development in Orange Regional’s service area, the Certificate of Need (CON) application approvals from April 2006 to December 2007 were reviewed. The CON process in New York governs the establishment and construction of health care facilities throughout the State. CON applications are required for all health care facilities proposing construction of new facilities, acquisition of major medical equipment, changes in ownership, and the addition of services. The following table details significant renovation, construction, service expansion, or service changes (over \$1.0 million) planned by health care providers in or in close proximity to the service area.

ORANGE REGIONAL MEDICAL CENTER SERVICE AREA - HOSPITAL CERTIFICATE OF NEED APPROVED APPLICATIONS*					
NEW YORK STATE HOSPITALS					
APRIL 2006 to DECEMBER 2007					
County	Facility Name	Project Description	Total Project Cost	Current Status	Approved Date
Orange	Orange Regional Medical Center	Close two campuses and construct replacement hospital.	\$372,357,346	Approved	3/21/2007
Rockland	Good Samaritan Hospital of Suffern	Change ownership of New York Institute for Same Day Surgery, Inc. and relocate center to hospital campus medical office building.	\$5,625,346	Approved	3/26/2007
Sullivan	Catskill Regional Medical Center	Renovate and upgrade labor, birth, recovery, and postpartum suite.	\$4,516,483	Approved	5/18/2006
Orange	St. Lukes Cornwall Hospital/Newburgh	Install a new interventional radiology room and undertake other radiology department renovations.	\$4,167,223	Approved	4/11/2006
Westchester	Westchester Medical Center	Certify and construct a second MRI machine to be located in the Maria Fareri Children's Hospital.	\$2,717,461	Approved	1/8/2007
Orange	St. Lukes Cornwall Hospital/Newburgh	Certify eight dialysis stations	\$2,378,140	Approved	2/8/2007
Orange	St. Anthony Community Hospital	Construct an operating room on the fourth floor.	\$1,951,551	Approved	12/17/2007
Rockland	Good Samaritan Hospital of Suffern	Construct a electrophysiology laboratory.	\$1,603,109	Approved	4/5/2007

Source: New York State Department of Health: Approved Certificates of Need, April 2006 – December 2007.

Approved CON applications in the Hudson Valley Region indicate that the majority of the approved projects are minor renovation and expansion projects and do not indicate the existence of significant competitive threats. Catskill Regional’s plans to renovate and upgrade its 12-bed birthing unit could potentially impact Orange Regional’s newborn volume.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

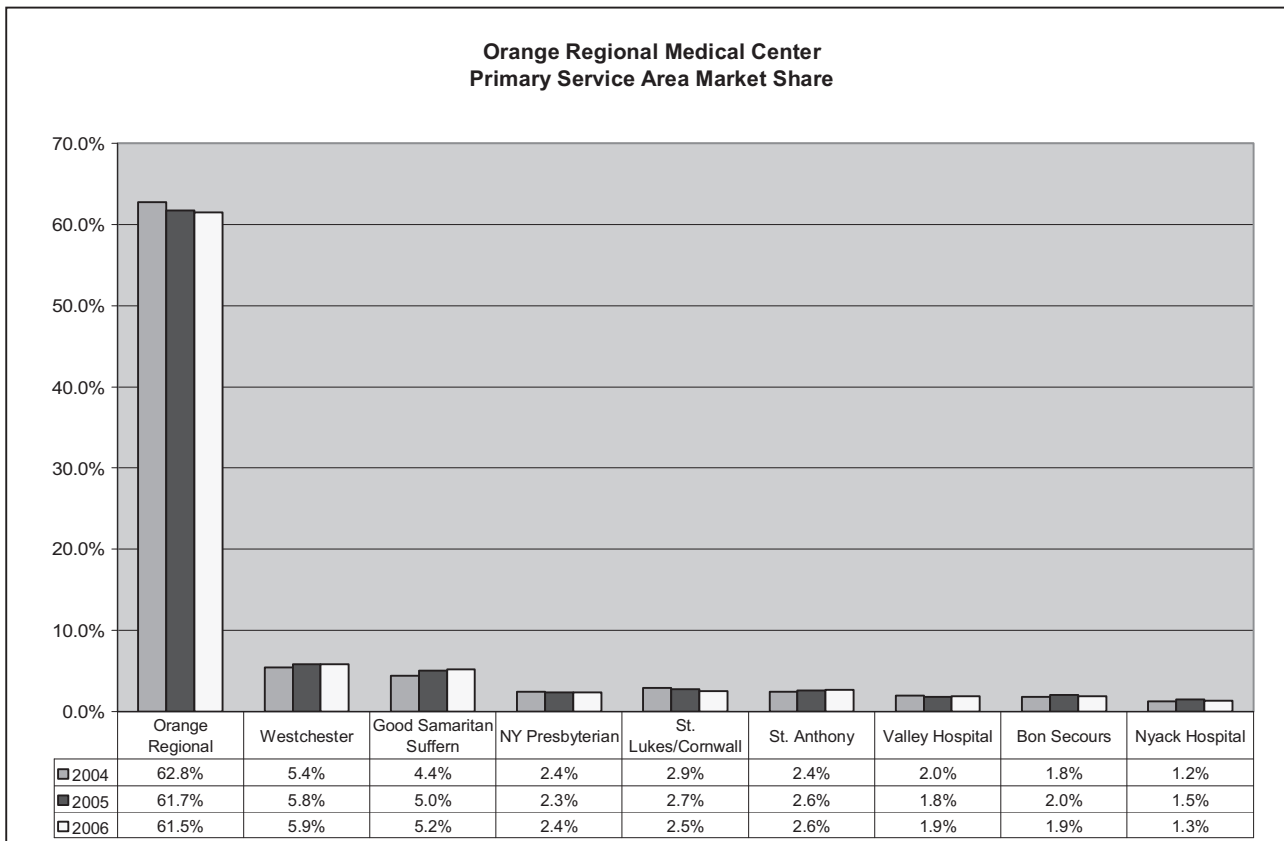
In addition, Orange Regional’s CON application is in alignment with the recommendations of the Commission on Health Care Facilities in the 21st Century as discussed under “Regulatory Environment” below.

Market Share Analysis

Competitor market share is presented in the tables below for the PSA and the SSA.

Primary Service Area

Orange Regional has demonstrated consistently strong market share in its PSA from 62.8% in 2004 to 61.5% in 2006. Orange Regional’s market share has fluctuated due to high occupancy or limited capacity. Orange Regional’s strong market position is enhanced by its affiliations with WMC and Montefiore Medical Center (Cardiac Services).



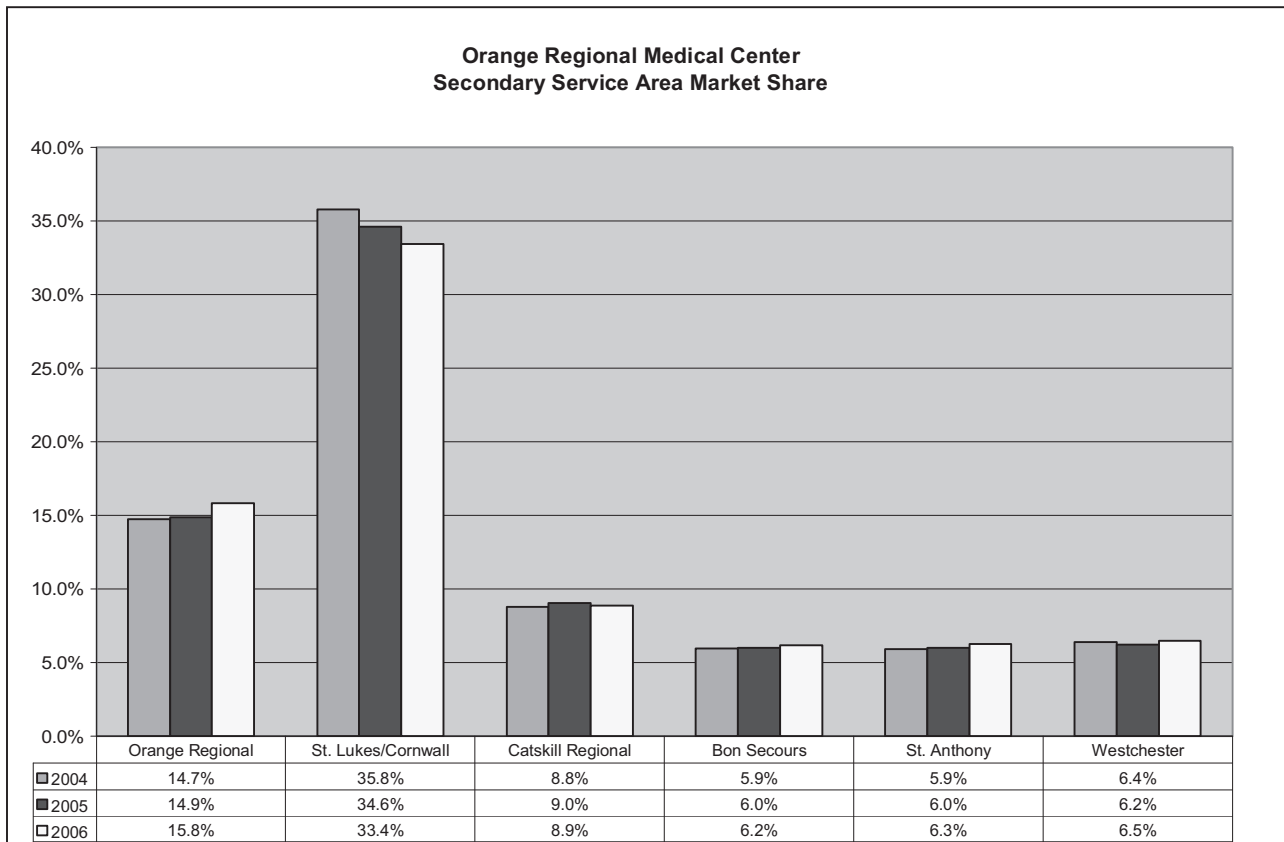
Source: Market data was provided by the New York Statewide Planning and Research Cooperative System (SPARCS) and New Jersey Department of Health and Senior Services. Data excludes normal newborns.

Overall, market share remained relatively steady for all hospitals during the previous three years.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Secondary Service Area

Secondary service area discharges are dispersed across a number of facilities. St. Luke’s Cornwall’s market share of 33.4% in 2006 is a decline from 35.8% in 2004. Orange Regional, Catskill Regional, Bon Secours, St. Anthony, and WMC also serve a sizable portion of the market with modest fluctuations from year to year.



Source: Market data was provided by the New York Statewide Planning and Research Cooperative System (SPARCS) and New Jersey Department of Health and Senior Services. Data excludes normal newborns.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Regulatory Environment

In light of the numerous changes in the delivery of health care during the past two decades, former Governor George Pataki and the New York State Legislature established the Commission on Health Care Facilities in the 21st Century (the Commission also known as the Berger Commission named after Stephen Berger, its chairman). The Commission's goal was to evaluate New York State's acute and long-term care delivery systems and make recommendations to reconfigure and right-size the supply of hospitals and nursing homes to meet regional needs.

The need for the Commission arose from concerns over the closure of facilities and continued financial losses for health care facilities across the State of New York. Consensus was reached by the Commission on recommendations, which were published in December 2006. Identified problems within the system are as follows:

- *Patient access to stable health care is at risk.* Since 1983, 70 hospitals and over 63 nursing homes have closed in New York State.
- *Health care providers are in weak financial condition.* In the past eight years, the State's hospitals have in aggregate lost \$2.4 billion. The statewide operating margin was a negative 0.2% or a loss of \$95.4 million in 2005.
- *Aging physical plants.* Negative or inadequate fiscal margins limit the ability of providers to reinvest in their systems, obtain the latest technologies, access capital, and upgrade their physical plants.
- *Hospital average lengths of stay have decreased but remain unacceptably long in many parts of the state.*
- *Primary care capacity of the State has an unmet need for additional home and community-based services.* Inadequate primary care will continue to result in more costly services.
- *Reimbursement is distorting patterns of delivery to induce facilities to pursue high margin services.*
- *New York State is over-bedded.* The statewide hospital occupancy rate has fallen from 82.8% of certified beds in 1983 to 65.3% in 2004.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

The Commission’s acute care recommendations include redesign or closure of 57 hospitals in the State (one-quarter of New York hospitals), 48 reconfigurations, affiliation, and conversion schemes, and nine facility closures. Collectively, the recommendations will reduce inpatient capacity by approximately 4,200 beds (7.0% of the State’s supply). Recommendations to affect the Hudson Valley’s acute care system are as follows:

Hudson Valley Region: Berger Commission Recommendations		
Facilities	County	Recommendation
Orange Regional Medical Center	Orange	Close existing campuses and consolidate operations as a new, smaller replacement facility that is licensed for approx. 350 beds.
The Kingston Hospital and The Benedictine Hospital	Ulster	Hospitals should be joined under a single governance structure. The joined facility should be licensed for approximately 250 to 300 beds.
Mount Vernon Hospital	Westchester	Downsize 32 medical/surgical beds, convert 24 additional medical/surgical beds to a mentally impaired chemical abuse unit.
Sound Shore Medical Center	Westchester	Decertify 9 pediatric and 60 medical/surgical beds and convert additional medical/surgical and OB beds into level III NICU beds.
Community Hospital at Dobbs Ferry	Westchester	Hospital Closure
Westchester Medical Center	Westchester	Evaluate establishing the Children's Hospital as an independent entity and review its clinical service mix to identify opportunities for reconfiguration.

Source: A Plan to Stabilize and Strengthen New York’s Health Care System, December 2006 by the Commission on Healthcare Facilities in the 21st Century.

In conjunction with the Commission recommendations, Orange Regional has also been awarded grant funding via the second phase of Healthcare Efficiency and Affordability Law (HEAL II) through New York State totaling \$24.6 million to assist with the planning and construction of the project. The HEAL grants are an effort to reconfigure and reform the health care delivery system in New York State to produce greater efficiency and community benefit. The fourth phase of the HEAL grant process awarded another \$24.0 million to Orange Regional for the retirement of its existing debt. The recommendations of the Commission and HEAL grant funding underscores the State’s involvement in and support of the proposed Orange Regional Project.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Medical Staff Profile

Leading Admitting Physicians

As demonstrated in the table below, the 20 leading admitting physicians (based on 2007 data) at Orange Regional comprised 27.5% of Orange Regional's 2007 admissions (excluding normal newborns). Data indicate that no physician on staff comprised more than 2.2% of Orange Regional's admission base indicating a diversified admitting pattern. The average age of the leading admitters is 41, compared to 47 for the entire medical staff, indicating a minimal risk of reduced admissions due to physician retirement. Orange Regional's hospitalist program¹⁶ continues to admit a significant number of patients. Eleven of the top 20 admitters are hospitalists (a twelfth is an Emergency Medicine physician) and they comprised nearly 17.0% of total 2007 discharges (and nearly 19.0% with the Emergency Room physician). The hospitalist service success is due to the support of the community physicians.

ORANGE REGIONAL - INDIVIDUAL LEADING MEDICAL STAFF ADMISSIONS (Attending, Provisional Attending, and Courtesy Members)								
Rank	Specialty	Age	2006			2007		
			Admissions	% of Total	% Cumulative	Admissions	% of Total	% Cumulative
1	Internal Medicine/Hospitalist	31	0	0.0%	0.0%	444	2.2%	2.2%
2	Internal Medicine/Hospitalist	36	385	1.9%	1.9%	430	2.2%	4.4%
3	Emergency Medicine	47	9	0.0%	1.9%	385	1.9%	6.3%
4	Internal Medicine/Hospitalist	33	33	0.2%	2.1%	381	1.9%	8.2%
5	Internal Medicine/Hospitalist	37	0	0.0%	2.1%	347	1.7%	9.9%
6	Internal Medicine/Hospitalist	36	212	1.0%	3.1%	345	1.7%	11.6%
7	Physical Medicine & Rehabilitation	41	9	0.0%	3.1%	341	1.7%	13.3%
8	Internal Medicine/Hospitalist	39	452	2.2%	5.3%	330	1.7%	15.0%
9	Internal Medicine/Hospitalist	38	353	1.7%	7.0%	271	1.4%	16.4%
10	Internal Medicine/Hospitalist	35	428	2.1%	9.1%	247	1.2%	17.6%
11	Orthopedics	38	233	1.1%	10.2%	241	1.2%	18.8%
12	Internal Medicine	35	373	1.8%	12.0%	226	1.1%	19.9%
13	Orthopedics	35	197	0.9%	12.9%	209	1.1%	21.0%
14	OB/GYN	56	22	0.1%	13.0%	194	1.0%	22.0%
15	Physical Medicine & Rehabilitation	49	250	1.2%	14.2%	193	1.0%	23.0%
16	Internal Medicine/Hospitalist	46	344	1.7%	15.9%	190	1.0%	24.0%
17	Internal Medicine/Hospitalist	36	0	0.0%	15.9%	181	0.9%	24.9%
18	Family Medicine	47	184	0.9%	16.8%	172	0.9%	25.8%
19	Internal Medicine/Hospitalist	53	138	0.7%	17.5%	171	0.9%	26.7%
20	Internal Medicine	44	275	1.3%	18.8%	171	0.9%	27.6%
	Subtotal/Average for the 20 leading admitters	41	3,897	18.8%	18.8%	5,469	27.5%	27.5%
	Remaining Admitters	48	16,856	81.2%	81.2%	14,389	72.5%	100.0%
	Total Discharges (excluding newborns)	47	20,753	100.0%	100.0%	19,858	100.0%	100.0%
	Normal Newborns		2,030			1,969		
	Total Discharges		22,783			21,827		

Source: Data provided by Orange Regional includes Fiscal Year 2007.

¹⁶ A hospitalist is a physician who specializes in caring for patients during their hospital stay. A hospitalist program works to ease the burden of continuous visits to the hospital by the referring physician, offering the assurance that their patients are receiving coverage during an inpatient stay.

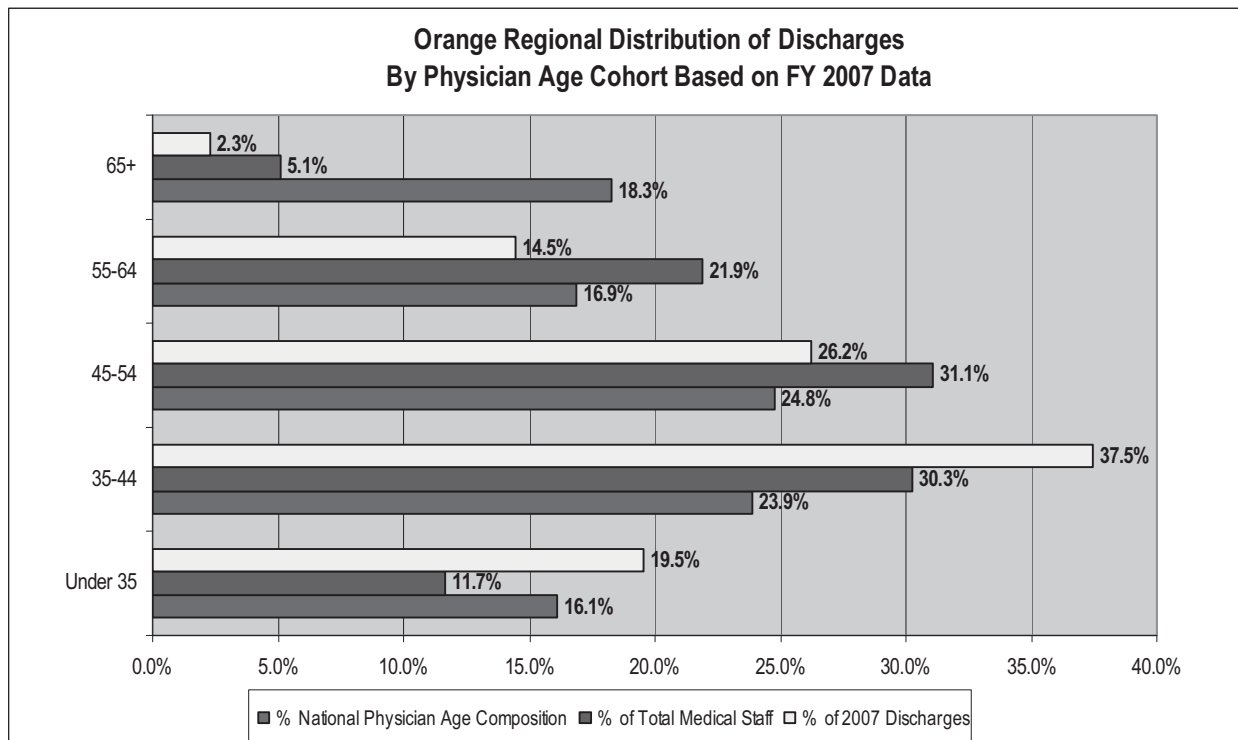
SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Medical Staff Distribution by Age

Orange Regional 2007 medical staff discharge data was compiled and segmented by age cohort. Data was examined for the purposes of evaluating the risk of volume loss due to potential physician retirement. The percentage of total for each age cohort and percentage of discharges generated by these groups are shown in the graphs below.

Orange Regional relied on physicians between the ages of 35 and 54 to generate approximately 64.0% of its total discharges. Physicians age 45 to 54 comprised the largest percentage at 31.1% and physicians 35 to 44 the second largest at 30.3%. Over 60% of the medical staff is between the ages of 35 and 54. Physicians 65 and over represent about 5.1% of Orange Regional’s medical staff and only 2.3% of hospital discharges.

According to 2004 published national statistics on the age of the physician population, 18.3% (162,364 out of 888,974) of physicians in the United States are over the age of 65.¹⁷ Orange Regional’s medical staff compares favorably to the national benchmark with only 5.1% of its medical staff over the age of 65. The above indicates that Orange Regional’s discharge base is not heavily exposed to the risk of physician retirement and has the potential to grow as existing physician practices mature.



Note: Data provided by Orange Regional, 2007.

¹⁷ The American Medical Association. *Physician Characteristics and Distribution in the US*, the 2006 edition.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Physician Recruitment Activity

From 2002 to 2007, 358 physicians were appointed to Orange Regional's medical staff, while 249 withdrew primarily for reasons related to retirement, succession and time off. The net increase of 109 physicians indicates that Orange Regional recruitment has proven to be successful over this period. A successful recruitment program has largely been the result of efforts by Orange Regional and area physician groups. As noted in the table below, Orange Regional's medical staff increased across all major specialties from 2002 to 2007 with the exception of Psychiatry which had a net impact of negative one physician.

MEDICAL STAFF ADDITIONS AND DELETIONS - ORANGE REGIONAL								
Department	Change	2002	2003	2004	2005	2006	2007	Total
Family Practice	Appointments	1	7	5	2	7	3	25
	Withdrawals	<u>2</u>	<u>2</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>16</u>
	Family Practice Net Change	(1)	5	0	(1)	4	2	9
Medicine	Appointments	21	12	22	22	17	6	100
	Withdrawals	<u>10</u>	<u>8</u>	<u>13</u>	<u>7</u>	<u>15</u>	<u>15</u>	<u>68</u>
	Medicine Net Change	11	4	9	15	2	(9)	32
Surgery	Appointments	1	1	3	5	5	2	17
	Withdrawals	<u>1</u>	<u>2</u>	<u>1</u>	<u>4</u>	<u>3</u>	<u>5</u>	<u>16</u>
	Surgery Net Change	0	(1)	2	1	2	(3)	1
Cardiology	Appointments	0	1	3	6	2	2	14
	Withdrawals	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>4</u>	<u>4</u>	<u>9</u>
	Cardiology Net Change	0	1	3	5	(2)	(2)	5
ENT	Appointments	4	1	2	5	1	2	15
	Withdrawals	<u>1</u>	<u>5</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>3</u>	<u>13</u>
	ENT Net Change	3	(4)	(1)	4	1	(1)	2
Neurosciences	Appointments	3	3	4	3	4	2	19
	Withdrawals	<u>0</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>3</u>	<u>8</u>
	Neurosciences Net Change	3	2	2	3	2	(1)	11
Orthopedics	Appointments	2	4	4	3	1	4	18
	Withdrawals	<u>1</u>	<u>2</u>	<u>5</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>11</u>
	Orthopedics Net Change	1	2	(1)	3	0	2	7
OB/GYN	Appointments	5	1	2	3	1	2	14
	Withdrawals	<u>1</u>	<u>3</u>	<u>0</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>8</u>
	OB/GYN Net Change	4	(2)	2	1	0	1	6
Pediatrics	Appointments	7	3	6	7	6	2	31
	Withdrawals	<u>8</u>	<u>2</u>	<u>5</u>	<u>6</u>	<u>1</u>	<u>5</u>	<u>27</u>
	Pediatrics Net Change	(1)	1	1	1	5	(3)	4
Psychiatry	Appointments	1	4	2	1	2	1	11
	Withdrawals	<u>0</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>12</u>
	Psychiatry Net Change	1	1	(1)	0	(1)	(1)	(1)
Hospital Based & Other	Appointments	20	20	14	16	12	12	94
	Withdrawals	<u>11</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>10</u>	<u>10</u>	<u>61</u>
	Hospital Based & Other Net Change	9	11	4	5	2	2	33
Total Medical Staff Appointments		65	57	67	73	58	38	358
Total Medical Staff Withdrawals		<u>35</u>	<u>37</u>	<u>47</u>	<u>36</u>	<u>43</u>	<u>51</u>	<u>249</u>
Net Orange Regional Medical Center Active Physician Changes		<u>30</u>	<u>20</u>	<u>20</u>	<u>37</u>	<u>15</u>	<u>(13)</u>	<u>109</u>

Source: Data was provided by Orange Regional and includes attending physicians and provisional attending physicians. *The Hospital Based and Other* category includes radiology, pathology, dentistry, hospitalists, emergency medicine, radiation oncology, rehabilitation and anesthesiology. Data does not include reappointments.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Medical Staff Summary

The table below profiles Orange Regional’s medical staff which is 93.5% board certified. Orange Regional has a higher medical staff board certification rate than the national average of 89.0%.¹⁸

ORANGE REGIONAL - MEDICAL STAFF SUMMARY (Attending, Provisional Attending and Courtesy Members)								
Specialty (a), (b)	Physician Count	Average Age	2007 Discharges	% of Total Discharges	Board Certification	% Board Certified	Physicians Age 60+	% Physicians Age 60+
Primary Care								
Family Medicine	31	48	1,982	9.1%	29	93.5%	4	12.9%
Internal Medicine	32	46	1,591	7.3%	29	90.6%	6	18.8%
Internal Medicine/Hospitalist	18	35	3,743	17.1%	16	88.9%	-	0.0%
Primary Care Total	81	44	7,316	33.5%	74	91.4%	10	12.3%
Medicine								
Allergy/Immunology and Infectious Disease	4	55	-	0.0%	4	100.0%	1	25.0%
Cardiology	27	51	411	1.9%	26	96.3%	5	18.5%
Dermatology	8	50	-	0.0%	8	100.0%	2	25.0%
Endocrinology	6	45	119	0.5%	6	100.0%	1	16.7%
Hematology/Oncology	11	53	799	3.7%	9	81.8%	1	9.1%
Neurology	14	47	6	0.0%	13	92.9%	1	7.1%
Nephrology	11	51	900	4.1%	11	100.0%	4	36.4%
Physical Medicine & Rehabilitation	8	43	748	3.4%	8	100.0%	-	0.0%
Pulmonary Medicine	14	47	615	2.8%	12	85.7%	2	14.3%
Rheumatology	3	53	-	0.0%	2	66.7%	1	33.3%
Medicine Total	106	47	3,598	16.5%	99	93.4%	18	17.0%
Surgery								
Eye, Ear, Nose & Throat	27	48	162	0.7%	27	100.0%	3	11.1%
Gastroenterology	13	87	120	0.5%	12	92.3%	-	0.0%
General Surgery	14	50	673	3.1%	13	92.9%	3	21.4%
Gynecology	6	65	114	0.5%	5	83.3%	4	66.7%
Neurosurgery	4	45	172	0.8%	4	100.0%	-	0.0%
Orthopedics	40	46	743	3.4%	37	92.5%	3	7.5%
Urology	5	46	220	1.0%	5	100.0%	5	100.0%
Vascular/Thoracic Surgery	3	44	4	0.0%	3	100.0%	-	0.0%
Surgery Remaining	6	47	44	0.2%	6	100.0%	-	0.0%
Surgery Total	118	47	2,252	10.3%	112	94.9%	18	15.3%
Pediatrics								
Pediatrics Total (c)	60	48	2,419	11.1%	58	96.7%	6	10.0%
Psychiatry								
Psychiatry Total	10	58	391	1.8%	7	70.0%	5	50.0%
OB/GYN								
OB/GYN Total	23	46	1,965	9.0%	23	100.0%	2	8.7%
Hospital Based & Other (d)								
Hospital Based & Other Total	91	48	3,886	17.8%	84	92.3%	12	13.2%
Total/Average	489	47	21,827	100.0%	457	93.5%	71	14.5%

- a) Medical staff data was provided by Orange Regional. Data includes attending physicians, associate attending physicians and assistant attending physicians.
- b) Utilized 2007 discharges data and includes normal newborns.
- c) Pediatric sub-specialties at Orange Regional include: Cardiology, Gastroenterology, Neonatology, Neurology and Urology.
- d) The Hospital Based and Other category includes the following disciplines: Anesthesia, Audiology, Dentistry, Diagnostic Imaging, Emergency Medicine, Interventional Radiology, Radiation Oncology and Teleradiology.

¹⁸ Center for Studying Health System Change, Tracking Report No. 14, May 2006. Ann S. O’Malley and James D. Reschovsky.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Summary of Physician Interviews

Interviews were held with 25 of the key medical staff members at Orange Regional. Physicians indicated that a new hospital is critical to the upgrading of current services provided and a significant majority supported the consolidation of Orange Regional's two campuses. Physician interview findings are presented below.

The medical staff conveyed strong support for the Project and a recognized need for the new hospital in the community.

- Community physicians are highly competent. It is easy to recruit well-trained and credentialed physicians based on the close proximity to New York City and its pool of qualified physicians.
- Significant continued service growth will be enabled through the consolidated facility; strong opportunities exist for new tertiary services in the future.
- While the medical staff has grown substantially over the past five to ten years, staff competence remains an enormous asset to the institution.
- Continued volume growth is anticipated based on population growth and the recruitment of physicians across the following specialties:
 - Oncology
 - Cardiothoracic surgery
 - Orthopedics
- Concerns voiced by the physicians included:
 - Internal challenges are evident related to issues of competition for outpatient services between physician groups and the Medical Center.
 - The campuses have different histories and cultures, and combining them into one facility will require careful coordination and sensitivity.

Most physicians interviewed believe that solutions are available to allow for the ongoing success of the organization. In particular, the medical staff were confident in current management leadership and its ability to address these opportunities and issues.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Inpatient Utilization

Historical and Forecasted Service Area Use Rates

Historical trends for inpatient use rates (discharges per 1,000 population) and market share (below) were analyzed by service line to determine whether there have been changes in overall hospital utilization patterns by service area residents. Healthcare utilization within Orange Regional's service area was analyzed for the historical period of 2004 to 2006. Utilization was forecasted based on historical volume and population projections provided by ESRI, Inc.

In 2006, Orange Regional's overall service area utilization rate was 127.1 (discharges per 1,000 population, for all Medical Center services excluding normal newborns). This is above the U.S. average (119.2) and below the northeast average (135.5) for 2004 (latest available information).¹⁹ According to the Kaiser Foundation, New York State's utilization rate was 130.0 (per 1,000 population) in 2003 which is comparable to Orange Regional's 2006 utilization rate. Hospitalization rates in the service area decreased by 1.4% per year from 2004 to 2006. Refer to the following table for details on service area use rates.

ORANGE REGIONAL - HISTORICAL AND FORECASTED UTILIZATION RATES											
	Historical			Est.	CAGR* 04 - 06	Forecasted					CAGR* 08 - 12
	2004	2005	2006	2007		2008	2009	2010	2011	2012	
<u>Primary Service Area</u>											
Medical/Surgical (Adult and Pediatric)	104.9	102.5	103.0	103.5	-0.9%	104.0	104.5	105.0	105.6	106.1	0.5%
Obstetrics/Delivery	75.0	76.2	78.7	78.7	2.4%	78.7	78.8	78.9	79.0	79.1	0.1%
Behavioral Health	5.9	6.0	5.9	5.9	0.0%	5.9	5.9	5.9	5.9	5.9	0.0%
Rehabilitation	<u>3.8</u>	<u>3.6</u>	<u>3.7</u>	<u>3.7</u>	-2.1%	<u>3.7</u>	<u>3.7</u>	<u>3.7</u>	<u>3.7</u>	<u>3.7</u>	<u>0.0%</u>
Total PSA	129.8	127.3	128.2	128.6	-0.6%	129.0	129.4	129.8	130.2	130.6	0.3%
<u>Secondary Service Area</u>											
Medical/Surgical (Adult and Pediatric)	110.3	111.5	106.2	106.5	-1.8%	106.8	107.0	107.3	107.6	107.8	0.2%
Obstetrics/Delivery	63.3	61.6	60.7	60.8	-2.0%	60.9	60.9	61.0	61.0	61.1	0.1%
Behavioral Health	6.6	5.9	6.2	6.2	-2.5%	6.2	6.2	6.2	6.2	6.2	0.0%
Rehabilitation	<u>1.7</u>	<u>2.0</u>	<u>1.7</u>	<u>1.7</u>	0.0%	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>0.0%</u>
Total SSA	131.4	131.8	126.2	126.4	-2.0%	126.6	126.7	126.9	127.1	127.2	0.1%
<u>Total Service Area Combined</u>											
Medical/Surgical (Adult and Pediatric)	107.9	107.6	104.8	105.2	-1.5%	105.5	105.9	106.3	106.7	107.1	0.4%
Obstetrics/Delivery	68.4	68.0	68.7	68.7	0.2%	68.8	68.9	69.0	69.0	69.1	0.1%
Behavioral Health	6.3	5.9	6.1	6.1	-1.3%	6.1	6.1	6.1	6.1	6.1	0.0%
Rehabilitation	<u>2.6</u>	<u>2.7</u>	<u>2.6</u>	<u>2.6</u>	-1.5%	<u>2.6</u>	<u>2.6</u>	<u>2.6</u>	<u>2.6</u>	<u>2.6</u>	<u>0.1%</u>
Total Service Area Combined	<u>130.7</u>	<u>129.8</u>	<u>127.1</u>	<u>127.4</u>	-1.4%	<u>127.6</u>	<u>127.9</u>	<u>128.2</u>	<u>128.5</u>	<u>128.7</u>	<u>0.2%</u>

Source: Market data provided by the New York Statewide Planning and Research Cooperative System through (SPARCS) through HANYs. New Jersey data was obtained through the Dept of Health and Senior Services of the State of New Jersey. Source: Projected data has been estimated. Population provided by ESRI.

*Compounded Annual Growth Rate (CAGR) is calculated: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

**Utilization rates calculated based on discharges per 1,000 population excluding normal newborns.

¹⁹ Hall MJ Owings MF. 2003 National Hospital Discharges Survey. Advance data from vital and health statistics; no 332. Hyattsville, Maryland: National Center for Health Statistics. July 2005.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Medical/Surgical (Adult and Pediatric)

The use rate for Medical/Surgical (Adult and Pediatric) in the PSA decreased from 104.9 (discharges per 1,000 population) in 2004 to 102.5 in 2005 and increased slightly in 2006 to 103.0. In the SSA, the utilization rate for Medical/Surgical (Adult and Pediatric) increased from 110.3 in 2004 to 111.5 in 2005 and decreased to 106.2 in 2006. The compounded annual growth rate was a decline of approximately 0.9% in the PSA and 1.8% in SSA for the three-year period.

The 65 and over population is expected to grow at an annual rate of 3.4% in the PSA and 2.5% in the SSA from 2007 to 2012, thereby increasing the use rate for medical/surgical services through the forecast period. The 45 to 64 population is projected to grow by 2.7% in the PSA and 2.6% in the SSA. Increased pharmaceutical use and outpatient-based procedures are expected to have a downward effect on use rates. However, the major risk factors for the development of cardiovascular disease and stroke continue to be on the rise in New York State as well as nationally, contributing to increased hospitalization.

Stroke continues to be the third leading cause of death in New York State and the leading cause of permanent disability.²⁰ The risk factors contributing to the prevalence of cerebrovascular disease include high blood pressure, smoking, inactivity, and hypertension. These risk factors continue to persist both in New York and nationally. In adults over the age of 55, the lifetime risk for stroke is greater than one in six.²¹

Heart disease continues to be the leading cause of death both nationally and in New York State. Statistics suggest that while the percentage of those living with cardiovascular disease has increased, deaths due to heart disease have reached a record low nationally. The decrease in the number of cardiac deaths reflects a continuing improvement in medical care, including better control of blood pressure, cholesterol and patient management with cardiac events.

Smoking, high blood pressure, and obesity continue to be national and New York specific factors contributing to an increase in cardiac complications.²² Vital statistics indicate that hospital discharges for heart failure alone rose from 399,000 in 1979 to 1,093,000 in 2003 on a national level.²³ Lastly, cardiac procedures continue to be on the rise, with the exception of open heart surgery, which has decreased slightly since 1995.

Based on the aging population and continued increases in disease prevalence, the medical/surgical use rate in the PSA is forecast to grow at 0.50% and at 0.20% in the SSA from 2008 to 2012.

²⁰ The American Heart Association. Heart Disease and Stroke Statistics, 2006.

²¹ The American Heart Association. Heart Disease and Stroke Statistics, 2006.

²² NYC Vital Signs, 2003. The New York City Department of Health and Mental Hygiene.

²³ The American Heart Association. Heart Disease and Stroke Statistics, 2006.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Obstetrics/Delivery

The PSA use rate for Obstetrics/Delivery (women ages 14 to 44) increased 2.4% per year, from 75.0 in 2004 to 78.7 in 2006. In Orange Regional's SSA, the utilization rate decreased 2.0% per year, from 63.3 in 2004 to 60.7 in 2006. Birth rates in New York State remained relatively constant from 61.1 in 2000 to 60.4 in 2004. The Obstetrics/Delivery use rate is forecasted to increase slightly by 0.10% per year from 2008 to 2012 in both the PSA and SSA due to historic trends and growth in the Female 15-44 age cohort.

Behavioral Health

The utilization rate for Behavioral Health services was relatively constant at 5.9 from 2004 to 2006 in the PSA. In the SSA, the Behavioral Health use rate fluctuated but decreased 2.5% per year from 6.6 in 2004 to 6.2 in 2006, but with an increase between 2005 and 2006. While demand for inpatient behavioral health services continues to increase, access to beds has limited growth in utilization. The increasing availability of pharmaceuticals and the increased use of outpatient settings may also continue to decrease the use rate. Therefore, the use rate in both the PSA and SSA has been forecasted to remain constant from 2008 to 2012.

Rehabilitation

The PSA utilization rate for Rehabilitation Services decreased slightly from 3.8 in 2004 to 3.6 in 2005 and then increased to 3.7 in 2006. In the SSA, the Rehabilitation use rate was approximately 1.7 in 2004 with an increase to 2.0 in 2005 and then returned to 1.7 in 2006.

In December 2007, Congress voted and President Bush signed the *Medicare, Medicaid and SCHIP Extension Act of 2007* freezing the Rehabilitation threshold at 60%. This legislation overrides the "75% Rule" which went into effect on July 1, 2004 and was being phased in gradually from 2004 through 2008.²⁴ The previous legislation was known as the 75% Rule because it created new criteria focusing on medical necessity and functional capability and required that inpatient rehabilitation hospitals have a minimum percentage of their admissions fall into one of thirteen diagnostic categories.

The Rehabilitation use rate was therefore forecasted to remain constant in both the PSA and SSA through the forecast period.

²⁴ The Centers for Medicare and Medicaid, www.cms.org.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Historical and Forecasted Market Shares

Orange Regional's historical market share of discharges from its primary and secondary service areas were reviewed by service to determine trends in patient preference and market dynamics. Market share reflects Orange Regional's share of total service area residents who utilize inpatient services.

ORANGE REGIONAL - HISTORICAL AND FORECASTED MARKET SHARE SUMMARY											
	Historical			Est.	CAGR*	Forecasted					CAGR*
	2004	2005	2006	2007	04 - 06	2008	2009	2010	2011	2012	08 - 12
<u>Primary Service Area</u>											
Medical/Surgical (Adult and Pediatric)	63.2%	62.4%	62.7%	60.1%	-0.4%	60.1%	60.1%	60.1%	61.3%	61.9%	0.7%
Obstetrics/Delivery	48.7%	47.2%	44.0%	46.2%	-4.9%	46.2%	46.2%	46.2%	46.3%	46.4%	0.1%
Behavioral Health	71.8%	70.8%	70.8%	68.6%	-0.7%	68.6%	68.6%	68.6%	68.6%	68.6%	0.0%
Rehabilitation	<u>91.6%</u>	<u>88.3%</u>	<u>85.3%</u>	<u>84.6%</u>	<u>-3.5%</u>	<u>84.6%</u>	<u>84.6%</u>	<u>84.6%</u>	<u>76.2%</u>	<u>74.7%</u>	<u>-3.1%</u>
Total PSA	62.8%	61.7%	61.5%	59.5%	-1.0%	59.5%	59.5%	59.6%	60.3%	60.8%	0.5%
<u>Secondary Service Area</u>											
Medical/Surgical (Adult and Pediatric)	13.9%	14.0%	15.2%	14.3%	4.3%	14.3%	14.3%	14.3%	14.5%	14.6%	0.5%
Obstetrics/Delivery	16.8%	16.4%	16.1%	17.0%	-2.1%	17.0%	17.0%	17.0%	17.0%	17.0%	0.1%
Behavioral Health	15.3%	17.9%	18.4%	16.4%	9.4%	16.4%	16.4%	16.4%	16.1%	15.6%	-1.3%
Rehabilitation	<u>47.5%</u>	<u>43.9%</u>	<u>47.2%</u>	<u>50.9%</u>	<u>-0.4%</u>	<u>50.9%</u>	<u>50.9%</u>	<u>50.9%</u>	<u>43.2%</u>	<u>42.4%</u>	<u>-4.5%</u>
Total SSA	14.7%	14.9%	15.8%	15.2%	3.7%	15.2%	15.2%	15.2%	15.2%	15.3%	0.1%
<u>Total Service Area Combined</u>											
Medical/Surgical (Adult and Pediatric)	35.0%	34.4%	35.8%	34.2%	1.1%	34.3%	34.4%	34.4%	35.1%	35.5%	0.9%
Obstetrics/Delivery	32.2%	31.6%	30.2%	31.8%	-3.1%	31.8%	31.8%	31.9%	31.9%	32.0%	0.2%
Behavioral Health	31.0%	41.4%	40.9%	38.8%	14.7%	38.9%	38.9%	39.0%	38.8%	38.6%	-0.2%
Rehabilitation	<u>75.5%</u>	<u>63.3%</u>	<u>72.1%</u>	<u>72.1%</u>	<u>-2.2%</u>	<u>72.1%</u>	<u>72.2%</u>	<u>72.2%</u>	<u>64.1%</u>	<u>62.8%</u>	<u>-3.4%</u>
Total Service Area	<u>35.7%</u>	<u>35.1%</u>	<u>36.1%</u>	<u>35.0%</u>	<u>0.6%</u>	<u>35.0%</u>	<u>35.1%</u>	<u>35.1%</u>	<u>35.5%</u>	<u>35.8%</u>	<u>0.6%</u>

Source: New York discharge data was provided by the Statewide Planning and Research Cooperative System (SPARCS) through HANYS. New Jersey data was obtained through the Department of Health and Senior Services of the State of New Jersey.

*Compounded Annual Growth Rate (CAGR) is calculated: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

Medical/Surgical (Adult/Pediatric)

From 2004 to 2006, PSA market share declined from 63.2% in 2004 to 62.4% in 2005 and then increased to 62.7% in 2006. The 2007 market share is estimated to be 60.1%. In the SSA, market share grew from 13.9% in 2004 to 15.2% in 2006. The 2007 market share was estimated at 14.3%.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

During the forecast period, market share is forecasted to remain stable until relocation to the replacement facility occurs in 2011. In the PSA, 2010 market share is forecasted to increase from 60.1% to 61.9% in 2012, while in the SSA, market share is forecasted to increase slightly from 14.3% to 14.6%.

Obstetrics/Delivery

Between 2004 and 2006, market share declined from 48.7% to 44.0% in the PSA and 16.8% to 16.1% in the SSA. In 2007, market share was estimated to be 46.2% and 17.0% in the PSA and SSA, respectively. Market share is forecasted to grow by 0.1% per year in both the PSA and SSA once the new facility comes on line. The new facility will have private rooms and more modernized accommodations contributing to the forecasted market share growth.

Behavioral Health

In the PSA, market share remained relatively constant from 71.8% in 2004 to 70.8% in 2005 and 2006. Market share for 2007 was estimated to be 68.6%. During the forecast period, PSA market share is forecasted to remain constant.

In the SSA, market share increased from 15.3% in 2004 to 18.4% in 2006. In 2007, market share was estimated to decline to 16.4%. During the forecast period, SSA market share is forecasted to decline to 15.6% by 2012.

Based on limited provider alternatives, management expects demand to continue to increase. However, the replacement hospital has a planned decrease in available behavioral health beds from 40 to 30, placing capacity constraints on the program. Based on capacity constraints, Orange Regional will be near capacity at approximately 98.0% occupancy upon relocation to the new facility.

Rehabilitation

Due to limited providers in the region, market share in the PSA was in excess of 85.0% from 2004 to 2006. In the SSA, market share has fluctuated from 47.5% in 2004 to 43.9% in 2005 and then to 47.2% in 2006. The 2007 estimates were 84.6% and 50.9%, respectively.

Upon the relocation to the new facility, this service will lose nine beds to a new capacity of 20 beds creating a capacity constraint issue. This bed reduction is also forecasted to lead to a reduction in market share. Market share is forecasted to decline to 74.7% and 42.4% by 2012 for the PSA and SSA, respectively, based upon space limitations due to a reduction in the number of beds.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Historical and Forecasted Inpatient Utilization

The following table summarizes historical and forecasted volume for Orange Regional by identified service line. Upon completion of Orange Regional's new facility, total operational beds will decrease from 393 to 354 in 2011 with an additional 20 beds available for overflow capacity. This reduction in beds, along with increased utilization, is forecasted to contribute to an increase in the occupancy rate from 77.5% in 2010 to 88.8% in 2012.

ORANGE REGIONAL - SUMMARY OF INPATIENT UTILIZATION												
	Historical					CAGR* 03 - 07	Forecasted					CAGR* 08 - 12
	2003	2004	2005	2006	2007		2008	2009	2010	2011	2012	
Medical/Surgical												
Discharges (a)	14,969	15,930	15,812	16,793	15,931	1.6%	16,220	16,520	16,830	17,410	17,890	2.5%
Patient Days (b)	81,478	81,979	81,026	85,051	81,703	0.1%	83,200	84,720	86,290	89,290	91,350	2.4%
LOS	5.4	5.1	5.1	5.1	5.1	-1.5%	5.1	5.1	5.1	5.1	5.1	-0.1%
Operational Beds (c)	290	290	290	290	290	0.0%	290	290	290	280	280	-0.9%
Occupancy %	77.0%	77.4%	76.5%	80.4%	77.2%	0.1%	78.6%	80.0%	81.5%	87.4%	89.4%	3.3%
Obstetrics/Delivery												
Discharges (a)	2,424	2,102	2,006	2,017	2,072	-3.8%	2,090	2,120	2,140	2,170	2,190	1.2%
Patient Days (b)	6,344	6,087	6,149	5,735	5,436	-3.8%	5,490	5,550	5,620	5,680	5,760	1.2%
LOS	2.6	2.9	3.1	2.8	2.6	0.1%	2.6	2.6	2.6	2.6	2.6	0.0%
Operational Beds (c)	34	34	34	34	34	0.0%	34	34	34	24	24	-8.3%
Occupancy %	51.1%	49.0%	49.5%	46.2%	43.8%	-3.8%	44.2%	44.7%	45.3%	64.8%	65.8%	10.4%
Behavioral Health												
Discharges (a)	863	968	1,005	1,052	1,003	3.8%	1,000	1,000	1,000	1,010	1,010	0.2%
Patient Days (b)	10,506	10,741	10,307	11,439	11,961	3.3%	11,470	10,970	10,730	10,670	10,710	-1.7%
LOS	12.2	11.1	10.3	10.9	11.9	-0.5%	11.5	11.0	10.7	10.6	10.6	-1.9%
Operational Beds (c)	40	40	40	40	40	0.0%	40	40	40	30	30	-6.9%
Occupancy %	72.0%	73.6%	70.6%	78.3%	81.9%	3.3%	78.6%	75.1%	73.5%	97.4%	97.8%	5.6%
Rehabilitation												
Discharges (a)	802	885	835	891	852	1.5%	870	850	830	730	720	-4.6%
Patient Days (b)	10,105	10,529	9,751	9,731	9,588	-1.3%	9,530	8,880	8,460	7,120	6,880	-7.8%
LOS	12.6	11.9	11.7	10.9	11.3	-2.8%	11.0	10.4	10.2	9.8	9.6	-3.4%
Operational Beds (c)	29	29	29	29	29	0.0%	29	29	29	20	20	-8.9%
Occupancy %	95.5%	99.5%	92.1%	91.9%	90.6%	-1.3%	90.0%	83.9%	79.9%	97.5%	94.2%	1.1%
Total (Excluding newborns)												
Discharges (a)	19,058	19,885	19,658	20,753	19,858	1.0%	20,180	20,490	20,800	21,320	21,810	2.0%
Patient Days (b)	108,433	109,336	107,233	111,956	108,688	0.1%	109,690	110,120	111,100	112,760	114,700	1.1%
LOS	5.7	5.5	5.5	5.4	5.5	-1.0%	5.4	5.4	5.3	5.3	5.3	-0.8%
Operational Beds (c)	393	393	393	393	393	0.0%	393	393	393	354	354	-2.6%
Occupancy %	75.6%	76.2%	74.8%	78.0%	75.8%	0.1%	76.5%	76.8%	77.5%	87.3%	88.8%	3.8%
Newborn Discharges	2,120	1,916	1,905	2,030	1,969	-1.8%	1,990	2,010	2,030	2,060	2,080	1.1%
Total ORMC Discharges	21,178	21,801	21,563	22,783	21,827	0.8%	22,170	22,500	22,830	23,380	23,890	1.9%

a) Discharge data was provided internally by Orange Regional.

b) Patient days were provided by Orange Regional.

c) Operational beds based on Orange Regional internal statistics.

*Compounded Annual Growth Rate (CAGR) is calculated: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Average Length of Stay, Patient Days, and Occupancy

Medical/Surgical average length of stay decreased to 5.1 days in 2004 and has remained constant through 2007. It is forecasted to remain at 5.1 days through 2012. The medical/surgical occupancy rate was 77.0% in 2003 and 77.2% in 2007 with slight fluctuations in 2004, 2005 and 2006. With a decreasing bed count, increasing use rates and increasing market share, occupancy is expected to increase from 77.2% in 2007 to 89.4% in 2012.

The obstetrics/delivery average length of stay decreased for the second consecutive year to 2.6 days in 2007. This partially contributed to the lower occupancy rate of 43.8% in 2007. During the forecast period, the length of stay is forecasted to remain constant at 2.6 days. With a slight increase in utilization during the forecast period and a decrease in operational beds in 2011 with the move to the new facility, occupancy is forecasted to increase from 45.3% in 2010 to 65.8% in 2012.

Behavioral health average length of stay declined from 12.2 days in 2003 to 10.3 days in 2005 but then increased over the last two years to 11.9 days in 2007. This increase is, in part, due to the closure of a nearby long-term care facility which reduced discharge options. Length of stay is forecasted to decline gradually throughout the forecast period based on Management initiatives. This reduction will be essential because the loss of ten beds will drive the occupancy rate to 97.8% once the new facility is operational.

Rehabilitation average length of stay fluctuated from 12.6 days in 2003 to 11.3 days in 2007. During the forecast period, average length of stay is estimated to decrease to 9.6 days in 2012. This reduction will be important since the loss of nine beds will increase the occupancy rate to over 94.0% in both 2011 and 2012.

Orange Regional has made reducing length of stay an imperative so as to increase patient “throughput” with a reduced bed count. Accordingly, Orange Regional is in the process of implementing a multi-year length of stay reduction plan.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Outpatient Utilization

Forecasted outpatient utilization at Orange Regional was based upon population growth in the primary service area given that outpatient utilization is more localized than inpatient utilization. Accordingly, outpatient volume is forecasted to increase from 2008 to 2012, consistent with primary service area population growth, at approximately 1.6% per year. However, behavioral health visits have been forecasted to remain stable over the forecast period based on capacity limitations due to a reduction in inpatient beds.

ORANGE REGIONAL - HISTORICAL & FORECASTED OUTPATIENT VISITS/PROCEDURES												
	Historical					CAGR* 03 - 07	Forecasted					CAGR* 07 - 12
	2003	2004	2005	2006	2007		2008	2009	2010	2011	2012	
Surgical Services	9,824	9,810	9,613	10,572	9,913	0.2%	10,070	10,230	10,390	10,560	10,730	1.6%
Emergency Room Visits	48,212	47,272	47,330	48,230	46,851	-0.7%	47,600	48,360	49,130	49,920	50,720	1.6%
Endoscopy Procedures	7,609	9,358	9,290	9,718	10,190	7.6%	10,350	10,520	10,690	10,860	11,030	1.6%
Oncology Services Procedures	8,572	15,775	17,588	17,866	17,806	20.1%	18,090	18,380	18,670	18,970	19,270	1.6%
Radiation Oncology Procedures	26,417	30,715	31,262	33,832	34,977	7.3%	35,540	36,110	36,690	37,280	37,880	1.6%
Laboratory Procedures	414,767	427,441	434,446	444,587	419,137	0.3%	425,840	432,650	439,570	446,600	453,750	1.6%
Cardiac Cath Procedures	NA	77	315	415	341	64.2%	350	360	370	380	390	1.6%
Sleep Center Visits	1,687	1,594	1,480	1,540	1,455	-3.6%	1,480	1,500	1,520	1,540	1,560	1.6%
PT/OT/Speech Therapy Procedures	82,580	87,150	79,922	82,339	64,862	-5.9%	65,900	66,950	68,020	69,110	70,220	1.6%
Behavioral Health Visits	7,280	7,424	6,779	5,821	4,589	-10.9%	4,590	4,590	4,590	4,590	4,590	0.0%
Other Outpatient Visits	<u>197,598</u>	<u>200,585</u>	<u>210,808</u>	<u>219,433</u>	<u>198,640</u>	<u>0.1%</u>	<u>201,820</u>	<u>205,050</u>	<u>208,330</u>	<u>211,660</u>	<u>215,050</u>	<u>1.6%</u>
Total Outpatient Procedures	<u>804,546</u>	<u>837,201</u>	<u>848,833</u>	<u>874,353</u>	<u>808,761</u>	<u>0.1%</u>	<u>821,630</u>	<u>834,700</u>	<u>847,970</u>	<u>861,470</u>	<u>875,190</u>	<u>1.6%</u>

Source: Orange Regional Internal Statistics.

*Compounded Annual Growth Rate (CAGR) is calculated: $CAGR = [(End\ Value / Beginning\ Value)^{(1/\#years)}] - 1$.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

NET PATIENT SERVICE REVENUE

Forecasted net patient service revenue (NPSR) is based on the forecasted occupancy levels and resultant anticipated units of service applied to the forecasted charge structure and reimbursement rates. The following is a summary of net patient service revenue included in the Forecasted Statements of Operations.

FORECASTED NET PATIENT SERVICE REVENUE					
	Year Ending December 31				
	2008	2009	2010	2011	2012
	<i>(In thousands)</i>				
Inpatient	\$ 171,864	\$ 184,501	\$ 196,709	\$ 206,435	\$ 218,704
Outpatient	116,869	123,053	129,664	137,614	145,454
Total net patient service revenue	<u>\$ 288,733</u>	<u>\$ 307,554</u>	<u>\$ 326,373</u>	<u>\$ 344,049</u>	<u>\$ 364,158</u>

Payor Mix

Payor mix assumptions are based on Orange Regional's historical payor mix for inpatient and outpatient services, adjusted for anticipated changes. There has been limited growth in managed care penetration in the service area and payor mix has been stable over the past three years. The mix of volume by payor is forecasted to relatively remain stable throughout the forecast period.

FORECASTED INPATIENT/OUTPATIENT PAYOR MIX BY NET PATIENT SERVICE REVENUE					
	Year Ending December 31				
	2008	2009	2010	2011	2012
	<i>In thousands</i>				
Inpatient:					
Medicare	52.4%	49.7%	47.6%	45.8%	44.8%
Medicaid	4.4%	4.2%	4.0%	4.5%	4.4%
Blue Cross	18.0%	19.4%	20.5%	21.3%	21.8%
Managed Care/Commercial	22.2%	23.9%	25.2%	25.7%	26.3%
Self Pay/Charity Care	2.3%	2.2%	2.1%	2.1%	2.1%
Other	0.7%	0.6%	0.6%	0.6%	0.6%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Outpatient:					
Medicare	19.4%	18.8%	18.4%	17.9%	17.5%
Medicaid	2.3%	2.3%	2.2%	2.1%	2.1%
Blue Cross	32.5%	32.9%	33.3%	33.6%	33.8%
Managed Care/Commercial	39.0%	39.5%	39.9%	40.2%	40.5%
Self Pay/Charity Care	3.3%	3.2%	3.1%	3.1%	3.0%
Other	3.4%	3.3%	3.2%	3.1%	3.1%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Orange Regional's percentages of total NPSR by type of payor are based on the assessment of facility utilization and historical relationships of revenue and volume contributions by payor. These percentages remain relatively constant during the forecast period, with any adjustments related to differentials in annual payment increases and not to volume shifts among payors.

Medicare

Inpatient: The Social Security Amendments of 1983 established the Medicare Prospective Payment System (PPS) for inpatient operating costs. Under this system, Medicare pays hospitals a prospectively fixed payment amount by diagnosis-related groupings (DRGs) for each discharge. The Centers for Medicare & Medicaid Services (CMS) is required by the Medicare statute to publish regulations each year announcing a PPS update factor to be used to calculate an increase in the prospective payment rates. The update factor is based upon the Hospital Market Basket (HMB) as published by CMS.

The final rule for federal fiscal year 2008, effective October 1, 2007, includes an update factor of 3.3% for hospital inpatient PPS payments. In addition, Medicare PPS revenue has been adjusted for changes to the wage index factor, implementation of the SNF transfer payment rule, and various other adjustments. For the forecast, Management has assumed that the PPS average payment would remain relatively flat with an overall average increase of 1.4%.

The amount of revenue from Medicare discharges included in the forecast has been adjusted to reflect the Orange Regional case mix index. CMS is required to adjust prices every year (through adjustment of the weights assigned various diagnosis groupings applied to payment rates) to take into effect changes in medical technology and productivity. Case mix was held constant throughout the forecast period.

CMS requires that capital-related payments be incorporated in the PPS at a rate which would maintain aggregate federal Medicare expenditures at the same level as if payments were made at the rate of reasonable cost less 10%. Management has assumed that inpatient capital reimbursement during the forecast period would be approximately 1.4% per year.

Medicare makes extra payments for outlier cases to offset the financial impact to hospitals of caring for extraordinarily costly Medicare beneficiaries. The operating and capital cost-to-charge ratios are based on the most recent filed cost report to determine outlier payments. Outlier payments are subject to reconciliation when the cost report corresponding with the outlier activity is settled using the actual information from the settled cost report. The final rule for federal fiscal year 2008, effective October 1, 2007, has the outlier threshold at \$22,460. Management has assumed no additional reimbursement for outlier payments during the forecast period.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (DIMA) added to Medicare beneficiaries a voluntary interim outpatient prescription drug discount card and a voluntary outpatient prescription drug benefit. DIMA also allows for additional payments to rural providers and modification of other hospital payments.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

DIMA also contains provisions relating to changes in Part A and Part B of the Medicare program. The changes most relevant to hospitals include the following:

- Payment updates, including the elimination of the “all other” standardized amount;
- Indirect Medical Education adjustment percentage;
- Wage index adjustment reclassification reform;
- One time appeal process for hospital wage index classification;
- Eighteen-month moratorium on new specialty hospitals;
- Critical access hospitals paid at 101% of costs;
- Hospital outpatient department payment reform; and
- Two-year moratorium on therapy caps.

Management has assumed no material change in Medicare reimbursement as it relates to DIMA.

CMS has changed the calculation of DRG weights resulting in a redistribution of Medicare inpatient hospital payments for fiscal year 2008. This impact is intended to affect trauma/surgical facilities with minimal to a potentially positive impact on community-based hospitals.

Since 2002, Orange Regional has been reclassified, for purposes of Medicare reimbursement, into the New York City core-based statistical area (CBSA) for wage index reimbursement. Such CBSA reclassifications are for a three-year period. At the expiration of each three-year period, Orange Regional has been successful in extending the term and is currently extended through the federal fiscal year ending September 30, 2010, which would be 12 consecutive years. The continuation of this reclassification throughout the forecast period has been assumed based on historical approvals. The annual impact of this reclassification is approximately \$11.0 million in net revenue.

Outpatient: The Medicare outpatient reimbursement system is based on approximately 660 Ambulatory Payment Classifications (APCs). These APCs are similar to inpatient DRGs in that payment is based on a patient’s diagnosis, acuity, and resources required to treat the patient. Based on the currently published APC update factors and proposed regulations, Management anticipates that outpatient reimbursement will increase at 1.1% per year. Through physician recruitment, a higher case mix is expected, but because the full impact of CMS regulations cannot be known, outpatient rates have been kept constant.

Medicaid

Orange Regional’s Medicaid activity is derived largely from patients that are part of the Title XIX program in New York. The Medicaid program in New York pays for inpatient claims based upon a DRG system, similar to Medicare, and pays for outpatient services based upon fee schedules. Medicaid inpatient and outpatient reimbursement rates are assumed to be relatively flat with an average increase of approximately 1.25% per year and an increase in capital costs due to the new construction project. Medicaid allows for a partial pass-through of new capital costs (depreciation and interest) due to the new Project. Accordingly, it has been assumed that

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Orange Regional should receive a capital add-on rate of approximately \$105 per patient day over the life of the debt.

Non Government (Commercial and Managed Care)

Orange Regional’s revenues from nongovernmental patients are forecasted based on negotiated rates and anticipated future trends. Most of the plans are reimbursed based on per diem payments. Several of Orange Regional’s contracts with health plans are multi-year agreements that expire at various points in the forecast period. Management has recently been able to obtain multi-year contracts with rates that represent substantial increases over historical experience. Management has assumed an average inpatient and outpatient increase by year as follows:

FORECASTED NON GOVERNMENT (COMMERCIAL AND MANAGED CARE)					
	2008	2009	2010	2011	2012
Percentages	9.8%	9.0%	7.8%	5.8%	5.8%

Uncompensated Care

As a matter of policy, Orange Regional provides significant amounts of partially or totally uncompensated patient care. For accounting purposes, such uncompensated care is treated either as charity care or bad debt expense. Orange Regional has defined charity care for accounting and disclosure purposes as the difference between its customary charges and the sliding scale rates given to patients in need of financial assistance, and payment of this difference is not sought. Uninsured patients who do not qualify for sliding scale fees are billed at the Medicare rate. Uncollected balances for these patients are categorized as bad debt. Rates are forecast to increase at approximately 1.25% per year.

OTHER REVENUE

Other revenue consists primarily of grants and contracts, amounts received from related organizations, cafeteria and vending revenue, rental income, investment income, net assets released from restrictions included in beneficial interest in net assets held by related organizations, and other revenue not classified as net patient service revenue. Cafeteria and vending, rental income, grants, and contracts and all other revenue are forecasted to remain relatively constant. Investment income is forecasted based on historical and anticipated experience of investment returns by asset account, with investment income based on assumed annual return of approximately 3.5% for cash and short-term investments, and an assumed 7.0% annual return for unrestricted investments.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

OPERATING EXPENSES

Orange Regional’s expenses were forecasted based upon historical experience using assumed fixed and variable relationships. Management plans on reducing its fixed expenses in the areas of professional salaries, supplies, and purchased services when it opens the new facility. These reductions approximate \$4.7 million in professional salaries, \$1.1 million in supplies, and \$3.8 million in purchased services and other expenses and are trended forward through the forecast period.

Salaries and Wages

Forecasted staffing levels include full-time equivalents (FTEs) relating to the Project, as well as forecasted FTEs added in normal business operations due to increased volume levels and the Medical Center’s planned operational efficiencies.

FORECASTED FTES PER ADJUSTED OCCUPIED BED					
	Year Ending December 31				
	2008	2009	2010	2011	2012
FTEs	2,156	2,175	2,192	2,147	2,170
FTE per Adjusted Occupied Bed	4.09	4.10	4.15	4.01	3.99

Forecasted expenses for salaries and wages were volume variable increased annually (for union and non-union workers) by 3.5% during the forecast period. In addition, Management’s planned operating efficiencies once the new facility is completed with forecasted saving of approximately \$4.7 million are included as a reduction of forecasted salaries and wages expenses beginning in 2011.

Management recognizes that improvements in productivity are necessary and expects to continue to challenge its staffing patterns in the years before opening the facility. Management has planned a reduction of approximately 100 FTEs for 2011. These FTEs have been estimated by Management on a departmental basis and incorporate the planned staffing efficiencies that can be achieved when combining two facilities into an efficiently designed new hospital.

Employee Benefits

Employee benefit expenses include Social Security taxes, unemployment compensation, worker’s compensation, medical health insurance, retirement benefits, disability and life insurance, dental insurance, and other miscellaneous benefits. The total of these items are based upon historical data and have been forecasted at a level of 32.7% in 2007 growing to 32.8% by 2012.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Supplies

Supplies expense includes medical/surgical and non-medical surgical supplies and is forecasted at 16.6% of net patient service revenue which is based upon historic experience. Management's planned operating efficiencies in supplies have been included in the forecast once the new facility is completed in 2011 and represent forecasted savings of approximately \$1.1 million.

Purchased Services and Other

Purchased services and other expenses include the expense categories shown below forecasted at their respective 2008 budget levels and annual inflation increases. Also, the Commissioner of the New York State Department of Health may impose an assessment of up to 0.2% annually of the original par amount of the Series 2008 Bonds. This amount is assessed annually, commencing upon occupancy date of the new facility until the ultimate discharge of the bond indebtedness. Management has assumed that such fee shall equal 0.1% annually, or approximately \$267,000, from 2011 through the forecast period.

PURCHASED SERVICES AND OTHER Annual Rate Increases	
Purchased Services	4.5%
Professional Fees	5.1%
Utilities	6.0%
Maintenance	5.0%
Equipment Rental	3.5%
Other Expenses	4.5%
Insurance	8.0%

Management's planned operating efficiencies in purchased services have been included in the forecast once the new facility is occupied and represent forecasted savings of approximately \$3.8 million.

Bad Debt

Forecasted bad debt expense was based on the historical percentage of net patient service revenue, anticipated trends and Management's forecasted bad debt experience. Management has assumed that bad debt would increase from 2.6% in 2008 increasing to approximately 2.8% NPSR by 2012 due to higher deductibles and co-insurance plans.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

Interest and Debt Financing

Orange Regional plans to finance the proposed construction project through Series 2008 Bonds assumed to be dated and issued on May 7, 2008, at an assumed annual interest rate of 6.95%. Principal payments are assumed to commence and be paid on December 1, 2011 and each year thereafter continuing to December 1, 2037 and interest payments are assumed to commence and will be paid on June 1 and December 1 of 2008 and each year thereafter continuing to December 1, 2037.

The interest rates, principal payments, funding requirements, issue costs, and other financial assumptions were provided by Orange Regional's lead underwriter, Merrill Lynch & Co. If actual interest rates, principal payments, and funding requirements are different from those assumed in this forecast, the amount of the proposed debt service requirements could require adjustments. If such interest rates, principal payments, and funding requirements are lower than those assumed in this forecast, then such adjustments should not adversely affect the forecast. Management estimates that for every 20 basis point difference in the interest rate an appropriate \$530,000 difference in interest expense would occur.

Property, Plant, and Equipment and Related Depreciation and Amortization

Forecasted land, buildings, and equipment and the depreciation expense related to such property consists of the anticipated capital expenditures (renewal and replacements) during the forecast period, and the equipment expected to be retained from current operations.

The useful lives are based upon estimates provided by Management based on current experience. Depreciation expense on these assets was computed using the straight-line method in accordance with policies established by Management and generally accepted accounting principles. Depreciation expense on existing assets is based on Orange Regional's existing property, plant, and equipment records.

Capital asset acquisitions after project completion are estimated by Management at \$10.0 million per year.

The total capitalized assets for the Project, including approximately \$39.9 million of net capitalized interest, are as follows (in thousands):

PROJECT PPE ADDITIONS (includes capitalized interest)				
	2008	2009	2010	2011
	<i>(In thousands)</i>			
Building	\$70,310	\$79,144	\$79,144	\$46,564
Equipment				\$33,045

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Depreciation of buildings and equipment related to the Project has been provided in the forecasted financial statements based upon the following estimated useful lives.

Buildings, improvements, and fixed equipment	30 years
Major movable equipment	7 years

Amortizable issuance costs related to the proposed financing are approximately \$9.3 million and are amortized over the life of the bonds.

Loss From Retirement of Debt

As part of the plan of financing for the Project, Management plans to retire the Series 2002 Bonds. The financing of the Project will take place during 2008 and as such the retirement of the Series 2002 Bonds will occur at that time. Accordingly, Management has determined this loss to be \$2,374,000.

Loss on Sale/Leaseback of Horton and Arden Hill

The Medical Center has finalized the sale of Arden Hill and Horton Campuses through a “sale/lease back” transaction with a local foundation. The Medical Center will have access to \$10,000,000 from the sale of these facilities upon the delivery date of the Series 2008 Bonds. Based upon this transaction a loss will occur (book value versus sale price of the properties) which has been estimated by Management to be approximately \$3,703,000 for 2008. In addition, Orange Regional will be paying \$325,000 annually to lease back the facilities from the foundation and is obligated for this sum through 2012. For 2008, eight months of this expense has been included in the expenses, with the full amount included every year thereafter.

ASSUMPTIONS FOR FORECASTED CONSOLIDATED BALANCE SHEETS

Assets, liabilities, and net assets were forecasted based on Orange Regional’s historical experience and anticipated future activity, and are summarized below.

Cash and cash equivalents are forecasted based upon an annual 3.5% return and forecast of operating profits.

Patient accounts receivable, net is forecasted based on the average days in net receivables (based on net patient service revenue) of 52.5 days.

Investment income on short-term investments is forecasted based on an annual 7.0% investment return and forecast of operating profits.

Other current assets consist primarily of inventories, deferred compensation, prepaid assets, and were held constant throughout the forecast period.

SUMMARY OF SIGNIFICANT ASSUMPTIONS ORANGE REGIONAL MEDICAL CENTER

Assets limited or restricted to use primarily include assets held by trustees under indenture agreements, unused lease line-of-credit agreements, and assets associated with the donor restricted net assets.

Interest in net assets of Orange Regional Medical Center Foundation, Inc., net is forecasted to remain constant based on historical experience.

Other assets, net consist primarily of deferred financing costs, of which the Project-related amounts were provided by Merrill Lynch & Co., and represent actual financing costs from previous bond issues and the forecast financing costs for this proposed Project, net of accumulated amortization of these costs.

Accounts payable and accrued expenses are forecasted based on 55 days of supplies and other expenses during the forecast period based on historical experience.

Estimated third-party payor liabilities, net represent obligations related to Orange Regional's relationships with third-party payors, including Medicare, Medicaid, and commercial insurance and managed care entities.

Other liabilities, net are forecasted to increase proportionally with operations during the forecast period.

Estimated self-insurance and other professional liabilities represent the liability associated with Orange Regional's partially self-insured medical malpractice, general liability, and workers' compensation plans. Forecasts are based upon adjusted patient days, FTEs, and relevant historical experience. Orange Regional maintains a limited use asset account for potential claims (see assets limited as to use).

Deferred revenue, net of current portion represents funds received from a mortgage refinancing.

Accrued retirement benefits comprise:

Accrued pension liability which represents the liability associated with Orange Regional's defined benefit pension plan and is held flat through the forecast period.

Accrued post retirement benefit cost which represents the liability associated with certain health care and life insurance benefits that Orange Regional provides to its retired nonunion employees. Forecasted amounts reflect historical funding activity and are based on Management's estimates of its obligations and funding levels.

SUMMARY OF SIGNIFICANT ASSUMPTIONS
ORANGE REGIONAL MEDICAL CENTER

FORECASTED DEBT SERVICE COVERAGE AND OTHER FINANCIAL RATIOS

The forecasted debt service coverage ratios are based upon the financial forecast and utilize Orange Regional's funds available for debt service. The forecasted debt service coverage ratios are presented for the forecast years during which the interest and principal payments are payable from Orange Regional's cash flows.

FORECASTED DEBT SERVICE COVERAGE RATIOS		
	Year Ending December 31	
	2011	2012
	<i>(In thousands)</i>	
Excess of revenues, gains, and other support over expenses	\$ 21,329	\$ 16,991
Plus:		
Depreciation and amortization	20,065	21,090
Interest expense	10,252	19,033
Income available for debt service (a)	51,646	57,114
Total debt service payments:		
Principal and Interest	22,265	22,270
Annual debt service (b)	\$ 22,265	\$ 22,270
Debt Service Coverage Ratio [(a) divided by (b)]	2.32	2.56

The above forecasted debt service coverage ratios should be considered in conjunction with this entire report to understand Orange Regional's financial requirements and the assumptions upon which the financial forecast is based. Also, below are some additional key financial ratios/indicators:

FORECASTED SELECTED FINANCIAL RATIOS/INDICATORS		
	Year Ending December 31	
	2011	2012
Operating margin	5.4%	4.0%
EBIDA margin	13.8%	14.6%
Debt/capitalization	57.2%	54.8%
Days cash and unrestricted investments on hand	144.6	161.1

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Appendix D

Summary of Certain Provisions of the Loan Agreement

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Loan Agreement pertaining to the Series 2008 Bonds. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A to this Official Statement.

Termination

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable thereunder by the Institution shall have been made or provision made for the payments thereof; provided, however, that the Loan Agreement provision with respect to arbitrage and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority shall deliver such documents as may be reasonably requested by the 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 38)

Construction of Projects

1. The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and under the Loan Agreement, the Institution shall complete or cause the completion of the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of each Project in connection with which the Authority has issued Bonds for the benefit of the Institution, substantially in accordance with the Contract Documents relating thereto or in the case of the refunding or defeasance of outstanding bonds or other undertaking of the Institution the Institution shall complete the refinancing or defeasance of such outstanding bonds or other indebtedness. Subject to the conditions thereof, the Authority will, to the extent of moneys available in the applicable 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 an Authorized Officer of the Authority and the Commissioner of Health.

2. (a) To the extent that moneys are available therefor, moneys in an Applicable Construction Fund shall be disbursed as the construction of the Project for which such fund was established progresses, but not more frequently than once each month, unless otherwise agreed to in writing by an Authorized Officer of the Authority, in amounts as shall be requested by the Institution pursuant to a request for disbursement as provided in the Loan Agreement, but not in excess of that amount reasonably determined by the Authority to be needed to reimburse the Institution for, or to pay, any costs and expenses constituting Costs of the Project previously paid or then due; provided, however, that the Authority may, in its sole discretion, withhold or delay

making any advance in connection with a Project or parts thereof at any time there is pending an action or proceeding, judicial or administrative, challenging the Institution's right to undertake such Project or such part thereof, or in which there is in issue (i) the validity of any governmental permit, consent or authorization, or the issuance thereof, necessary in connection with such Project or such part thereof, or (ii) the due authorization or validity of any Bonds issued in connection with such Project or such part thereof, unless the Institution has provided the Authority with security in such form and amount as may be reasonably required by an Authorized Officer of the Authority.

(b) Prior to making and delivering any certificate required pursuant to the Resolution to be delivered to the Trustee in connection with payments to be made pursuant to the Resolution, the Institution shall have submitted to the Authority and the Department of Health, and have received Authority and Department of Health approval with respect to, the form and substance of, a Project budget and shall deliver to the Authority and the Department of Health in connection with the delivery of each certificate required pursuant to the Resolution the following:

(1) a list of invoices, whether paid or unpaid, including, with respect to each invoice, the name of the vendor, a brief description of the goods or services, the amount of the invoice, a description of the building or buildings to which such payment relates, and, if such invoice has been paid, the date paid, the check number and the amount of the payment;

(2) copies of architect's certification(s), if any, relating to the invoices referenced in subsection (b)(1) above;

(3) a reconciliation of the approved budget with funds already disbursed together with funds requested for disbursement currently; all enclosed with

(4) a certificate executed by two (2) Authorized Officers of the Institution certifying, with respect to items 1, 2 and 3 above, that:

(A) The enclosed architect's certification(s) is (are) a true and correct copy of the architect's certification(s) received by the Institution for the work to which it relates;

(B) The enclosed reconciliation of the approved budget with funds already disbursed together with funds requested for disbursement currently is true and correct;

(C) Expenses or monies for which payment is requisitioned in the amount of [\$_____] have been incurred or expended for items which constitute Costs of the Project, as that term is defined in the Resolution, which Project has not been modified except as permitted by the Loan Agreement;

(D) Each amount for which payment is sought has not been the basis of any prior disbursement from the Construction Fund and the Project

has not been substantially completed as of the date of such certificate;

- (E) The payments being requisitioned are within the project budget submitted to and approved by the Authority in accordance with the provisions of the Loan Agreement, and to the best of the Authorized Officers' knowledge, the Project can be completed within budget;
- (F) The Institution has complied with all provisions of the Loan Agreement and the Tax Certificate, including, but not limited to those related to the use of the Project and certain prohibitions against use for sectarian religious instruction or religious worship and certain non tax-exempt purposes; and.
- (G) The Institution will retain all original documentation related to expenditures for items which constitute Costs of the Project for at least seven (7) years after completion of the Project for inspection at any time by the Authority, the Department of Health, or any representative of the Authority or the Department of Health.

(5) The Institution will receive the disbursements of moneys in each Applicable Construction Fund to be made under the Loan Agreement, and will hold the right to receive the same, as a trust fund for the purpose of paying the Costs of the Project for which each disbursement was made, and will apply or cause the same to be applied first to such payment before using any part thereof for any other purposes.

(6) The Institution shall permit the Authority, the Applicable Credit Facility Issuer, if any, the Department of Health and their authorized representatives, at any time upon notice and during normal business hours, to enter upon the property of the Institution or the Project to inspect the Project and all materials, fixtures and articles used or to be used in construction of the Projects, and to examine all Contract Documents. The Institution shall furnish to the Authority, the Applicable Credit Facility Issuer, if any, the Department of Health and their authorized representatives, when requested, copies of such Contract Documents. The Institution agrees to retain all documentation of expenditures for items which constitute Costs of the Projects for at least seven (7) years after the date of completion of the Project to which such documentation relates.

(7) An Authorized Officer of the Authority, in such Authorized Officer's sole and absolute discretion, may waive, from time to time, any of the conditions set forth in this summarized section other than conditions relating to the rights and authority of the Department of Health. Any such waiver shall not be deemed a waiver by the Authority of its right to thereafter require compliance with any such condition. The Institution acknowledges and agrees that disbursements from an Applicable Construction Fund are to be made by the Trustee and shall be made in accordance with the Resolution only upon receipt by the Trustee of the documents required by the Resolution to be executed and delivered in connection with such disbursements.

(8) A Project shall be deemed to be complete upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Institution, which certificate shall be delivered as soon as practicable after the completion of such Project, or upon delivery to the Trustee and the Institution of a certificate signed by an Authorized Officer of the Authority and delivered at any time after completion of such Project. Any such certificate shall comply with the requirements of the Resolution. The Authority agrees that it will not execute and deliver any such certificate unless the Authority has notified the Institution in writing that, in the judgment of the Authority and the Department of Health, such Project has been completed substantially in accordance with the plans and specifications for such Project and the Institution has failed to execute and deliver the certificate provided for in the Loan Agreement within thirty (30) days after such notice is given. The moneys, if any, remaining in the Applicable Construction Fund established for such Project after such Project has been deemed to be complete, shall be paid as provided in the Resolution.

(9) Notwithstanding the foregoing, if, on the date a Series of Bonds is issued or multiple Series of Bonds are issued, a Project in connection with which all or a portion of such Series of Bonds or multiple Series of Bonds are issued shall have been deemed to be complete as provided in the Loan Agreement or otherwise, the provisions of the Loan Agreement relating to the construction of Projects shall be inapplicable to such Project, unless such Project is amended to increase the scope thereof pursuant to the Loan Agreement, in which case the provisions thereof relating to the construction of Projects shall apply to such Project.

(Section 5)

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

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

(a) On or before the date of delivery of the Series 2008 Bonds, payment of the Authority Fee and payment of the Department of Health fee;

(b) On or before the date of delivery of Bonds of a Series, 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;

(c) On the tenth (10th) day of each month commencing on the tenth (10th) day of the sixth (6th) month immediately preceding the date on which such interest becomes due,

one-sixth (1/6) of the interest coming due on all Bonds issued by the Authority for the benefit of the Institution as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, 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 of a Series, 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 of such Series;

(d) On the tenth (10th) day of each month commencing on the tenth (10th) day of the twelfth month immediately preceding the December 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 issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, coming due on such December; provided, however, that, if there are less than twelve (12) such payment dates prior to the December on which principal or Sinking Fund Installments come due on Bonds of a Series, on each payment date prior to such December 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 December 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 December;

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof.

(f) On December 10 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with the Bonds issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee payable shall become effective, with respect to the Series 2008 Bonds, on December 10, 2008, and with respect to any other Series of Bonds on the date agreed to by the Institution and the Authority at the time the Bonds of such Series are issued; and, provided, further, that the Annual Administrative Fee with respect to the Series 2008 Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Series of Bonds multiplied by a fraction, the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to paragraph 5 below and any actual out of pocket 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 and the Obligation in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorneys fees in connection with performance of their duties under the Resolution, and (v) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds issued by the Authority for the benefit of the Institution, as more particularly set forth on Schedule C attached to the Loan Agreement and made a part thereof, or the financing or construction of a Project or Projects for the benefit of the Institution;

(h) On the date a Series of Bonds, other than the Series 2008 Bonds, is issued, an amount equal to the Authority Fee for such Series of Bonds;

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

(j) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Applicable Arbitrage Rebate Fund available to be rebated in connection with the Bonds of a Series 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 of such Series;

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

(l) On or before March 10, 2008 and on or before the tenth day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee as described in the regulations of the Commissioner of Health.

Subject to the provisions of the Resolution and the Loan Agreement, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to sub-paragraph (d) of paragraph 1 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 December 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such December 1. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority, under the Loan Agreement, directs the Institution, and the Institution agrees thereunder, to make the payments required by sub-paragraphs (c), (d), (e), (i), and (k) of paragraph 1 above directly to the Trustee for deposit and application in accordance with the Resolution, the payments required by sub-paragraph (b) of paragraph 1 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 sub-paragraphs (a), (f), (g) and (h) of paragraph 1 above directly to the Authority, the payments required by sub-paragraph (j) of paragraph 1 above to or upon the order of the Authority and the payments required by sub-paragraph (l) of paragraph 1 above, directly to the Commissioner of Health. In the event that the payments required to be made directly to the Trustee pursuant to the preceding sentence are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments shall be applied pro rata to each such Series of Bonds based upon the amount then due and payable on each Series of Bonds pursuant to sub-paragraphs (c), (d), (e), (i) and (k) of paragraph 1 above bears to the total amount then due and payable for all Series of Bonds, pursuant to such paragraphs of the Loan Agreement.

The Institution agrees that it shall also be obligated to make all payments when due on the Obligations to the applicable holders of the Obligations, and that the applicable holders shall be entitled to so receive all payments when due on the Obligations, it being the intention of the parties to the Loan Agreement that the Obligations and the Loan Agreement are separate (but not duplicative) obligations of the Institution (and, to the extent provided in the Obligations, of the Obligated Group), that payments by the Institution (or the Obligated Group) to the Trustee pursuant to the Obligation relating to the Series 2008 Bonds shall serve as a credit against amounts due from the Institution to the Authority pursuant to the Loan Agreement with regard to the Applicable Series of Bonds and that payments by the Institution to or upon the order of the Authority pursuant to the Loan Agreement shall serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the Applicable Obligation.

2. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for the Loan Agreement), all moneys paid by the Institution to the Trustee pursuant to the Loan Agreement or otherwise held by the Trustee shall be applied in reduction of the Institution's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with the 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 the Loan Agreement), (i) all moneys paid by the Institution to the Trustee pursuant to sub-paragraphs (c), (d), (e), (i), and (k) of paragraph 1 above (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the 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 (i) of this paragraph) held by it in the Applicable Construction Fund to the Applicable Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall 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 shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of each Applicable Series of Bonds or Applicable Credit Facility Issuer, as the case may be, regardless of the actual due date or applicable payment date of any payment to the Holders of each Applicable Series of Bonds.

3. The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement shall be complete and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the 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 a Project or the completion thereof with defects, failure of the Institution to occupy or use a 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 shall be construed to release the Authority from the performance of any agreements on its part in the Loan Agreement contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project(s), beyond the extent of moneys available in the Applicable Construction Fund established for such Project(s).

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

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

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

6. The Institution, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of an Authorized Officer of the Authority in the Applicable 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 a Applicable Debt Service Fund made pursuant to paragraph 2 above, 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)

Reserve Fund

1. Except to the extent a deposit is made to the Applicable Debt Service Reserve Fund upon the issuance of a Series of Bonds from the proceeds of the sale of such Bonds, simultaneously with the issuance of a Series of Bonds the Institution shall deliver to the Trustee for deposit in the Applicable Debt Service Reserve Fund, moneys, Government Obligations or Exempt Obligations the value of which is at least equal to its share of the Applicable Debt Service Reserve Fund Requirement. The Institution agrees that it will at all times provide funds to the Trustee sufficient to maintain on deposit in the Applicable Debt Service Reserve Fund an amount at least equal to its share of the Applicable Debt Service Reserve Fund Requirement; provided, however, that the Institution shall be required to deliver moneys, Government Obligations or Exempt Obligations to the Trustee for deposit in the Applicable Debt Service Reserve Fund as a result of a deficiency in such fund only upon receipt of the notice required by the Resolution.

Notwithstanding the foregoing, the Institution may deliver to the Trustee for deposit to the Applicable Debt Service Reserve Fund, letters of credit, surety bonds, or insurance policies for all or any part of the Applicable Debt Service Reserve Fund Requirement in accordance with and to the extent permitted by the Resolution.

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

3. All Government Obligations or Exempt Obligations deposited with the Trustee pursuant to the Loan Agreement for deposit to a Applicable Debt Service Reserve Fund shall be

fully negotiable (subject to provisions for registration thereof) and the principal thereof and the interest, dividends or other income payable with respect thereto shall be payable to bearer or to the registered owner. All Government Obligations or Exempt Obligations in registered form shall be registered in the name of the Trustee (in its fiduciary capacity) or its nominee. Record ownership of all Government Obligations or Exempt Obligations shall be transferred promptly following their delivery to the Trustee into the name of the Trustee (in its fiduciary capacity) or its nominee. Pursuant to the Loan Agreement, the Institution appoints the Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

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

(Section 10)

Consent to Pledge and Assignment by the Authority; Covenants, Representations, and Warranties

1. 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 sub-paragraphs (c), (d), (e), (i) and (k) of paragraphs 1 above under the heading "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. The Government Obligations or Exempt Obligations pursuant to paragraph 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above 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 shall 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 Loan Agreement, 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 or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Institution's obligation to make all payments required under the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan Agreement.

2. The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its Certificate of Incorporation and by-laws or resolutions duly adopted pursuant thereto to enter into the Loan Agreement, to incur the indebtedness contemplated thereby 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 or Exempt Obligations delivered pursuant to paragraph 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above in the manner and to the extent provided therein and in the Resolution. 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 Loan Agreement are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant to the Loan Agreement, 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 and thereof are and shall be valid and legally enforceable obligations of the Institution in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights. The Institution further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Government Obligations or Exempt Obligations delivered pursuant to paragraph 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above 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 thereof, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations or Exempt Obligations delivered to the Trustee pursuant to paragraph 1 above under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or under the heading "Reserve Fund" above, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the Certificate of Incorporation or by-laws of the Institution or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Institution is 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)

Maintenance of Corporate Existence

The Institution covenants that it will maintain its corporate existence, will continue to operate as a not-for-profit organization, 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 Projects by the Institution, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another

corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written approval shall have been obtained from the Authority and the Commissioner of Health, 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 exemption from federal income tax of the interest paid or payable on the Tax-Exempt Bonds, (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 and furnishes to the Authority and the Credit Facility Issuer a certificate to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Loan Agreement and shall meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, shall provide the Authority and the Credit Facility Issuer with such other certificates and opinions as may reasonably be required by the Authority. In addition to the foregoing, any sale, transfer, consolidation, merger or acquisition or any change in the operator or in the control of the Institution shall be subject to and shall be accomplished in compliance with applicable provisions of the New York State Public Health Law and regulations of the Department of Health.

(Section 15)

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 listing 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 shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act or enter into any agreement which could adversely affect the exclusion of interest on any of the Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 13)

Arbitrage

The Institution covenants that it shall 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 Series 2008 Bonds which are Tax-Exempt 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, which is incorporated in the Loan Agreement as if set forth fully therein. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Bonds (except in the case of a purchase in lieu of redemption) 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 regarding funds not in the Authority's possession to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution. The Institution shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirements.

(Section 31)

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 shall have sole and exclusive control of, possession of and responsibility for (i) any Project financed under the Loan Agreement; (ii) the operation of such Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of such Projects.

(Section 17)

Defaults and Remedies

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

(a) the Institution shall (i) default in the timely payment of any amount payable pursuant to the provisions of the Loan Agreement summarized under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" above (other than pursuant to paragraphs (1)(a) and (1)(l) thereof) 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 or (ii) default in the payment of any amount payable pursuant to paragraphs (1)(a) and (1)(l) under the heading "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" above;

(b) the Institution defaults in the due and punctual performance of any other covenant contained in the Loan Agreement and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given 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 shall 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;

(c) 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, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution and an "Event of Default" (as defined in the Resolution) shall have been declared under the Resolution so long as such default or Event of Default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Obligated Group shall be in default under the Master Indenture, and such default continues beyond any applicable grace period;

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

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

(g) the Certificate of Incorporation of the Institution shall be suspended or revoked;

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

(i) an order of dissolution of the Institution shall 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 shall remain undismissed or unstayed for an aggregate of thirty (30) days;

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

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

(l) a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Bonds shall be rendered against the Institution and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged, or (ii) the Institution shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within forty-five (45) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal.

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

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

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of 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 Obligation to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of the Master Indenture or the Applicable Obligation, as provided in the Master Indenture;

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

(f) to the extent permitted by law, (i) enter upon any Project and complete the construction of any Project in accordance with the plans and specifications with such changes

therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the Institution, consent to such entry being given by the Institution, (ii) at any time discontinue any work commenced in respect of the construction of any 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 any 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 any Project undertaken by the Authority pursuant to the provisions of the Loan Agreement, (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 a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution shall be liable to the Authority for all sums paid or incurred for construction of any Project whether the same shall be paid or incurred pursuant to the provisions of the Loan Agreement or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Institution to the Authority upon demand. For the purpose of exercising the rights granted by the Loan Agreement 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; and

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

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

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 the Loan Agreement and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

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

(Section 26)

Appendix E

Summary of Certain Provisions of the Resolution

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Resolution. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A to this Official Statement.

Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of 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 shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the 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 such Applicable Series authorized to be issued under the Resolution and under the Applicable Series Resolution by those who shall hold or own the same from time to time, the Resolution and the Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of such Applicable Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such 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)

Pledge of Revenues

The proceeds from the sale of an Applicable Series of Bonds, the Revenues and all funds authorized under the Resolution and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund or an Applicable Credit Facility Repayment Fund, are, 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 the Applicable Series Resolution. The pledge made pursuant to the Resolution, subject to the adoption of an Applicable Series Resolution, shall relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds. The pledge made pursuant to the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Revenues and all funds and

accounts established pursuant to the Resolution and pursuant to the Applicable Series Resolution which are pledged pursuant to the Resolution and pursuant to the Applicable Series Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds of each Applicable Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Revenues and the funds established pursuant to the Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Establishment of Funds

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established pursuant to the Resolution, 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;
Arbitrage Rebate Fund; and
Credit Facility Repayment 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 pursuant to the Resolution, other than the Applicable Arbitrage Rebate Fund and the Applicable Credit Facility Repayment Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely in connection with an Applicable Series of Bonds for the uses and purposes provided in the Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

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

Accrued interest, if any, received upon the delivery of an Applicable Series of Bonds shall be deposited in the appropriate account in the Applicable Debt Service Fund unless all or

any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Construction Fund

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 shall deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the appropriate account in the Applicable Construction Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from the Applicable Project.

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 shall be used only to pay the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project(s) in connection with which such Series of Bonds was issued.

3. Payments for Costs of an Applicable Project shall 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 shall be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Applicable 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 shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the 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 Applicable Institution with respect to an Applicable Project shall 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 Applicable Loan Agreement.

5. An Applicable Project shall 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 shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Applicable 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 shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Applicable Institution, shall specify the date of completion, or if any portion of the Project has been abandoned and will not be completed, shall so state.

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

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

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

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

(Section 5.04)

Enforcement of Obligations, Deposit of Revenues and Allocation Thereof

1. To the extent an Applicable Institution fails to make any timely payment with respect to a Series of Bonds 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 shall promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

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

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

Payments then unpaid to the Applicable Facility Provider, if any in connection with such Series of Bonds;

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 pursuant to 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 the Resolution.

3. After making the payments required by paragraph 1 above, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Applicable Construction Fund or the Applicable Debt Service Fund, or paid to the Applicable Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created pursuant to the Resolution. The Trustee shall notify the Authority and the Institution promptly after making the payments required by paragraph 1 above, 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 shall be applied pro rata to each such Series of Bonds based upon the amounts then due and payable.

(Section 5.05)

Debt Service Fund

1. The Trustee shall on or before the business day preceding each interest payment date with respect to a Series of Bonds, as required by the Applicable Series Resolution or Applicable Bond Series Certificate, 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 summarized section shall be irrevocably pledged to and applied to such payments.

2. In the event that on the fourth business day preceding any Interest Payment Date for a Series of Bonds the amount in the Applicable Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or for the payment of the Purchase Price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall withdraw from the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments. The Trustee shall notify the Authority, the Applicable Facility Provider, if any, Credit Facility Issuer, if any, Master Trustee, Obligated Group Representative of a withdrawal from the Applicable Debt Service Reserve Fund.

3. Notwithstanding the provisions of paragraph 1 above, 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 a Member of the Obligated Group and delivered to the Trustee in accordance with the Applicable Loan Agreement shall be canceled upon receipt thereof by such Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

4. Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of the Outstanding Bonds of the Applicable Series of Bonds payable on or prior to the next succeeding principal payment date, the interest on such Applicable Outstanding Bonds payable on the earlier of the next succeeding interest payment date, assuming that a Variable Interest Rate Bond will bear interest, from and after the next date on which the rate at which such Variable Interest Rate Bond bears interest is to be adjusted, at a rate per annum equal to the rate per annum at which such Bonds then bear interest plus one percent (1%) per annum, and the Purchase Price or Redemption Price of Applicable

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

(Section 5.06)

Debt Service Reserve Fund

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

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

Moody's and S&P or, if such Outstanding Bonds are not rated by Moody's and S&P, by whichever of said rating services that then rates such Outstanding Bonds.

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

Notwithstanding the foregoing, if at any time after a Reserve Fund Facility has been deposited with the Trustee the unsecured or uncollateralized long term debt of the Facility Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Facility Provider is reduced below the ratings required by the second preceding paragraph, the Authority shall, unless at the time such ratings are reduced such Facility Provider is the Credit Facility Issuer of all Outstanding Bonds of the Applicable Series, either (i) replace or cause to be replaced said Reserve Fund Facility with another Reserve Fund Facility which satisfies the requirements of the second preceding paragraph or (ii) deposit or cause to be deposited in the Applicable Debt Service Reserve Fund an amount of moneys, Government Obligations or Exempt Obligations which meet the requirements of the Resolution which is equal to the value of the Reserve Fund Facility of such Facility Provider, such deposits to be, as nearly as practicable, in ten (10) equal semi-annual installments commencing on the earlier of the June 1 or December 1 next succeeding the reduction in said ratings.

Each such Reserve Fund Facility shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Applicable Debt Service Reserve Fund and such withdrawal cannot be made without obtaining payment under such Reserve Fund Facility.

For the purposes of the Resolution, in computing the amount on deposit in the Applicable Debt Service Reserve Fund, a Reserve Fund Facility shall be valued at the amount available to be paid thereunder on the date of computation; provided that, if the unsecured or uncollateralized long term debt of such Facility Provider, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Facility Provider has been reduced below the ratings required by the Resolution, said Reserve Fund Facility shall be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of which is the aggregate number of interest payment dates which has elapsed since such ratings were reduced and the denominator of which is ten.

2. Moneys held for the credit of the Applicable Debt Service Reserve Fund shall be withdrawn by the Trustee and deposited to the credit of the Applicable Debt Service Fund at the times and in the amounts required to comply with the provisions of the Resolution; provided that no payment under an Applicable Reserve Fund Facility shall be sought unless and until moneys are not available in the Applicable Debt Service Reserve Fund and the amount required to be withdrawn from the Applicable Debt Service Reserve Fund pursuant to this paragraph cannot be withdrawn therefrom without obtaining payment under such Reserve Fund Facility; provided further, that, if more than one Reserve Fund Facility is held for the credit of the Applicable Debt Service Reserve Fund at the time moneys are to be withdrawn therefrom, the Trustee shall obtain payment under each such Reserve Fund Facility, pro rata, based upon the respective amounts then available to be paid thereunder. The Trustee shall provide notification as set forth in the Resolution of any withdrawal of moneys from the Debt Service Reserve Fund or payment of a Reserve Fund Facility immediately upon such withdrawal or payment.

With respect to any demand for payment under any Reserve Fund Facility, the Trustee shall make such demand for payment in accordance with the terms of such Reserve Fund Facility at the earliest time provided therein to assure the availability of moneys on the interest payment date for which such moneys are required.

3. (a) Moneys and investments held for the credit of an Applicable Debt Service Reserve Fund in excess of the Applicable Debt Service Reserve Fund Requirement, upon direction of an Authorized Officer of the Authority, shall be withdrawn by the Trustee and (i) deposited in the Applicable Arbitrage Rebate Fund, the Applicable Debt Service Fund or the Applicable Construction Fund, (ii) paid to the Applicable Institution or (iii) applied by the Authority to pay the principal or Redemption Price of and interest on bonds of the Authority issued in connection with the Applicable Institution pursuant to resolutions other than the Resolution, in accordance with such direction; provided, however, with respect to Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes, that no such amount shall be withdrawn and deposited, paid or applied unless in the opinion of Bond Counsel such deposit, payment or application will not adversely affect the exclusion of interest on any such Bonds from gross income for federal income tax purposes.

(b) Notwithstanding the provisions of the Resolution, if, upon a Bond having been deemed to have been paid in accordance with the Resolution or redeemed prior to maturity from the proceeds of Bonds, bonds, notes or other obligations issued for such purpose, the moneys and investments held for the credit of the Applicable Debt Service Reserve Fund will exceed the Applicable Debt Service Reserve Fund Requirement, then the Trustee shall, simultaneously with such redemption or a deposit made in accordance with the Resolution, withdraw all or any portion of such excess from the Applicable Debt Service Reserve Fund upon the direction of an Authorized Officer of the Authority and either (i) apply such amount to the payment of the principal or Redemption Price of and interest on such Bond in accordance with the irrevocable instructions of the Authority or (ii) fund any reserve for the payment of the principal and sinking fund installments of or interest on the bonds, notes or other obligations, if any, issued to provide for payment of such Bond if, in the opinion of Bond Counsel, application of such moneys to the use authorized in this clause (ii) will not adversely affect the exclusion of interest on any Applicable Bonds from gross income for federal income tax purposes, or (iii) pay such amount to the Authority for deposit to the Applicable Construction Fund if, in the opinion of Bond Counsel,

application of such moneys to the payment of Costs of the Project(s) will not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes; provided that after such withdrawal the amount remaining in the Applicable Debt Service Reserve Fund shall not be less than the Applicable Debt Service Reserve Fund Requirement.

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

(Section 5.07)

Arbitrage Rebate Fund

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

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

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

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions 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 relating to a Series of Bonds and the Applicable Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds be redeemable, the Trustee shall so notify the Authority and the Applicable Institution. Upon receipt of such notice, the Authority shall request the Trustee to redeem all such Outstanding Bonds unless the Applicable Institution or Obligated Group Representative objects in writing within five (5) Business Days of receiving notice of such request. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds 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 of a Series of Bonds in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under the Resolution, any other Permitted Investment; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution; provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

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

3. In computing the amount in any fund held by the Trustee under the provisions of the Resolution, each Permitted Investment purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Applicable Debt Service Reserve Fund shall be valued

at the market value thereof, plus accrued interest and except that Investment Agreements shall be valued at original cost, plus accrued interest.

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

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

(Section 6.02)

Security for Deposits

All moneys held under the Resolution by the Trustee of a Series of Bonds shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Applicable Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee of a Series of Bonds or any Paying Agent of a Series of Bonds to give security for the deposit of any moneys with them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Applicable Series of Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

(Section 6.01)

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 summarized 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.

1. With respect to Refunding Bonds issued to refund all or any portion of any Series of Outstanding Bonds or to refund all or a portion of one or more series of Bonds, the Refunding Bonds of such Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by the Resolution for the issuance of a Series of Bonds) of:
 - a. If the Bonds to be refunded are to be redeemed, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds, as the case may be, to be refunded on a redemption date specified in such instructions;
 - b. Irrevocable instructions to the Trustee, satisfactory to it, to mail the notice provided for in the Resolution to the Holders of the Bonds being refunded;
 - c. Either or both of (1) moneys in an amount sufficient to effect payment of the principal at the maturity date therefor or the Redemption Price on the applicable redemption date of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which money shall be held by the Trustee or any one or more of the Paying Agents or such other fiduciary appointed by the Authority in a separate account irrevocably in trust for and assigned to the respective Holders of the Applicable Bonds to be refunded and (2) Defeasance Securities in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the Resolution or the resolution authorizing such Bonds, as may be applicable, which Defeasance Securities and moneys shall be held in trust and used only as provided in the Resolution; and

- d. A certificate of the Authority containing such additional statements as may be reasonably necessary to show compliance with the requirements of this summarized section.

The proceeds, including accrued interest, of such Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or determined in accordance with the Series Resolution authorizing such Refunding Bonds.

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

(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 any Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of any Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to any Applicable Series Resolution.

(Section 2.05)

Tax Exemption: Rebates

Except as otherwise provided in an Applicable Series Resolution, in order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Tax-Exempt Bonds of each Applicable Series, the Authority shall comply with the provisions of the Code applicable to the Bonds of each Applicable Series of Tax-Exempt Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each Applicable Series of Bonds, reporting of earnings on the Gross Proceeds 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 otherwise provided in the Resolution the Authority shall 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 shall 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 shall 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 summarized section or of the Code.

(Section 7.11)

Events of Default

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

- (a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments, Purchase Price or Redemption Price of any such Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or
- (b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same shall become due and payable; or
- (c) With respect to the Applicable Series of Tax-Exempt Bonds, the Authority shall default in the due and punctual performance of the covenants contained in the Resolution with respect to such tax exemption and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or
- (d) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee (unless such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof), which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series with the prior written consent of the Applicable Credit Facility Issuer; or

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

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

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in the summarized section of the Resolution immediately above, other than an event of default specified in paragraph (c) of the summarized section of the Resolution immediately above, then and in every such case the Trustee may, and, upon the written request of (i) the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of an Applicable Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers, if any, have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Applicable Outstanding Bonds due upon the acceleration thereof, upon the request of an Applicable Credit Facility Issuer, if any, or Applicable Credit Facility Issuers, if any, making such deposit, shall: (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of the Applicable Series 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 shall become and be immediately due and payable, anything in the Resolution or in any Applicable Series Resolution or in the Bonds to the contrary notwithstanding. In the event that an Applicable Credit Facility Issuer shall make any payments of principal of or interest on any Bonds of the Applicable Series pursuant to an Applicable Credit Facility and the Bonds of the Applicable Series are accelerated, such Applicable 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 of the Applicable Series prior to the stated maturity dates thereof. At any time after the principal of the Bonds of the Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee shall, with the prior written consent of Applicable Credit Facility Issuers, if any, which have issued Applicable 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 prior written consent of the Applicable Credit Facility Issuers, if any, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Fund

sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this summarized section) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in 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 summarized section) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee of a Series of Bonds may proceed, and upon the written request of the Applicable Credit Facility Issuers, if any, which have issued Applicable 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 Applicable 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 summarized section of the Resolution above under the heading "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 Applicable Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, shall proceed (subject to the provisions of the Resolution with respect to compensation of the Trustee), to protect and enforce its rights and the rights of the Bondholders or of such Applicable Facility Provider, if any, under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under the Applicable Series Resolution or in aid or execution of any power granted in the Resolution or Applicable Series Resolution, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Applicable Series Resolution or of the Applicable Series of 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 Applicable 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 Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the prior written consent of the Applicable Credit Facility Issuers, if any, or, in the case of an event of default specified in paragraph (c) of the summarized section of the Resolution above under the heading "Events of Default", the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series with the prior written consent of the Applicable Credit Facility Issuers, if any, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under the Applicable Series Resolution, provided, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of the Applicable Series Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

Neither any Holder nor any Applicable Credit Facility Issuer with respect to any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder or Applicable Credit Facility Issuer previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the prior written consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) of the summarized section of the Resolution above under the heading "Events of Default", the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series with the prior written consent of the Applicable Credit Facility Issuer, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Such notification, request and offer of indemnity are 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 thereunder or under the Resolution. It is understood and intended that no one (1) or more of the Applicable Credit Facility Issuers of an Applicable Series secured by the Resolution and by an Applicable Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of an Applicable Series shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time, with prior written notice to the Applicable Credit Facility Issuer, if any, Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

- (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 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 shall not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of

the date of adoption of such Supplemental Resolution shall cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(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 shall not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(Section 9.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution and an Applicable Series Resolution may also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders in accordance with and subject to the provisions of Article 10 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)

Amendment of Loan Agreements and Master Indenture

The Authority may not amend, change, modify, alter or terminate a Loan Agreement or consent to the amendment, change, modification, alteration or termination of the Master Indenture or an Applicable Supplemental Indenture, in either case so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, with the prior written consent of the Applicable Credit Facility Issuer, if any, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding, with the prior written consent of each Applicable Credit Facility Issuer, if any; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any such specified Series remain Outstanding, the consent of the Holders of such Bonds and each Applicable Credit Facility Issuer, if any, shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this summarized section; provided, further, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by an Applicable Institution under its Applicable Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof or reduce the amount of any payment

required to be made under the Obligations held by the Authority. Notwithstanding any provision of this summarized section to the contrary, the Authority may consent to the waiver, amendment or removal of any covenant which, pursuant to the Master Indenture, may be waived by the Authority without the consent of the Holders of the Bonds or the Trustee. A Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Applicable Projects or which may be added to or adjacent to the Applicable Projects or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in an Applicable Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement. Subject to the Resolution, if an Applicable Loan Agreement or the Master Indenture or an Applicable Supplemental Indenture expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement or the Master Indenture or an Applicable Supplemental Indenture, such consent shall be required to be obtained as provided in such Loan Agreement or the Master Indenture or such Supplemental Indenture. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

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

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

(Section 7.09)

Defeasance

1. If the Authority shall pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds shall be discharged and satisfied, and the right, title and interest of the Trustee in the Applicable Loan Agreement, and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Trustee, on demand of the Authority, shall release the lien of the

Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and securities provided for the payment of such Bonds, and shall execute such documents to evidence such release as may be reasonably required by the Authority and the Obligated Group and shall turn over to the Obligated Group or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Trustee may reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; provided that if any, of such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice shall have been given to the Trustee.

2. Bonds of an Applicable Series for which moneys shall have been set aside, shall be held in trust by the Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 above. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in Article 4 of the Resolution, notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this summarized 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 shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with this summarized section. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with this summarized section in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant

to this summarized section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in the Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amount required to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, as directed by the Authority and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

3. For purposes of determining whether Variable Interest Rate bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance securities and moneys, if any, in accordance with clause (b) of the second sentence of paragraph (2) above, the interest to come due on such Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate bonds in order to satisfy clause (b) of the second sentence of paragraph (2) above, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement. Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or 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 any Applicable Paying Agent at such date, shall at the written request of the Authority, be repaid by the Trustee or the Applicable Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or the Applicable Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after

the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

4. No principal or Sinking Fund Installment of or installment of interest on a Bond shall be considered to have been paid, and the obligation of the Authority for the payment thereof shall continue, notwithstanding that an Applicable Credit Facility Issuer, if any, pursuant to the Applicable 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 of a Series of Bonds becoming effective under the Resolution, each Applicable Credit Facility Issuer shall have received (a) the final official statement delivered in connection with the refunding of such Series 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 Applicable Credit Facility Issuer, and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to such Applicable 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 Applicable 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)

Appendix F

**Summary of Certain Provisions of the
Master Trust Indenture and Supplemental Indenture**

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SUPPLEMENTAL INDENTURE

The Master Trust Indenture, as modified by the Supplemental Indenture for Obligation No. 1, contains terms and conditions relating to the issuance and sale of Obligations under it, including various 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, as modified by the Supplemental Indenture, to which reference is made, copies of which are available from the Authority or the Trustee. In addition to the other terms defined in this Official Statement, this summary uses various terms defined in the Master Trust Indenture and the Supplemental Indenture and such terms as used in the Master Trust Indenture and the Supplemental Indenture will have the meanings ascribed to them below.

MASTER TRUST INDENTURE

Definitions

“Additional Indebtedness” means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of Obligation No. 1 under this Master Indenture or incurred by a new 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 directly or indirectly controls, is controlled by or is under common control with a Member, including the Obligated Group Representative. 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.

“Arden Hill Campus” means ORMC’s Health Care Facility located at 4 Harriman Drive, Goshen, NY 10924.

“Audited Financial Statements” means, as to any Member of the Obligated Group, financial statements for the Fiscal Year, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants. Audited Financial Statements of the Obligated Group shall also consist of, in an additional information section, unaudited combining financial statements for the Fiscal Year from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not already included have been added.

“Authority” means the Dormitory Authority of the State of New York and any successor thereto.

“Authorized Representative” shall mean, with respect to a Member, including the Obligated Group Representative, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer, or any other person or persons designated an Authorized Representative of such Member

by an Officer's Certificate of such Member, signed by the Chairperson of its Governing Body or its chief executive officer or its chief financial officer and filed with the Master Trustee.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness other than a Demand Obligation twenty-five percent (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 other financial institution of national repute for having the skill and experience necessary to render the particular report required by the provision hereof 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.

"Corporate Charter" means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

"Corporate Trust Office" means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located at One M&T Plaza, Buffalo, NY 14203.

"Covered Obligation" means Obligation No. 1 and any other Obligation issued pursuant to a Supplement which provides that the Obligation shall be secured by a Mortgage.

"Credit Facility" means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement, surety bond or similar credit enhancement or liquidity facility, if any, established in connection with the issuance of Indebtedness or Related Bonds to provide credit or liquidity support for such Indebtedness or Related Bonds.

"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; provided, however, in the case of a Demand Obligation that is secured by a Credit Facility that provides credit support and a separate Credit Facility that provides liquidity support, references herein to the Credit Facility Provider shall, unless explicitly stated otherwise herein or in the applicable

supplement, be deemed to refer only to the provider of the Credit Facility providing credit support and not the provider of the liquidity facility.

“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.

“Current Annual Debt Service” means the scheduled principal and interest payments during the then-current fiscal year on all Long-Term Debt Outstanding and excludes funds on deposit with a Related Bond Trustee for the payment of debt service.

“Days Cash On Hand” means the quotient produced by dividing the sum of unrestricted cash, investments and board designated funds (excluding 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) by operating expenses minus depreciation and amortization, and then multiplying the quotient by 365.

“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, and (iii) Defeased Municipal Obligations.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers rated the highest rating by Moodys, S&P, or Fitch, 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 noncallable, nonprepayable Government Obligations, the maturing principal of and interest on such Government Obligations, when due and payable, shall provide sufficient money to pay, on the due dates thereof, 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 have been discharged, or provision for the discharge of which have 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,

(i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;

(ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;

(iii) any contract to exchange cash flows or payments or series of payments;

(iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and

(v) any other type of contract or arrangement that the Obligated Group or 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 Extraordinary Payment” means any payment required to be paid by a Member of the Obligated Group to a counterparty pursuant to a Derivative Agreement in connection with the termination thereof.

“Derivative Period” means the period during which a Derivative Agreement is in effect.

“Disclosure Dissemination Agent” means Digital Assurance Certification, LLC, and any other person, firm, association or corporation designated as the disclosure dissemination agent in an agreement to provide continuing disclosure for Related Bonds pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934.

“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 Section 4.01 of this Master Indenture.

“Excluded Property” means any real Property that does not constitute Health Care Facilities of the Obligated Group. Excluded Property includes the real Property constituting the Arden Hill Campus and the real property constituting the Horton Campus, which real Property is not owned by ORMC.

“Fiscal Year” means the fiscal year of each Member of the Obligated Group, which shall 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 shall be the period set forth in such notice.

“Fitch” means Fitch Inc., its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall 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, including 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 are exercised.

“Government Obligations” mean (i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (ii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United State of America, or (iv) stripped securities where the principal-only and interest-only strips of non-callable obligations are issued by the United States Treasury Department or interest portions of REFCORP securities stripped by the Federal Reserve Bank of New York.

“Governmental Restrictions” means federal, state or other applicable governmental laws or regulations, affecting any Member of the Obligated Group and its Health Care Facilities including but not limited to (i) Articles 28 and 28-B of the Public Health Law, and (ii) those placing restrictions and limitations on the (a) fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (b) the amount or timing of the receipt of such fees or charges.

“Gross Receipts” means all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, 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 intangibles, general intangibles, health care insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, 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 shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (a) paying debt service on an Obligation or (b) meeting any commitment of a Member under a Related Loan Agreement; (ii) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, whether now owned or hereafter acquired, derived from the Excluded Property which constitutes real property other than the Arden Hill Campus or the Horton Campus, and all rights to receive the same whether in the form of accounts, payment intangibles, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, health-care-insurance receivables and the proceeds thereof as such terms are presently or hereinafter defined in the New York Uniform Commercial Code; (iii) any insurance or condemnation proceeds received for Excluded Property which constitutes real property other than the Arden Hill Campus or the Horton Campus; (iv) any insurance or condemnation proceeds that is received for a Health Care Facility if, such proceeds are applied in accordance with Section 3.04(a), or(e) of this Master Indenture; and (v) insurance proceeds relating to assets subject to a capital lease permitted under this Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee.

“Gross Receipts Revenue Fund” means the fund established pursuant to Section 4.03 hereof.

“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 hereunder. For the purposes of this Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, 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 twenty percent (20%) of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty shall 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 Requirement), provided that if there shall 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 indebtedness, one hundred percent (100%) of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account. Any Guaranty that is an obligation of more than one Member of the Obligated Group shall be counted only once for purposes of any test herein.

“Health Care Facilities” means the Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. Any facility whose primary function or functions is other than providing health care services and which has incidental health care services provided on its premises, shall not be deemed to be Health Care Facilities.

“Historic Audit Period” means the period of twelve (12) full consecutive months that have ended not more than eighteen (18) calendar months prior to the date of the Officer’s Certificate being provided for which there are Audited Financial Statements available.

“Holder” means an owner of any Obligation issued in other than bearer form.

“Horton Campus” means ORMC’s Health Care Facility located at 60 Prospect Avenue, Middletown, NY 10940 .

“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 (i) no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) unrealized gains and losses on investments of a Member of the Obligated Group or (c) losses resulting from any reappraisal, revaluation or write-down of assets for such period, including without limitation the other-than-temporary impairment of assets or the change in value of any Derivative Agreement, and (ii) revenues shall 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 shall 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 or any captive insurance company, the term “Insurance Consultant” shall 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.

“Long-Term Debt Service Coverage Ratio” means for any period of time the ratio determined by dividing 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, but in so doing 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 over a period of thirty (30) years on a level debt service basis at an interest rate equal to [x] the rate borne by such Indebtedness on the date calculated, or [y] if Variable Rate Indebtedness, at an interest rate determined in accordance with the definition thereof, 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 shall be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit, a standby bond purchase agreement, or surety bond issued by, or an irrevocable line of credit with, a financial institution rated at least “A” by Moodys, 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 Bests 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, standby bond purchase agreement, surety bond, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, standby bond purchase agreement, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

(ii) (A) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), (B) with respect to new Variable Rate

Indebtedness (and the incurrence thereof) of proposed tax-exempt debt, the interest rate for such Indebtedness for the initial calculation period should be equal to the average rate for the most recent ten (10) years (or such lesser period of which data are available but not less than five (5) years) of the Securities Industry and Financial Markets Association (“SIFMA”) Tax Exempt Index of maturities most closely corresponding to, but within seven (7) days of, the interest rate period applicable to or proposed for the Variable Rate Indebtedness at the time such calculation is made or any successor or similar index chosen by the Obligated Group Representative; provided that such successor or similar index shall be reasonably acceptable to all Related Bond Issuers and all Related Credit Facility Issuers, and in the event that there is no SIFMA Tax-Exempt Index or no acceptable substitute index, the assumed rate will be the Bond Buyer 25 Revenue Bond Index; and (C) with respect to new Variable Rate Indebtedness (and the incurrence thereof) of proposed taxable debt, the interest rate for such Indebtedness for the initial calculation period shall be equal to the prime rate of the Master Trustee for the most recent twelve (12) month period.

(iii) with respect to any Credit Facility, to the extent that such Credit Facility has either (A) not been used or drawn upon, or (B) if drawn upon, to the extent that it has been reinstated, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement;

(iv) with respect to any guaranties, the principal and interest relating to the Indebtedness which is guaranteed shall be included in accordance with the Definition of “Guaranty” in Section 1.01 hereof;

(v) with respect to Indebtedness for which a Member of the Obligated Group shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness (as evidenced by a certificate filed with the Master Trustee specifying that the Derivative Agreement relates to all or a portion of such Indebtedness, which certificate may be provided at the time of or after the issuance of such Indebtedness), the principal or notional amount of such Derivative Agreement shall 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 shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms, and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement, and subtracting (z) the amount of interest payable to the Member of the Obligated Group by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement; provided that (1) any Derivative Extraordinary Payment payable by a Member of the Obligated Group shall not constitute Long-Term Indebtedness; and (2) any interest bearing a variable rate of interest on either the underlying Indebtedness or under the Derivative Agreement shall be calculated in accordance with the requirements for Variable Rate Indebtedness set forth in clause (ii) hereof and provided, further, 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 shall be the interest calculated as if such Derivative Agreement had not been executed;

(vi) with respect to a Derivative Agreement that has not been certified in the manner described in paragraph (v) above as relating to underlying Indebtedness which has been entered into by any Member of the Obligated Group and which is secured by an Obligation, the principal or notional amount of such Derivative Agreement shall 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, shall be calculated by taking (y) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (z) the amount of interest payable by the counterparty of the Derivative

Agreement at the rate specified in the Derivative Agreement provided that (1) any Derivative Extraordinary Payment payable by a Member of the Obligated Group shall not constitute Long-Term Indebtedness; and (2) any interest bearing a variable rate of interest on the Derivative Agreement shall be calculated in accordance with the requirements for Variable Rate Indebtedness set forth in clause (ii) hereof and provided, further, 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 shall be the interest calculated as if such Derivative Agreement had not been executed; and

(vii) with respect to Escrowed Interest and Escrowed Principal, such Escrowed Interest and Escrowed Principal shall be excluded from the determination of Long-Term Debt Service Requirement; and in no event shall 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 in connection with the calculation of Long-Term Debt Service Requirement.

“Long-Term Indebtedness” means all Indebtedness (other than Indebtedness for which the timely payment of the principal of and interest on which has been provided for from the deposit of Defeasance Obligations) having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including without duplication:

(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 Indenture” means this Master Trust Indenture, including any amendments, modifications, or supplements hereto and/or restatements hereof.

“Master Trustee” means the Person identified as Master Trustee in the first paragraph of this Master Indenture, and its successors in the trusts created under this Master Indenture.

“Maximum Annual Debt Service” means, except as set forth in the next sentence, the highest Long-Term Debt Service Requirement for the current or any succeeding Fiscal Year. In calculating the Maximum Annual Debt Service for any Indebtedness that is incurred for the construction or completion of a Capital Addition, during the construction or completion of the Capital Addition, the Maximum Annual Debt Service for such Indebtedness means the scheduled principal and interest payments on such Indebtedness during the then-current Fiscal Year; and (ii) commencing with the Fiscal Year following completion of the Capital Addition, Maximum Annual Debt Service for such Indebtedness means the highest scheduled principal and interest payments on such Indebtedness during the then-current or any succeeding Fiscal Year.

“Member of the Obligated Group” or “Member” means Orange Regional Medical Center and any other Person becoming a Member of the Obligated Group pursuant to Section 3.11 hereof.

“Moody’s” means Moody’s Investors Service, Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

“Mortgage” means a mortgage by and between a Member and the Master Trustee which secures one or more Covered Obligations.

“Mortgaged Property” means any and all Property, whether real, personal or mixed, and all rights and interest in and to the Property, which is subject to the liens and security interests created under a Mortgage.

“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 at the time of reference.

“Obligated Group Representative” shall mean Orange Regional Medical Center or its successor.

“Obligation” means the evidence of particular Indebtedness issued under this Master Indenture as a joint and several obligation of each Member of the Obligated Group authenticated pursuant to Section 2.04 hereof or a Derivative Agreement which is authenticated as an Obligation pursuant to Section 2.07 hereof.

“Officer’s Certificate” means a certificate signed by the Authorized Representative of a Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer’s Certificate presented pursuant to this Master Indenture shall identify the section or subsection of this Master Indenture pursuant to which it is being delivered, and shall incorporate by reference and use in all appropriate instances all terms defined in, this Master Indenture.

“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, unimproved real property and other Property held for investment purposes.

“Operating Expense” means the sum of total expenses, minus depreciation, amortization and other non-cash expenses, for the applicable Fiscal Year or twelve-month period for which such calculation is to be made, all as determined in accordance with generally accepted accounting principles.

“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, subject to the provisions of Section 8.02 hereof, (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 or no longer outstanding under the documents pursuant to which such Indebtedness was incurred.

“Partial Release Counterparty” has the meaning given in Section 3.14 hereof.

“Partial Mortgage Release Master Trustee Documents” has the meaning given in Section 3.14 hereof.

“Partial Release Parcel” has the meaning given in Section 3.14 hereof.

“Permitted Liens” has the meaning given in Section 3.05 hereof.

“Permitted Partial Mortgage Release” has the meaning given in Section 3.14 hereof.

“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, including without limitation, the Authority.

“Related Bonds” means the revenue bonds or other obligations issued by a Member or 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, pursuant to a Related Bond Indenture, the proceeds of which were or are loaned or otherwise made available to a Member of the Obligated Group and which are secured by an Obligation executed, authenticated and delivered to or for the order of such Related Bond Issuer.

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture.

“Related Credit Facility” means a credit facility, issued by a Related Credit Facility Issuer, which serves as credit enhancement or credit enhancement and liquidity for Related Bonds.

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

“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, sublease agreement, or any similar instrument relating to the loan or other provision of proceeds of Related Bonds to a Member of the Obligated Group or otherwise providing funds to a Member of the Obligated Group for which an Obligation is issued to secure repayment of such funds.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

“Short-Term Indebtedness” means all Indebtedness that is not Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group.

“State” means the State of New York and its municipal and political subdivisions and any authorized agency, authority or public benefit corporation thereof.

“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, this Master Indenture.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state or territory 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, or to relieve such Person from any liability other than by the payment thereof by such Person, including specifically, but without limitation, the forgiveness of any debt.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

(Section 1.01)

Amount of Indebtedness

Subject to the terms, limitations and conditions established in this Master Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations hereunder 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 hereunder are not limited, except as limited by the provisions hereof, including Section 3.06, or of any Supplement. Any Member of the Obligated Group proposing to incur Indebtedness, whether evidenced by Obligations issued or by evidences of indebtedness issued or guaranties entered into pursuant to documents other than this Master Indenture, shall, at least fifteen (15) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness, including in such notice the amount of Indebtedness to be incurred and the Subsection of Section 3.06 hereof under which it will be incurred, to any Related Credit Facility Issuer, any Related Bond Issuer for so long as Related Bonds of such Related Bond Issuer are Outstanding, and to the Master Trustee and any Member of the Obligated Group proposing to incur such Indebtedness shall obtain the written consent of the Obligated Group Representative, which consent shall be evidenced by a resolution of the Obligated Group Representatives Governing Body filed with the Master Trustee. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation issued hereunder.

(Section 2.01)

Security, Restrictions on Encumbering Property; Payment of Principal and Interest

(a) Any Obligation issued pursuant to this Master Indenture shall be a joint and several 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 hereunder, each Member of the Obligated Group hereby pledges, assigns and grants to the Master Trustee a security interest in its Gross Receipts. Upon receipt, all such security shall be held in trust for the holders from time to time of all Obligations issued and Outstanding hereunder, without preference or priority of any one Obligation over any other Obligation.

(b) If any Event of Default shall have 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 this Master Indenture), and any Gross Receipts thereafter received, shall immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to Section 4.03 hereof. Upon receipt, all such Gross Receipts shall be held by the Master Trustee in trust for the Holders from time to time of all Obligations issued and Outstanding hereunder, without preference or

priority of any one Obligation over any other Obligation. Prior to the receipt of a request from the Master Trustee pursuant to Section 4.03(b) of this Master 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 this Master Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee shall execute a release of its security interest with respect to the assets so transferred.

(c) In addition to the preceding paragraph, upon an Event of Default, the Members of the Obligated Group hereby agree to take no action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated hereby, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

(d) With respect to all Obligations issued, executed and delivered under this Master Indenture, there shall 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.

(e) Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to this Master Indenture as may be necessary or appropriate to include as security hereunder 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 shall, in the Opinion of Counsel, be necessary to comply with applicable law or be required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to Section 3.11 of this Master Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to Section 3.12 of this Master Indenture. In particular, each Member of the Obligated Group covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to continue the security interest created hereunder pursuant to applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such financing statement, the Master Trustee shall prepare and file or cause each Member of the Obligated Group to prepare and file such continuation statements in a timely manner to assure that the security interest in Gross Receipts shall remain perfected.

(f) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens as set forth in Section 3.05 hereof) any of its Property.

(g) Each Obligation shall 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 this Master Indenture at the place, on the dates and in the manner provided in this Master Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(h) Each Member of the Obligated Group covenants that, if an Event of Default shall have occurred and be continuing, it will, upon notice of such Event of Default from the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with Sections 4.03 and 4.04 of this Master Indenture.

(i) Covered Obligations in addition to being secured by a pledge of Gross Receipts as herein provided, shall be further secured by a Mortgage, as set forth and in accordance with the Supplement for such Obligation. The Master Trustee shall, after the application of the Gross Receipts in accordance with the provisions of this Master Indenture, apply the proceeds derived from the enforcement of any Mortgage in accordance with the provision of the Supplement pursuant to which the Covered Obligation was issued.

(Section 3.01)

Covenants as to Corporate Existence, Maintenance of Properties, Etc.

Each Member of the Obligated Group hereby covenants:

(a) Except as otherwise expressly provided herein, to preserve its corporate or other legal existence and all its material 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 herein contained shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property in all material respects 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 shall be construed 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 in all material respects 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 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 herein contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) To pay promptly 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 shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding hereunder) whose validity, amount or collectibility is being contested in good faith.

(f) At all times to comply in all material respects 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, other than any Liens (exclusive of the Obligations created and Outstanding hereunder) whose validity, amount or collectibility is being contested in good faith.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its Health Care Facilities (if any, and 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 3.02(g) if and to the extent that its Governing Body shall 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 all amounts due or to become due on any Related Bond, the interest on which is exempt from federal or State income tax, have not been fully paid to the holder thereof, it shall not take any action or suffer any action to be taken by others, or fail to take any action which action or failure, in the Opinion of Bond Counsel, would result in such interest becoming included in the gross income of the holder thereof for federal or State income tax purposes.

(Section 3.02)

Insurance

(i) 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 and to satisfy any insurance requirements imposed upon such Member in connection with the issuance of an Obligation.

(j) The Obligated Group Representative shall 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 shall furnish a copy of the Insurance Consultant's report and recommendations to the Master Trustee, each Related Credit Facility Issuer and to the Authority (for so long as there are Related Bonds of the Authority Outstanding). If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group shall 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 applicable 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. In its report and recommendations, the Insurance Consultant shall take into consideration whether the recommended insurance affords either the coverage available for the risk being insured against in an amount and 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. Notwithstanding the foregoing, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, to (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) adopt, establish or participate in alternative risk management programs, 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, or to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group; provided, however, that no Member may self-insure in whole or in part individually or in connection with other institutions, for property loss or other damage to the Mortgaged Property. If any Member of the Obligated Group shall be self-insured for any coverage or participate in the programs of captive insurance companies, the report of the Insurance Consultant shall state whether the anticipated funding of any self-insurance fund or captive insurance companies 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.

(Section 3.03)

Insurance and Condemnation Proceeds

Except as otherwise provided in a Supplement or a Related Bond Indenture, insurance proceeds and condemnation awards shall be applied in the following manner:

(a) Except as may otherwise be set forth in a Supplement, amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards that do not exceed ten percent (10%) 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) Amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards that exceed ten percent (10%) 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 shall be applied to repair or replace the Property (in the case of replacement, with 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, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within twelve (12) months after the casualty loss or taking, delivers to the Master Trustee:

(c) (A) an Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) 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 eighty percent (80%) of what it was in the Fiscal Year preceding such casualty or condemnation and is not less than 1.20 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 twenty percent (20%) of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(d) a written report of a Consultant stating the Consultants 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 (b)(i) of this Section to be not less than 1.10, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level, but not less than 1.00; 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 Consultants report.

(e) Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and the applicable Mortgage, if any, only in accordance with the assumptions described in subsection (c), or the recommendations described in subsection (d), of this Section. To the extent that such proceeds or awards relate to bond-financed property under the Code, then the Member must ensure that its use of such proceeds or awards does not result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal or State income tax purposes; provided further, that the Member must obtain an Opinion of Bond Counsel to this effect.

(Section 3.04)

Limitations on Creation of Liens

(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, including, but not limited to, grant or subsidy made available to a Member of the Obligated Group, or to enable any Member of the Obligated Group to maintain self-insurance subject to Section 3.03 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 ninety (90) days; and (C) easements, rights-of-way, servitudes, survey exceptions, 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 this Master Indenture and is set forth on Schedule A attached hereto, 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 hereof, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien hereunder;

(vi) Any Lien 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 Sections 3.09(e) or 3.11(e) hereof;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by Section 3.06(d) hereof;

(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 of Section 3.06 hereof, 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 hereof on creation of Liens on Property of the Obligated Group;

(ix) 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; bankers liens or rights of setoff; or liens securing direct pay or standby letters of credit, standby bond purchase agreements, lines of credit or other liquidity or credit enhancement that provides liquidity or credit enhancement for Indebtedness otherwise permitted hereunder;

(x) Any Lien on the proceeds of insurance insuring assets that are subject to a lease from a third-party owner or lessor of such assets;

(xi) 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;

(xii) Any Lien securing all Obligations on a parity basis, including the Lien created by this Master Indenture on Gross Receipts;

(xiii) 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 and any rights of residents of life care, elderly housing or similar facilities to entrance fees, endowment or similar funds deposited by or on behalf of such residents;

(xiv) Operating leases or ground leases of five years or less whereunder any Member of the Obligated Group is the lessor; or any license or other use agreement made with respect to Property where revenues generated inure to the benefit of any Member of the Obligated Group;

(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) Any lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by a Member of the Obligated Group to secure payment of Indebtedness (including any commitment for Indebtedness, whether or not then drawn upon), and any lien on money (or the investment made with such money) held in any escrow or similar fund to defease Indebtedness;

(xvii) Liens on Property due to rights of third-party payors for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) Any Mortgage;

(xix) Any Lien on (A) Excluded Property or (B) any Health Care Facility not encumbered or intended to be encumbered by a first lien mortgage or first priority security interest to secure any issue of Related Bonds; or (C) a subordinate lien on any Health Care Facility, provided that the subordinate lienholder cannot accelerate the Indebtedness secured by such Lien, or foreclose on such Lien, unless the Master Trustee does likewise;

(xx) Any Lien on Property including fixtures and equipment which secures Indebtedness (which may include conditional sale, equipment trust, lease or other title retention agreements in connection with the acquisition thereof and purchase money security interests therein) that does not exceed in aggregate twenty percent (20%) of Total Operating Revenues as reflected in the most recent Audited Financial Statements.

(Section 3.05)

Limitations on Indebtedness

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, of this Section 3.06. 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 of Section 2.01 hereof.

(c) Long-Term Indebtedness (including Obligations secured on a parity with existing Obligations) may be incurred, without limit on the amount provided 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 then Outstanding Long-Term Indebtedness incurred pursuant to this subsection 3.06(a)(i)(A), together with the Indebtedness then to be issued, does not exceed twenty percent (20%) of Total Operating Revenues as reflected in the most recently Audited Financial Statements, or

(B) The Long-Term Debt Service Coverage Ratio for the Historic Audit Period, 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; or

(ii) An Officer's Certificate of the Obligated Group Representative demonstrating that (A) the Long-Term Debt Service Coverage Ratio for the Historic Audit Period, excluding the proposed Long-Term Indebtedness, is at least 1.10 and (B) the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.10 for each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred or guaranteed, 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 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 shall be reduced to the maximum coverage permitted by such Governmental Restriction 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 as follows: (i) if prior to the incurrence of such Long-Term Indebtedness and if 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 on the refunding Long-Term Indebtedness will not be more than ten percent (10%) greater than Maximum Annual Debt Service on the refunded Long-Term Indebtedness, 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 refunding 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) if 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 ten percent (10%).

(c) Short-Term Indebtedness may be incurred subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed twenty percent (20%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Financial Statements are available; provided, however, that there shall be a period of at least thirty (30) consecutive calendar days during each period of twelve (12) consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed five percent (5%) of Total Operating Revenues; and provided further that failure to reduce Short-Term Indebtedness to less than five percent (5%) of Total Operating Revenues for each such thirty-day period shall not constitute an Event of Default so long as such Short-Term Indebtedness in excess of such five percent (5%) could qualify as permitted Long-Term Indebtedness pursuant to the provisions of Section 3.06(a) except as to maturity.

(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 of this Section 3.06; 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 shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in subsection 3.06(c) hereof.

(g) Indebtedness (including Obligations secured on a parity with existing Obligations) may be incurred 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 shall 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 architects or licensed engineers 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.

(h) Balloon Indebtedness may be incurred if the conditions set forth in subsection (a) or (b) above for the incurrence of Long-Term Indebtedness are satisfied, assuming such Balloon Indebtedness is amortized in accordance with the applicable provisions of the definition of “Long-Term Debt Service Requirement” contained in Section 1.01 hereof.

(i) Variable Rate Indebtedness may be incurred if the conditions for incurrence of Long-Term Indebtedness set forth in subsection (a) or (b) above are met assuming such Variable Rate Indebtedness bears interest in accordance with the applicable provisions of the definition of “Long-Term Debt Service Requirement” contained in Section 1.01 hereof.

(j) Indebtedness incurred pursuant to any subsection of this Section 3.06 may be reclassified as Indebtedness incurred pursuant to any other of such subsection if the tests set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

(k) 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 shall not be considered Balloon Long-Term Indebtedness, solely by reason of such “put” or “tender” provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to this Section 3.06.

(l) 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 seventy-five percent (75%) of the three (3) month average outstanding accounts receivable of the Obligated Group that are one hundred and twenty (120) days old or less as calculated in accordance with generally accepted accounting principles. The three (3) month average shall be calculated based on the month end available balances for the three (3) full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered.

(Section 3.06)

Long-Term Debt Service Coverage Ratio/Days Cash on Hand

(a) Long-Term Debt Service Coverage Ratio. 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 Fiscal Year.

(b) Days Cash on Hand. The Obligated Group covenants that the number of Days Cash On Hand of the Obligated Group shall not be less than thirty (30) days. The Days Cash On Hand for the Obligated Group shall be calculated semi-annually as of June 30 and December 31, based upon the unaudited statements of the Obligated Group with respect to the June 30 calculation and the audited financial statements of the Obligated Group as of December 31. The Obligated Group Representative shall deliver or cause there to be delivered an Officer's Certificate to the Master Trustee and each Related Credit Facility Issuer and, so long as any Related Bonds of the Authority remain Outstanding, the Authority, certifying to the number of Days Cash on Hand so calculated and certifying that the Obligated Group is in compliance with the covenant in the preceding sentence. Such certificate shall be delivered no later than August 15, with respect to the June 30 calculation, and on the date the Audited Financial Statements are delivered pursuant to Section 3.10 with respect to the December 31 calculation date.

(c) The Obligated Group Representative shall deliver an Officer's Certificate at the time it delivers its Audited Financial Statements following the end of each Fiscal Year to the Master Trustee, each Related Credit Facility Issuer, and so long as any Related Bonds are Outstanding, each Related Bond Issuer, certifying as to the compliance with the Long-Term Debt Service Coverage Ratio required by subsection (a) and Days Cash On Hand required by subsection (b) hereof. If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof or Days Cash On Hand required by subsection (b) hereof, as set forth in the Officer's Certificate, is not met, the Obligated Group covenants to retain a Consultant within thirty (30) days of the delivery of the aforementioned Officer's Certificate to make recommendations to increase such Long-Term Debt Service Coverage Ratio or Days Cash On Hand 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; provided, however, that the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this subsection (c) more frequently than biennially. Any Consultant so retained shall be required to submit such recommendations within sixty (60) days after being so retained. Each Member whose operations and management are the subject of recommendations made in such report shall promptly implement such recommendations in accordance with Governmental Restrictions, and within thirty (30) days of receipt of such Consultants report, each such Member shall deliver to the Master Trustee, and so long as Related Bonds of the Authority are Outstanding, the Authority, and each Related Credit Facility Issuer:

(i) a certified copy of a resolution adopted by the Governing Body of the Member accepting such report and agreeing to implement the recommendations, if any, of such Consultant; and

(ii) a report setting forth in reasonable detail the steps the Member proposes to take in order to implement the recommendations of such Consultant and achieve compliance with the requirements of paragraphs (a) and (b) above.

(d) Each such Member shall deliver to the Master Trustee, each Related Credit Facility Issuer, and so long as Related Bonds of the Authority are Outstanding, the Authority such periodic reports, not less often than quarterly, as the Master Trustee may reasonably request, showing the progress made by the Member in implementing the recommendations set forth in such Consultants report.

(e) The Obligated Group shall be deemed in compliance with paragraphs (a) and (b) above irrespective of whether the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.10 or the Days Cash On Hand is less than thirty (30), so long as the Obligated Group has complied with the requirements of paragraph (c) above and is following the recommendations, if any, of the Consultant. Notwithstanding the preceding sentence, if the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.00, the Obligated Group shall not be in compliance with paragraph (a) above.

(Section 3.07)

Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts

(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 Financial Statements are available) except, provided no Event of Default has occurred and is continuing, 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 if the Property Transferred is considered Operating Assets and provided there shall be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that (A) the Obligated Group is in compliance with Section 3.07 hereof and that if such Transfer had occurred at the beginning of the Historic Audit Period the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness after the revenues and expenses derived from the Operating Assets proposed to be disposed of are excluded, or (B) in the event that Indebtedness is to be retired, redeemed or an Escrowed Interest Deposit and an Escrowed Principal Deposit are to be made to pay such Indebtedness as a result of such sale, lease or disposition, immediately after such Indebtedness is retired, redeemed or such Escrowed Interest Deposit and Escrowed Principal Deposit are made, but in no event, not more than ninety days after such sale, lease or disposition, the conditions for the incurrence of one dollar of (\$1.00) of Additional Indebtedness would be met.

(iv) To any Person if the Property Transferred is considered Operating Assets and the aggregate Book Value of the Property that is transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed five percent (5%) of the Book Value of the Property of the Obligated Group as shown in the Audited 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 market value or on 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, however, that with respect to Transfers of real property, fair market value shall be based on a written appraisal prepared by an appraiser with experience in valuing similar assets.

(vi) To a Person which at the time of the Transfer becomes a Member of the Obligated Group pursuant to the Master Indenture, without limit.

(b) Each Member of the Obligated Group may Transfer cash or investments in securities that in any twelve (12) month period preceding the Transfer and that give effect to it do not exceed fifteen percent (15%) of the Obligated Group's cash or investments in securities as of the date of such Transfer; provided, however, that after giving effect to such Transfer, cash and investments in securities shall be not less than thirty (30) Days Cash On Hand for such twelve (12) month period. For purposes of this subsection (b) cash and investments in securities shall be determined and valued in accordance with accounting procedures and generally accepted accounting principles applied in the most recent Audited Financial Statements of the Obligated Group. Unsecured loans to Persons other than Members of the Obligated Group (excluding loans to physician groups to support recruitment efforts) shall be treated as Transfers of cash. Notwithstanding the foregoing, (A) assets may always be shifted among cash, marketable securities and other liquid investments; and (B) Members of the Obligated Group may purchase Operating Assets and purchase or sell securities without limitation, provided that any purchase of an Operating Asset shall be for not more, and any sale of a security shall be for not less, than its fair market value.

(c) Any Member of the Obligated Group may sublease or license the use of its property pursuant to a residents agreement or for use in performing services necessary for use of such Members facilities for health care and related purposes in accordance with customary practices in the industry.

(d) 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 shall 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 of Section 3.06 hereof regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

Notwithstanding anything herein to the contrary, the provisions of this Section 3.08 shall not apply with respect to the termination of the lease by the Initial Member of, and discontinue of its operations at, the Arden Hill and Horton Campuses after the date that the Initial Member occupies, as its primary hospital facility, the replacement hospital facility that is to be constructed in Wallkill, New York.

(Section 3.08)

Consolidation; Merger; Sale or Conveyance

(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 shall 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 this Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Master Indenture and any Supplement hereto; and

(ii) 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 shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iii) 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 or conveyance of assets had occurred at the beginning of the Historic Audit Period, the conditions described in Section 3.06(a)(i)(B) or Section 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness on the date of such Officer's Certificate, (B) that after such merger or consolidation or sale or conveyance of assets, no Member of the Obligated Group will be in default in the performance of any covenant or the satisfaction of any condition contained in this Master Indenture and (C) the unrestricted and temporarily restricted net assets of the successor corporation is not less than 80% of the unrestricted and temporarily restricted net assets of the predecessor corporation prior to the consolidation, merger, sale or conveyance.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall comply with the requirements of Section 3.11 hereof and shall succeed to and be substituted for its predecessor, as a Member of the Obligated Group, with all rights of such predecessor, including the right, subject to all the terms, conditions and limitations in this Master Indenture prescribed, to have the Obligated Group issue Obligations on its behalf, and the Master Trustee shall authenticate and shall deliver such Obligations signed and delivered to the Master Trustee by the Obligated Group Representative. All Outstanding Obligations so issued by such successor corporation hereunder shall in all respects have the same security position and benefit under this Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of this Master Indenture as though all of such Obligations had been issued hereunder 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 this Master Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iii) hereof 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 Article VI and of this Section 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 in accordance with the provisions of this Section 3.09 shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect.

(f) All references herein to successor corporations shall be deemed to include the surviving corporation in a merger.

(Section 3.09)

Filing of Audited Financial Statements; Certificate of No Default; Other Information

The Obligated Group covenants that it will:

(a) No later than forty-five (45) days subsequent to the last day of each of the first three quarters in each Fiscal Year and not later than sixty (60) days subsequent to the last day of the fourth quarter in each Fiscal Year, furnish to (1) the Master Trustee, (2) each Related Bond Issuer (so long as there are Related Bonds of such Related Bond Issuer Outstanding), (3) each Disclosure Dissemination Agent, (4) each Related Credit Facility Issuer, and (5) each Bondholder (as defined in the Related Bond Indenture) who has so requested, the following information: (A) the unaudited combined financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, and as of the end of the prior Fiscal Year, the statement of operations, changes in net assets and cash flow for the quarter, and for the Fiscal Year to date and for the comparable prior year period; (B) utilization statistics of each Member of the Obligated Group, including certified beds, discharges, patient days, average length of stay, average percentage of occupancy (based on certified beds), emergency room visits, ambulatory surgery procedures and outpatient clinic visits; (C) major payor mix by percentage of inpatient discharges and payor; provided, however, that such utilization statistics may be modified if the Obligated Group Representative reasonably determines that such information no longer is useful in indicating the utilization of the Health Care Facilities or that other statistics would be more useful for that purpose; and

(b) Within fifteen (15) days after receipt of the Audited Financial Statements for a Fiscal Year but in no event later than one hundred fifty (150) days after the end of each Fiscal Year, file with the parties identified in clauses (1), (2), (3), (4) and (5) of the foregoing subsection (a), each Related Bond Trustee, and to such other parties as an authorized officer of a Related Bond Issuer may designate, including rating services, a copy of the Audited Financial Statements as of the end of such Fiscal Year, the utilization statistics set forth in clause (B) of the foregoing subsection (a) as of the end of such Fiscal Year, the major payor mix data set forth in clause (C) of the foregoing subsection (a) as of the end of such Fiscal Year, and such other statements, reports and schedules describing the finances, operation and management of each Member of the Obligated Group (or of the Obligated Group) reasonably required by an authorized officer of a Related Bond Issuer and each Related Credit Facility Issuer.

(c) Within fifteen (15) days after receipt of the Audited Financial Statements for a Fiscal Year, file with the Master Trustee, each Related Bond Issuer (so long as there are Related Bonds Outstanding), each Related Bond Trustee, each Related Credit Facility Issuer, and each Bondholder (as defined in the Related Bond Indenture) who may have so requested or on whose behalf the Master Trustee may have so requested, an Officer's Certificate stating (i) 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 this Master Indenture, a Related Loan Agreement, or a Mortgage, and, if so, specifying each such default of which the signer may have knowledge, and (ii) the Long-Term Debt Service Coverage Ratio and Days Cash on Hand for such Fiscal Year.

(d) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee, each Related Credit Facility Issuer and each Related Bond Issuer (so long as there are Related Bonds Outstanding) such other financial statements and information concerning its operations and financial affairs (or those of any Member or any Affiliate) 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.

(e) Within thirty (30) days after its receipt thereof, file with the Master Trustee, each Related Credit Facility Issuer and the Authority (so long as there are Related Bonds of the Authority Outstanding) a copy of each report which any provision of this Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(Section 3.10)

Parties Becoming Members of the Obligated Group

Persons which are not Members of the Obligated Group 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 shall 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 this Master Indenture and any Supplements and thereby become subject to compliance with all provisions of this Master 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 hereunder, and thereunder, (ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably to guarantee to the Master Trustee and each other Member of the Obligated Group payment of all Obligations issued and then Outstanding or to be issued and Outstanding hereunder in accordance with the terms thereof and of this Master Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section shall 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; constitutes a valid and binding obligation of such Person enforceable against such Person in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors rights generally, equity principles, laws dealing with fraudulent conveyances, limitations on the ability of one charity to make guarantees in favor of other entities and subject to other customary exceptions acceptable to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer; and is authorized and complies with all Governmental Restrictions and the provisions of this Master Indenture and any agreements or other documents relating to this Master Indenture, the Obligations or the Related Bonds.

(c) If all amounts due or to become 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 shall 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, under then existing law, 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 shall be provided to the Master Trustee, each Related Credit Facility Issuer and the Authority (so long as any Related Bonds of the Authority are Outstanding) demonstrating that (i) the conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness, assuming that the Person which is becoming a Member of the Obligated Group had become a Member at the beginning of the Historic Audit Period and (ii) after giving effect to the admission of such Person as a Member of the Obligated Group, no Member of the Obligated Group will be in default in the performance of any covenant or in the satisfaction of any condition contained in this Master Indenture.

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect.

(Section 3.11)

Withdrawal from the Obligated Group

(a) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; provided further, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due or to become 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 shall 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 Members withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bonds, would not cause the interest payable on such Related Bonds to become includable in the gross income of the recipient thereof under the Code;

(ii) The Obligated Group Representative shall have provided one of the following:

(A) An Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payment or extinguishment of Obligations to be made in connection therewith had occurred at the beginning of the Historic Audit Period taking all Long-Term Indebtedness incurred after the beginning of such period into account the conditions described in Section 3.06(a)(i)(B) or in Section 3.06(a)(ii) hereof would have been satisfied for the incurrence of one dollar (\$1.00) of Additional Indebtedness; or

(B) receipt by the Master Trustee of (x) a Credit Facility for all Obligations of the Obligated Group or Related Bonds not already supported by a Credit Facility, and (y) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed withdrawal 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 withdrawal;

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee, each Related Bond Issuer, and each Related Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of this Master Indenture

and any agreements or other documents relating to this Master Indenture, the Obligations or the Related Bonds; and

(iv) an Officer's Certificate of the Obligated Group Representative certifying that upon such withdrawal the remaining Members of the Obligated Group will not be in default in the performance of any covenant or the satisfaction of any condition contained in this Master Indenture.

(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 shall be released and discharged in full, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Holders of any Obligations, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under this Master Indenture shall cease.

For purposes of Section 3.12(b)(ii)(B), a Credit Facility must be irrevocable and 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 (unless the Credit Facility allows for the tender of the Related Bonds or Obligation prior to the stated expiration of the Credit Facility) and shall provide for payment in full of principal and interest on such Related Bond or Obligation when due.

(Section 3.12)

Medicaid Account

Commencing on the date of issuance of the initial Obligations under this Master Indenture, each Member of the Obligated Group which is reimbursed as health care provider pursuant to the Medicaid program (each, a "Medicaid Reimbursement Member") shall establish with the Master Trustee, as depository, an account designated the "Medicaid Revenue Account." Each Medicaid Reimbursement Member shall cause there to be deposited in such Medicaid Revenue Account all Medicaid reimbursement whether received directly or as a payment from a health maintenance or other third-party organization and all reimbursement received with respect to any successor program to Medicaid the purpose of which is to provide substantially similar reimbursement coverage. Each Medicaid Reimbursement Member agrees that it will not establish any other account to receive such funds.

The Obligated Group Representative shall provide the Master Trustee, prior to January 1 of each year, and upon the issuance of any additional Obligations, a schedule ("Monthly Requirement Schedule") showing the estimated unfunded portion of debt service that is payable on all Indebtedness secured by Obligations outstanding under the Master Indenture (the "Monthly Requirement"). The Monthly Requirement Schedule, unless an Obligation otherwise provides, shall assume that (a) any principal payment due on Indebtedness secured by an Obligation shall be amortized in twelve equal monthly installments; and (b) any variable rate interest Obligation shall bear interest at the maximum rate established for the prior twelve month period. For purposes of determining each Monthly Requirement, debt service is deemed not to be fully funded for a given month unless, at the time of determination, funds are on deposit in the Related Bond Indenture (or other comparable instrument pursuant to which the underlying Indebtedness secured by such Obligations are issued) to pay the estimated debt service on the Related Bonds secured by such Obligations for such month.

Beginning on the first day of each month that the Monthly Requirement Schedule shows that the Monthly Requirement is not fully funded, the Master Trustee shall retain all monies in the Medicaid Revenue Accounts until the aggregate amount on deposit in all such Medicaid Revenue Accounts, together with all other amounts paid by the Members of the Obligated Group under the Related Loan

Agreement and Related Obligation in satisfaction of the Monthly Requirement, shall equal the Monthly Requirement for such month and transfer all funds in excess of the Monthly Requirement to the general funds of the Members of the Obligated Group. The Master Trustee shall then transfer the appropriate amount to the Holder of each Obligation in satisfaction of the payment requirement on any such Obligation then due. Notwithstanding the foregoing, in the event the Master Trustee shall receive notice of the occurrence of any Event of Default under subsections (a), (d), (e) or (f) of Section 4.01 hereof, all monies deposited to the Medicaid Revenue Accounts shall be transferred to the Gross Receipts Revenue Fund established under Section 4.03 hereof.

(Section 3.13)

Events of Default

Event of Default, as used herein, shall mean any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding hereunder when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of this Master Indenture or of any Supplement;

(b) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under this Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the 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 twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding or by any Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; provided, however, that if said failure cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued hereunder and the applicable period to cure such event of default, if any, shall have expired;

(d) (i) Any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding hereunder), which Indebtedness is in an aggregate principal amount greater than two percent (2%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired; or

(ii) there shall 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 two percent (2%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such event of default such Indebtedness shall have been accelerated;

Provided, however, that failure to pay or other default pursuant to clauses (i) and (ii) of this Section 4.01(d) shall not constitute an Event of Default within the meaning of this Section if within 30 days of such failure to pay or acceleration (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that a Member of the Obligated Group is contesting the payment or acceleration of such Indebtedness and (ii) 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 shall commence proceedings to contest the obligation to pay such Indebtedness or the acceleration thereof 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) There is entered by a court having jurisdiction in the premises a decree or 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, trustee 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 any such decree or order continues unstayed and in effect for a period of ninety (90) consecutive days;

(f) Any Member of the Obligated Group institutes proceedings for an order for relief, or consents to an order for relief against it, or the filing by it of a petition or consent to a petition 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.

(Section 4.01)

Acceleration; Annulment of Acceleration

(a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may and, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall, by notice to the Members of the Obligated Group and the Obligated Group Representative declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of this Master Indenture to the contrary notwithstanding. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if:

(i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of principal or redemption prices and all

accrued and unpaid interest thereon 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 hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and

(iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, or waived pursuant to Section 4.09 hereof, then the Master Trustee may, and upon the written request of Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding or upon the request or consent of a Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. The rights of any Related Credit Facility Issuer in this Section 4.02 apply only to the extent there is no Related Credit Facility Default by such Related Credit Facility Issuer and the full benefit of the Related Credit Facility remains available.

(Section 4.02)

Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and during the continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefore, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders hereunder by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other Property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State;

Supplement; and

(vi) Exercise any rights the Master Trustee may have as a party under any

(vii) Enforcement of any other right of the Holders conferred by law or hereby.

(b) Upon the occurrence and during the continuance of an Event of Default pursuant to Section 4.01(a), the Master Trustee shall, and upon the occurrence and during the continuance of any other Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall, realize upon any security interest which the Master Trustee may have in Gross Receipts and shall request each Member of the Obligated Group to deliver or cause to be delivered its Gross Receipts to the Master Trustee and shall establish and maintain during the continuance of such Event of Default, a Gross Receipts Revenue Fund into which shall be deposited all such Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund shall 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 in accordance with a budget approved by the Master Trustee, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) as may be required by this Master Indenture and any Supplement hereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund shall 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 shall be reserved and set aside solely for the purpose of making such payment. The Gross Receipts Revenue Fund shall not be required to be maintained if the Event of Default has been remedied, or if the Event of Default has been waived pursuant to Section 4.09 hereof. Thereafter, upon receipt of an Officer's Certificate from the Obligated Group Representative, any amounts remaining in the Gross Receipts Revenue Fund shall be applied by the Master Trustee in accordance with such Officer's Certificate.

(c) In addition, with regard to Gross Receipts, the Master Trustee may, upon the occurrence and during the continuance of an Event of Default, 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 Members 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 shall be paid to the Master Trustee; (iv) forbid any Member to collect, 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.

(d) Notwithstanding any other provision of the Master Indenture, the Master Trustee, shall not take and shall not be authorized to take, any action in violation of or contrary to any

Governmental Restrictions, or which would cause it to be considered an operator of any Member of the Obligated Group so as to require the Master Trustee to receive Public Health Council establishment approval under Article 28 of the Public Health Law. The rights of any Related Credit Facility Issuer in this Section 4.03 apply only to the extent there is no Related Credit Facility Default by such Related Credit Facility Issuer and the full benefit of the Related Credit Facility remains available.

(Section 4.03)

Application of Moneys During the Continuance of an Event of Default

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 this Article shall be applied, after the payment of reasonable and necessary operating expenses of the Obligated Group pursuant to 4.02(b)(i) and the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to Section 5.05 hereof, in accordance with the provisions of Section 4.03(b) hereof and, with respect to the payment of Obligations thereunder, as follows:

(a) Unless all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference; and

Third: To the extent there exists a Related Credit Facility Issuer with respect to any series of Related Bonds, amounts owed to such Related Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above.

(b) If all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of all amounts 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 all amounts due with respect to all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of paragraph (b) of this Section in the event that all amounts due with respect to all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

(d) Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

(e) Moneys held in the Gross Receipts Revenue Fund shall be invested in Government Obligations which mature or are redeemable at the option of the holder not later than such times as shall be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments shall be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments, a copy of which certificate shall be provided by the Obligated Group Representative to each Related Credit Facility Issuer prior to submission to the Master Trustee for the approval of each Related Credit Facility Issuer; provided, however, that the failure of a Related Credit Facility Issuer to object to such certificate shall be deemed to be the approval of such Related Credit Facility Issuer. Unless otherwise provided in this Master Indenture, the Master Trustee shall sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it shall be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee shall not be liable or responsible for making any such investment in the manner provided above and shall 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 shall be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

(f) 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 shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

(Section 4.04)

Remedies Not Exclusive.

No remedy by the terms hereof conferred upon or reserved to the Master Trustee, the Related Credit Facility Issuers or the Holders is intended to be exclusive of any other remedy, but each and every

such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity or by statute on or after the date hereof.

(Section 4.05)

Holdings Control of Proceedings

If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall 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 hereof or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is not in conflict with any applicable law or the provisions hereof, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall 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 shall impair the right of the Master Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by the Holders (with the Master Trustee being permitted to rely upon an Opinion of Counsel pursuant to Section 5.02(d) hereof in making such a determination); provided, further, that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, and not the Holders, shall have the right to control proceedings with respect thereto in the manner described in this Section. The rights of any Related Credit Facility Issuer in this Section 4.07 apply only to the extent there is no Related Credit Facility Default by such Related Credit Facility Issuer and the full benefit of the Related Credit Facility remains available.

(Section 4.07)

Termination of Proceedings

In case any proceeding taken by the Master Trustee on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Master Trustee or to the Holders, then the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

(Section 4.08)

Waiver of Event of Default

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article 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 prior written consent of the Related Credit Facility Issuer, if any, with respect to any Obligations or any series of Related Bonds with respect to which the Event of Default has occurred, may waive any Event of Default which in its opinion shall have been

remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Notwithstanding anything contained herein 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 respect to any series of Related Bonds with respect to which the Event of Default has occurred, with the prior written consent of the Related Credit Facility Issuer, if any, shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02 hereof, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default hereunder, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The rights of any Related Credit Facility Issuer in this Section 4.09 apply only to the extent there is no Related Credit Facility Default by such Related Credit Facility Issuer and the full benefit of the Related Credit Facility remains available.

(Section 4.09)

Appointment of Receiver

Upon the occurrence of any Event of Default described in Section 4.01(a), (e) or (f) hereof, unless the same shall have been waived as herein provided, 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 hereof 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 shall confer. Each Member of the Obligated Group, respectively, hereby 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.

(Section 4.10)

Remedies Subject to Provisions of Law

All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Article are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions hereof invalid or unenforceable under the provisions of any applicable law.

(Section 4.11)

Notice of Default

The Master Trustee shall, within ten (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, and any Related Credit Facility Issuer, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall 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) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

(Section 4.12)

Termination of Related Credit Facility Issuer's Rights.

Whenever by the terms of this Article IV the consent or approval of a Related Credit Facility Issuer is required or a Related Credit Facility Issuer, alone or together with any other Related Credit Facility Issuer or the Holders of Related Bonds, is authorized to request or direct the Master Trustee to take any action, such consent or approval shall not be required and the Master Trustee shall not be obligated to comply with such request or direction if a Related Credit Facility Default then exists with respect to such Related Credit Facility Issuer. Nothing contained herein shall limit or impair the rights of the holders of Related Bonds or of other Related Credit Facility Issuers to give any consent or approval or to request or direct the Master Trustee to take any action and, if a Related Credit Facility Default then exists with respect to a Related Credit Facility Issuer, such consent or approval shall be effective without the consent or approval of such Related Credit Facility Issuer otherwise required by this Article IV and the Master Trustee shall comply with such request or direction notwithstanding that such request or direction is required to be given or made together with such Related Credit Facility Issuer.

(Section 4.13)

Removal and Resignation of the Master Trustee

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, the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding or, if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created hereby. Written notice of such resignation or removal shall be given to the Members of the Obligated Group, to each Holder by first class mail at the address then reflected on the books of the Master Trustee, and each Related Credit Facility Issuer and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative if no Event of Default shall have occurred and be continuing. If either no such appointment is made by the Obligated Group Representative within thirty (30) days of the date notice of resignation or removal is given, or if an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding shall appoint a successor Master Trustee, except that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related

Bonds that are secured by Obligations Outstanding shall have the right to appoint the successor Master Trustee, and not the Holders. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group, any Related Credit Facility Issuer, 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 shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least one hundred million dollars (\$100,000,000), 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 hereunder shall execute, acknowledge and deliver to its predecessor and also to the Obligated Group Representative an instrument in writing, accepting such appointment hereunder, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties hereunder, shall mail a notice of such assumption to each Holder by first class mail at the address then reflected on its books.

(Section 5.04)

Separate or Co-Master Trustee

At any time or times, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee shall have power to appoint, and, upon the request of the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, or the Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall appoint, one or more Persons approved by the Master Trustee either to act as co-trustee or co-trustees, jointly with the Master Trustee, or to act as separate trustee or separate trustees, and to vest in such person or persons, in such capacity, such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section.

Every co-trustee or separate trustee shall, to the extent permitted by law but to such extent only, be appointed subject to the following terms, namely:

(e) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(f) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed by the Master Trustee, or by the

Master Trustee and the Co-Trustee or Co-Trustees or separate trustee or separate trustees jointly, as shall be provided in the instrument appointing such co-trustee or co-trustees or separate trustee or separate trustees, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or co-trustees or separate trustee or separate trustees.

(g) Any request in writing by the Master Trustee to any co-trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant for the taking, or the refraining from taking, of such action by such co-trustee or separate trustee.

(h) The Master Trustee at any time, by any instrument in writing, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section. Upon the request of the Master Trustee, the Members of the Obligated Group shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(i) No trustee or any paying agent hereunder shall be personally liable by reason of any act or omission of any other trustee or paying agent hereunder, nor will the act or omission of any trustee or paying agent hereunder be imputed to any other trustee or paying agent.

(j) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee.

(k) Any moneys, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Master Trustee.

Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, it or he shall be vested with such rights, trusts, powers, duties or obligations, as shall be specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms hereof. Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-trustee or separate trustee may, at any time by an instrument in writing, constitute the Master Trustee its or his attorney-in-fact and agent, with full power and authority to perform all acts and things and to exercise all discretion on its or his behalf and in its or his name.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Master Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner herein provided.

(Section 5.07)

Supplements Not Requiring Consent of Holders

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, upon prior written notice to each Related Credit Facility Issuer, but 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 herein.
- (b) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of Section 6.02(a).
- (d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of Indebtedness as permitted hereunder, so long as no Event of Default has occurred and is continuing under the Master Indenture.
- (f) To obligate a successor to any Member of the Obligated Group as provided in Section 3.11.
- (g) To comply with the provisions of any federal or state securities or tax law.
- (h) To add additional covenants, restrictions, security or conditions for the protection of the Holders of Obligations issued under the Master Indenture, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture; provided, however, that in respect of any such additional covenant, restriction or condition, such Supplemental Indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;
- (i) To provide for the establishment of additional funds and accounts under the Master Indenture and for the proper administration of and transfers of moneys among any such funds and accounts, provided that, except as otherwise provided in the Master Indenture, all such funds and accounts shall be established for the equal and ratable benefit of the Holders of all Outstanding Obligations;
- (j) To permit the Master Trustee to comply with any duties imposed upon it by law;
and
- (k) So long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Master Indenture has occurred and is continuing, to make any change to the provisions of this Master 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 Consultants 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 conditions described in Section 3.06(a)(i)(B) or 3.06(a)(ii) hereof are satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness based upon the Historic Audit Period; or (B) evidence satisfactory to the Master Trustee to the effect that there exists for each Related Bond or Obligation which is not pledged to secure

Related Bonds, a Credit Facility, and each such Credit Facility Issuer shall consent in writing to such amendment or modification;

(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 not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change; 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.

The authorization to enter into a Supplement permitted pursuant to this clause (k) does not include the authorization to make any amendment which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of this Master Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event shall such ratio be reduced to less than 1.00, (2) the definitions in Article I of Affiliate, Audited Financial Statements, Book Value, Capital Addition, Days Cash on Hand, Non-Recourse Indebtedness, Operating Assets, Operating Expense, Property Plant and Equipment, Subordinated Debt, or Total Operating Revenues (except to the extent such definitions shall be changed to conform to changes required by then prevailing generally accepted accounting principles), (3) the definition of any other 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 (4) Article IV; and Sections 5.04, 6.01, 6.02(a), 7.01 or 8.02 of this Master Indenture.

The limitations contained in the immediately preceding paragraph shall not apply if, in conjunction with the adoption of the proposed Supplement, the requirements of Section 6.01(k)(i)(B) are met.

(Section 6.01)

Supplements Requiring Consent of Holders

(a) Other than Supplements referred to in Section 6.01 hereof and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Obligations then Outstanding shall have the right, with prior written consent of any Credit Facility Issuer, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by the Obligated Group Representative, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, nothing in this Section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, 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 this Master 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 and each Related Credit Facility Issuer;

(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; or

(iv) Affect the rights of a Holder of a Covered Obligation with respect to a Mortgage without the consent of such Holder.

(b) If at any time the Obligated Group Representative or each Member of the Obligated Group shall 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 the Governing Body of each Member 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 within such period, not exceeding three years, as shall be prescribed by the Obligated Group Representative or each Member of the Obligated Group following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount of Obligations specified in subsection (a) of this Section 6.02 for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by Section 8.01 of this Master Indenture. At any time after the Holders of the required principal amount of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as herein provided, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

(Section 6.02)

Satisfaction and Discharge of Indenture

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall 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 shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable hereunder by the Members of the Obligated Group or any thereof, then this Master Indenture shall 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, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture. Each Member of the Obligated Group, respectively, hereby 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 this Master Indenture or such Obligations.

(Section 7.01)

Evidence of Acts of Holders

(a) In the event that any request, direction or consent is requested or permitted hereunder of the Holders of any Obligation securing an issue of Related Bonds, the registered owners of such Related Bonds then Outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of such series of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds of such series then Outstanding; provided however that if any portion of such Related Bonds is secured by a Credit Facility that is also secured by a separate Obligation issued hereunder, the principal amount of the Obligation that secures the Related Bonds deemed Outstanding for purposes of any such request, direction or consent shall be reduced by the amount of Related Bonds that are secured by such Credit Facility for the purpose of any such request, direction or consent and the owners of the Related Bonds that are secured by such Credit Facility shall not be consulted or counted.

(Section 8.01)

Obligations or Related Bonds Owned by Members of Obligated Group

In determining whether the Holders of the requisite aggregate principal amount of Obligations have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, Obligations or Related Bonds that are owned by any Member of the Obligated Group or by any Affiliate shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent, request or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be outstanding. Obligations or Related Bonds so owned that have been pledged in good faith may be regarded as Outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Obligations or Related Bonds and that the pledgee is not an Affiliate. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee.

(Section 8.02)

Instruments Executed by Holders Bind Future Holders

At any time prior to (but not after) the Master Trustee takes action in reliance upon evidence, as provided in Section 8.01 hereof, of the taking of any action by the Holders of the percentage in aggregate principal amount of Obligations specified herein in connection with such action, any Holder of such an Obligation or Related Bond that is shown by such evidence to be included in Obligations the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in Section 8.01, revoke such action so far as concerns such Obligation or Related Bond. Except upon such revocation any such action taken by the Holder of an Obligation or owner of a Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Obligation or owner of a Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder or owner and upon all future Holders and owners of such Obligation or Related Bond, and of any Obligation or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Obligation or Related Bond. . Any action taken by the Holders of the percentage in aggregate principal amount of Obligations specified herein in connection with such action shall be conclusively binding upon each Member of the Obligated Group and upon the Master Trustee and the Holders of all of such Obligations or owners of all such Related Bonds.

(Section 8.03)

Controlling Provisions

With respect to any Supplemental Indenture issued under this Master Indenture on or after the date hereof, in the event of any conflict between the terms of this Master Indenture and the terms contained in a Supplemental Indenture, the terms of the Supplemental Indenture will control.

(Section 9.09)

SUPPLEMENTAL INDENTURE

Definitions

“Bond Trustee” means Manufacturers and Traders Trust Company, a banking organization duly organized under the laws of the State of New York and any successor to its duties under the Related Bond Indenture.

“Bondholder” means the registered owner of any Bonds.

“Bonds” means the Series 2008 Bonds and any other bonds issued under the Related Bond Indenture.

“Control Agreement” means any agreement whereby any Member of 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.

“Eligible Release Property” has the meaning given in Section 3 of this Supplement.

“Ground Lessee” has the meaning given in Section 3 of this Supplement.

“Obligation No. 1” means Obligation No. 1 issued by the Obligated Group pursuant hereto.

“Partial Release” has the meaning given in Section 3 of this Supplement.

“Partial Release Certificate” has the meaning given in Section 3 of this Supplement.

“Partial Release Master Trustee Documents” has the meaning given in Section 3 of this Supplement.

“Related Bond Indenture” means the Orange Regional Medical Center Obligated Group Revenue Bond Resolution adopted by the Authority on March 26, 2008, as supplemented by the Series 2008 Resolution authorizing Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008 adopted by the Authority on March 26, 2008.

“Replacement Hospital” means the hospital facility being constructed by ORMC in Wallkill, New York as a replacement for the Arden Hill and Horton Campuses.

“Replacement Hospital Occupancy” means the occupancy and use by ORMC of the Replacement Hospital as ORMC’s primary hospital facility in replacement of the Arden Hill and Horton Campuses.

“Required Ratios” means a Long-Term Debt Service Coverage Ratio of at least 1.25 and Days Cash on Hand of at least 45 until Replacement Hospital Occupancy. Thereafter, “Required Ratios” means a Long-Term Debt Service Coverage Ratio of at least 1.25 and Days Cash on Hand of at least 60.

“Supplement” means this Supplemental Indenture.

“2008 Covered Obligations” has the meaning given that term in Section 3 of this Supplement.

“2008 Mortgage” means that certain Mortgage dated as of May ____, 2008, granted by ORMC to the Master Trustee, as the same may be amended, modified, supplemented, spread, partially released or restated from time to time, which 2008 Mortgage is a Mortgage under the Master Indenture.

“2008 Mortgaged Property” means the Mortgaged Property which is subject to the liens and security interests created under the 2008 Mortgage and includes the Replacement Hospital.

(Section 1)

2008 Mortgage

(a) To secure, among other things, the prompt payment of the principal of, redemption premium, if any, and the interest on Obligation No. 1, together with any other Covered Obligation that is expressly secured by the 2008 Mortgage in accordance with Section 17(b) of this Supplement (collectively, the “2008 Covered Obligations”), and the performance by each Member of the Obligated Group of its other obligations hereunder and under the Master Indenture, ORMC is granting the 2008 Mortgage to the Master Trustee.

(b) The Obligated Group may, in the future, request that the Master Trustee grant: (i) the partial release of a portion of 2008 Mortgaged Property from the 2008 Mortgage with respect to all or a portion of the lots identified as 44.2, 71.1 and 73 identified on the tax map appended hereto as Appendix B (the “Eligible Release Property”); or (ii) a leasehold interest for a term of thirty years or longer in all or a portion of the Eligible Release Property, to a Person that is neither an Affiliate of a Member, nor a Member (a “Ground Lessee”); or (iii) a mortgage on all or a portion of the Eligible Release Property as security for a loan made by a lender to ORMC or to a Ground Lessee, as applicable. Any action described in this Section 3(b) is hereinafter referred to as a “Partial Release”. The Master Trustee shall not grant a Partial Release request without the written consent of the Authority (which consent shall not be unreasonably withheld) and which consent shall not require the consent of the Holders of Related Bonds secured by Obligation No. 1 or the applicable Related Bond Trustee.

(c) Prior to entering into a Partial Release, the Obligated Group Representative must deliver to the Master Trustee an Officer’s Certificate (a “Partial Release Certificate”) that describes the Partial Release in reasonable detail and certifies that: (i) such Partial Release does not materially detract from the utility of the Replacement Hospital; (ii) (A) with respect to a sale of the Partial Release Property, the Partial Release Property is sold for fair market value as evidenced by a written appraisal prepared by an independent appraiser with experience in valuing similar assets, and (B) with respect to a loan made to ORMC or other Member of the Obligated Group that is secured by a mortgage on the Partial Release Property, such loan does not violate the limitations on Indebtedness contained in Section 3.06 of the Master Indenture; (iii) (A) with respect to a sale of the Partial Release Property, the net proceeds received by the Members of the Obligated Group from the Partial Release will be applied to the operation, maintenance or improvement of the 2008 Mortgaged Property or other Health Care Facility, or to prepayment of the 2008 Covered Obligations then outstanding, pro rata based on the Outstanding principal amount thereof or as otherwise required pursuant to the Opinion of Counsel referred to in subsection (d) below, and (B) with respect to a loan made to ORMC or other Member of the Obligated Group that is secured by a mortgage on the Partial Release Property, the proceeds of such loan will be applied to the improvement of the Partial Release Property.

(d) The Master Trustee shall execute and deliver all instruments (such as releases, partial releases, subordinations, access agreements, and consents) that are reasonably required to effectuate a Partial Release (collectively the “Partial Release Master Trustee Documents”), provided that (i) the Master Trustee has previously received a Partial Release Certificate and a written, reasonably detailed request for execution and delivery of the Partial Release Master Trustee Documents from the Obligated Group Representative and (ii) the Authority’s written consent to the Partial Release.

(e) No Member of the Obligated Group shall enter into a Partial Release without first delivering to the Master Trustee an Opinion of Counsel, in form and substance satisfactory to the Master Trustee and the Related Bond Issuer, to the effect that the proposed transaction, in and of itself, would not adversely affect the validity of any Related Bond, and if interest on such Related Bonds is excluded from gross income for federal income taxation, an Opinion of Bond Counsel that the proposed transaction, in and of itself, would not adversely affect such exclusion.

(f) In addition to any other releases or subordinations as may be permitted hereunder and not as a limitation, the Master Trustee, in its capacity as mortgagee under the 2008 Mortgage, shall, upon the written direction of the holder of Obligation No. 1, execute and deliver consents, waivers, estoppels, releases, partial releases, subordination agreements, and such other documents as the Authority deems reasonably necessary or appropriate.

(Section 3)

Additional Remedies Regarding the 2008 Mortgage; Distribution of Proceeds from Enforcement of Rights under the 2008 Mortgage

(a) In addition to any remedies enforceable pursuant to the Master Indenture, upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the 2008 Covered Obligations Outstanding, or upon the direction of Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by the applicable the 2008 Covered Obligations Outstanding, shall proceed forthwith to protect and enforce the rights of the Holders of the applicable 2008 Covered Obligations 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 2008 Mortgage. In addition, the Holders of not less than a majority in aggregate principal amount of the 2008 Covered Obligations then Outstanding shall 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 2008 Mortgage, except that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by the 2008 Covered Obligations Outstanding, and not the Holders, shall have the right to control proceedings with respect to the 2008 Mortgage in the manner described in this Section. The rights of any Related Credit Facility Issuer in this Section 4 apply only to the extent there is no Related Credit Facility Default by such Related Credit Facility Issuer and the full benefit of the Related Credit Facility remains available.

(b) Any proceeds received from the enforcement of the rights of the Master Trustee as mortgagee under the 2008 Mortgage shall, notwithstanding any provision in the Master Indenture to the contrary, be distributed by the Master Trustee, after application of the Gross Receipts in accordance with the Master Indenture, to satisfy any remaining amounts then due and owing under any 2008 Covered Obligations, in direct proportion that the amount then due and owing under each such 2008 Covered Obligation bears to the total amounts then due and owing under all applicable 2008 Covered Obligations.

(Section 4)

Insurance and Condemnation Proceeds with respect to the 2008 Mortgaged Property

Notwithstanding the percentage of Book Value of the Property, Plant and Equipment of the Obligated Group set forth in Section 3.04(a) of the Master Indenture, so long as the continued operation of the applicable Health Care Facility is not materially adversely affected, amounts received by ORMC as insurance proceeds for any casualty loss suffered at the 2008 Mortgaged Property, or as condemnation awards with respect to the 2008 Mortgaged Property, that does not exceed \$10,000,000 may be used in such manner as ORMC may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness (including the Series 2008 Bonds) in accordance with the terms thereof.

(Section 13)

Discharge of Supplement

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 Bond Trustee and available for such purpose, to cause all Outstanding Series 2008 Bonds to be deemed to have been paid within the meaning of Section 12.01 of the Related Bond Indenture and to pay all other amounts referred to in Section 12.01 of the Related Bond Indenture, accrued and to be accrued to the date of discharge of the Related Bond Indenture, Obligation No. 1 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture and this Supplement shall be discharged.

(Section 14)

Required Ratios

(a) The Obligated Group shall maintain the Required Ratios. The Long-Term Debt Service Coverage Ratio and number of Days Cash on Hand shall be calculated at the times and in accordance with Section 3.07(a) and (b) of the Master Indenture. A copy of the Officer's Certificate required by Section 3.07(b) of the Master Indenture shall also be delivered to the Authority so long as Obligation No. 1 remains Outstanding. The Officer's Certificate required by Section 3.07(c) of the Master Indenture shall include a certification that the Days Cash on Hand portion of the Required Ratios definition has been met. A copy of the Officer's Certificate required by Section 3.07(c) of the Master Indenture, including the additional certification as to Days Cash on Hand required by this Section 15(a)(i) shall be delivered to the Authority so long as Obligation No. 1 remains Outstanding.

(b) The requirement to retain a Consultant contained in Section 3.07(c) of the Master Indenture shall be triggered if either the Long-Term Debt Service Coverage Ratio is less than 1.10, or the Days Cash on Hand prior to Replacement Hospital Occupancy is less than 45 and following Replacement Hospital Occupancy is less than 60. The Obligated Group shall (A) prepare a scope of work for the Consultant in form and content reasonably acceptable to the Authority, (B) require such Consultant, within fifteen (15) days of its appointment, to commence work on a report to be delivered to the Obligated Group, the Master Trustee and the Authority recommending, in addition to the recommendations required to be included in such report pursuant to Section 3.07(c) of the Master Indenture, changes with respect to the operation and management of the Obligated Group's facilities and (C) to the extent permitted by law, implement such Consultant's recommendation in a timely manner. Any report of a Consultant prepared within the previous 12-month period pursuant to this subsection (b) shall, if addressed to the Authority and meeting the requirements of clause (C) above, be deemed to satisfy the foregoing requirement to procure a Consultant's report.

(c) If the Obligated Group Representative shall fail (A) to provide the Officer's Certificate required by paragraph (i) above, or (B) to satisfy the requirements of paragraph (ii) above and Sections 3.07(c) and (d) of the Master Agreement to the reasonable satisfaction of the Authority, the Authority shall be entitled to notify the members of each Member's Board of such noncompliance, and to enforce the provisions of this subsection (b) and Sections 3.07(c) and (d) of the Master Agreement by specific performance.

(d) Notwithstanding the provisions of paragraph (ii) above and Section 3.07(e) of the Master Indenture, if the Days Cash on Hand is less than 30, the Obligated Group shall not be in compliance with the Required Ratios and such event shall constitute an Event of Default under Section 4.01 of the Master Indenture.

(Section 16)

Limitations on Creation of Liens

(a) For so long as Obligation No. 1 remains Outstanding, the limitation on the creation of Liens contained in Section 3.05(a)(xxv) of the Master Indenture is modified such that liens on Property, in the aggregate, as a percentage of Total Operating Revenues shall not exceed fifteen percent (15%).

(b) In the event that Indebtedness incurred under the Master Indenture or Long-Term Indebtedness permitted to be incurred pursuant to Section 18(a) of this Supplement is to be secured by the 2008 Mortgaged Property on a parity basis with the 2008 Covered Obligations, the Master Trustee shall only execute an amendment to, spreader of, or other documents relating to the 2008 Mortgage to so secure such permitted additional Indebtedness if such Indebtedness is either to be issued by the Authority, or if the Authority consents in writing to so securing such Indebtedness (which consent is not to be unreasonably withheld).

(c) In the event that Indebtedness incurred under the Master Indenture or Long-Term Indebtedness permitted to be incurred pursuant to Section 18(a) of this Supplement is to be secured by the 2008 Mortgaged Property on a parity basis with the 2008 Mortgage (a "2008 Parity Security Instrument"), such 2008 Parity Security Instrument may only be granted if the Indebtedness to be secured by such 2008 Parity Security Instrument is either to be issued by the Authority, or if the Authority consents in writing to so securing such Indebtedness (which consent is not to be unreasonably withheld).

(d) Except as provided in paragraph (b) or (c) above, the Authority's prior written consent shall not be required to secure either Long-Term Indebtedness permitted to be incurred pursuant to Section 18(a) of this Supplement or Subordinated Debt by a lien on the 2008 Mortgaged Property subordinate to the lien of the 2008 Mortgage.

(Section 17)

Limitations on Indebtedness

(a) For so long as Obligation No. 1 remains Outstanding, the limitation on Long-Term Indebtedness contained in Section 3.06(a) of the Master Indenture is modified such that the Long-Term Debt Service Coverage Ratio for the Historic Audit Period contained in Section 3.06(a)(ii)(A) of the Master Indenture must be at least 1.25 and the forecasted Long-Term Debt Service Coverage Ratio in Section 3.06(a)(ii)(B) of the Master Indenture must be not less than 1.30. The Obligated Group may incur additional Long-Term Indebtedness Section 3.06(a) of the Master Indenture, as modified by the preceding sentence, only if either: (i) at the time of incurrence of such additional Long-Term Indebtedness, the senior Indebtedness of the Obligated Group (without regard to credit enhancement but after taking into

account the proposed Indebtedness) is rated at least BBB- or Baa3 (or correlative ratings) from at least two Rating Services (as defined in the Related Bond Indenture); or (ii) the prior written consent of the Authority is obtained or (iii) the amount of Long-Term Indebtedness (including Long-Term Indebtedness proposed to be issued) issued pursuant to this clause (iii) during the immediately preceding twelve (12) month period does not exceed 10 million dollars and the Obligated Group receives written confirmation from the Rating Services that the issuance of such Additional Indebtedness shall not adversely affect the ratings on the senior Indebtedness of the Obligated Group then Outstanding. The foregoing notwithstanding, Non-Recourse Indebtedness and Subordinated Debt may be incurred without limit and without Authority consent.

(b) If Authority consent is not required, any Member of the Obligated Group proposing to incur Long-Term Indebtedness, whether evidenced by Obligations issued or by evidences of Indebtedness entered into pursuant to documents other than the Master Indenture, shall give written notice of its intention to incur such Indebtedness in accordance with Section 2.01 of the Master Indenture and shall include in such notice, the amount of Indebtedness to be incurred and the subsection of Section 3.06 of the Master Indenture under which it will be incurred, to the Authority for so long as Related Bonds of the Authority are Outstanding.

(c) For so long as Obligation No. 1 remains Outstanding, the limitation on Short-Term Indebtedness contained in Section 3.06(c) of the Master Indenture is modified such that the amount of Short-Term Indebtedness that may be incurred, as a percentage of Total Operating Revenues shall not exceed fifteen percent (15%).

(d) For so long as Obligation No. 1 remains Outstanding, the limitation on accounts receivable contained in Section 3.06(1) of the Master Indenture is modified such that the aggregate amount of accounts receivable of any Member or Members that may be sold, pledged, assigned or otherwise disposed or encumbered in an aggregate amount may not exceed forty percent (40%) of the three (3) month average outstanding accounts receivable of the Obligated Group that are one hundred and twenty (120) days old or less as calculated in accordance with generally accepted accounting principles.

(Section 18)

Disposition of Cash and Investments

For so long as Obligation No. 1 remains Outstanding, the limitation on the disposition of cash and investments in securities contained in Section 3.08(b) of the Master Indenture is modified such that the percentage of the Obligated Group's cash or investments in securities that are permitted to be transferred is five percent (5%), unless there shall be delivered to the Master Trustee and the Authority prior to such Transfer an Officer's Certificate certifying that after such Transfer, the conditions for the incurrence of one dollar of (\$1.00) of Additional Indebtedness would be met and the unrestricted net assets of the Obligated Group after such Transfer is at least 90% of the unrestricted net assets of the Obligated Group prior to such Transfer. Notwithstanding anything herein to the contrary, the provisions of this Section 19 shall not apply with respect to the termination of the lease by ORMC of, and discontinuance of its operations at, the Arden Hill and Horton Campuses after the date that ORMC occupies the Replacement Hospital, as its primary hospital facility.

(Section 19)

Restriction on Control Agreements

So long as any Related Bonds of the Authority are Outstanding, and unless in connection with a lien otherwise permitted under Section 3.05 of the Master Indenture, no Member of the Obligated Group shall 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.

(Section 20)

Restriction on Self-Insurance

So long as any Related Bonds of the Authority remains Outstanding, the Members of the Obligated Group shall not self-insure for damage to property except for deductibles and co-payments as are customary for institutions of comparable size in New York, which determination shall be confirmed upon request of the Authority by certification from an Insurance Consultant.

(Section 21)

Filing of Financial Statements, Quarterly Reports, Certificate of Compliance, Other Information

The Obligated Group covenants that it will:

(a) If an Event of Default shall have occurred and be continuing, file with the Authority such financial statements and information concerning its operations and financial affairs as the Authority may from time to time reasonably request, excluding specifically donor records, patient records, personnel records and other records that are protected by law or governmental regulation from being disclosed.

(b) So long as any Related Bonds of the Authority are Outstanding, submit to the Authority the schedule setting forth by month the estimated debt service payable on all Obligations outstanding under the Master Indenture promptly upon submitting such schedule to the Master Trustee as required by Section 3.13 of the Master Indenture (Medicaid Account).

(c) Until completion of construction of the Replacement Hospital, cause to be delivered to the Authority, the Master Trustee and the Department of Health of the State of New York, quarterly construction monitoring reports issued by an independent construction monitor. Upon the written request of any holder of Related Bonds, the Master Trustee shall provide a copy of such report to such holder of the Related Bonds.

(Section 23)

Parties Becoming Members of the Obligated Group; Withdrawal from the Obligated Group

For so long as Obligation No. 1 remains Outstanding, (i) ORMC may not withdraw from the Obligated Group; and (ii) the Authority's written consent (which consent shall not be unreasonably withheld) shall be required for a Person to become a Member of the Obligated and for any other Member of the Obligated Group to withdraw from the Obligated Group.

(Section 24)

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Appendix G

**Proposed Form of Approving Opinion
of Bond Counsel**

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[PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL]

*Upon delivery of the Series 2008 Bonds, Harris Beach PLLC, Bond Counsel to the Authority,
proposes to issue its approving opinion in substantially the following form:*

[Closing Date]

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

**Re: \$261,345,000 Dormitory Authority of the State of New York
 Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008**

Ladies and Gentlemen:

We have examined a record of proceedings relating to the sale and issuance of Authority's \$261,345,000 aggregate principal amount of Orange Regional Medical Center Obligated Group Revenue Bonds, Series 2008 (the "Series 2008 Bonds") of the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended from time to time by, including but not limited to, the Health Care Financing Consolidation Act and as incorporated thereby, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of the State of New York, each as amended by Chapter 83 of the Laws of 1995 of the State of New York (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Series 2008 Bonds are issued under and pursuant to (i) the Constitution and laws of the State of New York, including in particular the Act, (ii) the Authority's Orange Regional Medical Center Obligated Group Revenue Bond Resolution adopted by the Authority on March 26, 2008 (the "General Resolution"), (iii) the Orange Regional Medical Center Obligated Group Series Resolution authorizing the Series 2008 Bonds adopted by the Authority on March 26, 2008 (the "Series Resolution" and, together with the General Resolution, the "Resolutions"); and (iv) the Bond Series Certificate relating to the Series 2008 Bonds, dated April 24, 2008, executed by an Authorized Officer of the Authority in accordance with the Resolutions (the "Series Certificate"). Capitalized terms used herein that are not otherwise defined shall have the meaning given to such terms in the Resolutions.

The Series 2008 Bonds are dated their date of closing, shall mature on December 1 in the years and principal amounts and shall bear interest, payable December 1, 2008 and semi-annually thereafter on each June 1 and December 1, at the respective rates per annum as set forth in the Bond Series Certificate.

The Series 2008 Bonds are issuable initially in the form of fully registered bonds in minimum denominations of \$100,000 and in any integral multiples of \$5,000 in excess thereof. The Series 2008 Bonds are lettered and numbered “R- ” followed by the number from such bond. The Series 2008 Bonds are numbered consecutively from one upward in order of issuance.

The Series 2008 Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Resolutions and in the Bond Series Certificate.

The Authority has entered into a Loan Agreement with Orange Regional Medical Center (the “Institution”) dated as of March 26, 2008 (the “Loan Agreement”), providing, among other things, for a loan by the Authority to the Institution of the proceeds of the Series 2008 Bonds for the purposes permitted thereby and by the Resolutions. Pursuant to the Loan Agreement, the Institution is required to make payments sufficient to pay the principal of and interest on the Series 2008 Bonds as the same shall become due, which payments have been pledged by the Authority to the Trustee for the benefit of the Holders of the Series 2008 Bonds.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2008 Bonds in order that interest thereon be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use and investment of bond proceeds and other moneys or property, required ownership of the facilities financed with the Series 2008 Bonds by an organization described in Section 501(c)(3) of the Code or a governmental unit, and the rebate to the United States of certain earnings in respect of investments. In the Resolutions, the Loan Agreement, the Tax and Arbitrage Certificate, dated the date hereof, of the Authority (the “Arbitrage Certificate”), and Tax Certificate, dated the date hereof, of the Institution (the “Tax Certificate”), the Authority and the Institution have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure satisfaction of the requirements of the Code (the Arbitrage Certificate and the Tax Certificate being collectively referred to as the “Tax Documents”).

In rendering the opinion set forth in paragraph 5 below, we have assumed the accuracy of certain factual certifications of, and continuing compliance with, the covenants, representations, warranties, provisions and procedures set forth in the Resolutions, the Loan Agreement and the Tax Documents by the Authority and the Institution. In the event of the inaccuracy or incompleteness of any of the certifications made by the Authority or the Institution, or the failure by the Authority or the Institution to comply with their covenants, representations, warranties, provisions and procedures set forth in the Resolutions, the Loan Agreement and the Tax Documents, interest on the Series 2008 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of the original issuance and delivery of the Series 2008 Bonds, regardless of the date on which the event causing such inclusion occurs. We render no opinion as to the exclusion from gross income of interest on the Series 2008 Bonds for purposes of federal income taxation on or after the date on which any change occurs or action is taken or omitted under the Resolutions, the Loan Agreement or the Tax Documents or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Harris Beach PLLC. In addition, we have not undertaken to determine, or to inform any person, whether any actions taken, or not taken, or events occurring, or not occurring, after the date of issuance of the Series 2008 Bonds may affect the tax status of interest on the Series 2008 Bonds. Further, although interest on the Series 2008 Bonds is not included in gross income for purposes of federal income taxation, receipt or accrual of the interest may otherwise affect the tax liability of a holder of a Bond depending upon the

tax status of such holder and such holder's other items of income and deduction. Except as stated in paragraphs 5 and 6 herein, we express no opinion as to federal or state and local tax consequences of the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds.

We have also examined one of the Series 2008 Bonds as executed and authenticated.

Based on the foregoing, and subject to the further assumptions and qualifications hereinafter set forth, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2008 Bonds thereunder.

2. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect, and constitute legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2008 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2008 Bonds are legal, valid and binding special obligations of the Authority payable as provided in Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions, and are entitled to the equal benefits of the Resolutions and the Act.

4. The Authority has the right and lawful authority and power to enter into the Loan Agreement and the Loan Agreement has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

5. Under existing statutes, regulations, administrative rulings and court decisions as of the date hereof, the interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that interest on the Series 2008 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations; we note, however, that interest on the Series 2008 Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability, if any, of certain corporations.

The difference between the principal amount of the Series 2008 Bonds maturing December 1, 2029, and December 1, 2037 (collectively, the "Discount Bonds"), and the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such an owner's adjusted basis for purposes of determining an owner's gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation

of such corporation's federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The Series 2008 Bonds maturing on December 1, 2011 through 2016, inclusive, and December 1, 2021 (collectively, the "Premium Bonds") are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

6. Under existing statutes, including the Act, interest on the Series 2008 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof.

The foregoing opinions are qualified only to the extent that the enforceability of the Resolutions, the Loan Agreement and the Series 2008 Bonds may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other laws heretofore or hereafter enacted and judicial decisions relating to or affecting the enforcement of creditors' rights or remedies or contractual obligations generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

In rendering the foregoing opinions we have made a review of such legal proceedings as we have deemed necessary to approve the legality and validity of the Series 2008 Bonds. In rendering the foregoing opinions we have not been requested to examine any document or financial or other information concerning the Authority or the Institution other than the record of proceedings referred to above, and we express no opinion as to the adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2008 Bonds.

Very truly yours,



ORANGE
REGIONAL

M E D I C A L C E N T E R

