DAC Bond®

$126,000,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MONTEFIORE MEDICAL CENTER
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS, SERIES 2008

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

Payment and Security: The Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 (the "Series 2008 Bonds") will be special obligations of the Dormitory Authority of the State of New York (the "Authority") payable solely from, and secured by a pledge of, payments to be made by Montefiore Medical Center (the "Medical Center") under a Note (the "Refinanced Note") insured by the United States Secretary of Housing and Urban Development, acting by and through the Federal Housing Commissioner, under Section 241 of the National Housing Act, as amended, and as provided in the Authority's Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bond Resolution adopted on June 23, 1999, as amended (the "Resolution"), and the Montefiore Medical Center Series Resolution Authorizing Up To $168,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 adopted on November 28, 2007 (the "Series Resolution", and collectively with the Resolution, the "Resolutions").

The Series 2008 Bonds will be secured by: (i) certain revenues received on behalf of the Authority from payments to be made by the Medical Center under the FHA-insured Refinanced Note and in the event of a default by the Medical Center thereunder, from the FHA Mortgage Insurance Benefits; and (ii) certain other moneys and funds (including investment income) held under the Resolutions and as may be available therefor to the Trustee (defined below) pursuant to a Loan Agreement, dated as of November 28, 2007, between the Medical Center and the Authority (the "Loan Agreement").

The Series 2008 Bonds will not be a debt of the State of New York nor will the State be liable thereon. The Authority has no taxing power. The Series 2008 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2008 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development ("HUD") or the Federal Housing Administration ("FHA").

Description: The Series 2008 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. Interest (due August 1, 2008 and on each February 1 and August 1 thereafter) on the Series 2008 Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2008 Bonds will be payable at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent.

The Series 2008 Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 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: *The Series 2008 Bonds are subject to redemption prior to maturity and purchase in lieu of redemption, as more fully described in this Official Statement. All redemptions shall include accrued interest to the date of such redemptions.*

Tax Exemption: In the opinion of Winston & Strawn LLP, Bond Counsel to the Authority, based on existing statutes, regulations, rulings and court decisions, interest on the Series 2008 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance with certain covenants and the accuracy of certain representations. In the further opinion of Bond Counsel, interest on the Series 2008 Bonds is not an "item of tax preference" for purposes of the federal alternative minimum tax on individuals and corporations; however, such interest will be includable in adjusted current earnings used to calculate the federal alternative minimum tax on corporations. Bond Counsel is also of the opinion that interest on the Series 2008 Bonds is under existing statutes exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds. See "PART 16-TAX MATTERS" herein.

The Series 2008 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2008 Bonds may be subject to prior sale, or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality of the Series 2008 Bonds by Winston & Strawn LLP, New York, New York, Bond Counsel to the Authority, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Harris Beach PLLC, New York, New York; for the Medical Center by its co-counsel, Dennett Law Offices, P.C., Great Neck, New York, and McLaughlin & Stern, LLP, New York, New York; and for the Mortgage Servicer, by its special counsel, Krooth & Altman LLP, Washington, D.C. The Authority expects to deliver the Series 2008 Bonds in definitive form in New York, New York, on or about February 7, 2008.

Merrill Lynch & Co.

Banc of America Securities LLC	**Goldman, Sachs & Co.**
JPMorgan	**Piper Jaffray & Co.**
Ramirez & Co., Inc.	**Roosevelt & Cross, Incorporated**

January 25, 2008

$126,000,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MONTEFIORE MEDICAL CENTER
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS,
SERIES 2008

$68,760,000 Serial Bonds

Due	Principal Amount	Interest Rate	Yield	CUSIP[(1)] Number	Due	Principal Amount	Interest Rate	Yield	CUSIP[(1)] Number
8/1/2008	$1,815,000	4.00%	2.53%	649903YB1	2/1/2014	$3,335,000	5.00%	3.31%	649903YN5
2/1/2009	2,675,000	4.00	2.58	649903YC9	8/1/2014	3,420,000	5.00	3.31	649903YP0
8/1/2009	2,730,000	4.00	2.61	649903YD7	2/1/2015	3,505,000	5.00	3.42	649903YQ8
2/1/2010	2,785,000	5.00	2.68	649903YE5	8/1/2015	3,595,000	5.00	3.42	649903YR6
8/1/2010	2,855,000	4.00	2.70	649903YF2	2/1/2016	3,685,000	5.00	3.53	649903YS4
2/1/2011	2,915,000	5.00	2.80	649903YG0	8/1/2016	3,780,000	5.00	3.53	649903YT2
8/1/2011	2,990,000	4.00	2.83	649903YH8	2/1/2017	3,875,000	4.00	3.63	649903YU9
2/1/2012	3,050,000	5.00	3.03	649903YJ4	8/1/2017	3,955,000	5.00	3.63	649903YV7
8/1/2012	3,125,000	4.00	3.04	649903YK1	2/1/2018	4,055,000	5.00	3.75	649903YW5
2/1/2013	3,190,000	5.00	3.18	649903YL9	8/1/2018†	4,155,000	5.00	3.75	649903YX3
8/1/2013	3,270,000	4.00	3.20	649903YM7					

$ 8,630,000 5.00% Term Bond Due August 1, 2019†, Yield 3.85% CUSIP Number 649903YY1
$ 9,075,000 5.00% Term Bond Due August 1, 2020†, Yield 3.96% CUSIP Number 649903YZ8
$ 9,540,000 5.00% Term Bond Due August 1, 2021†, Yield 4.06% CUSIP Number 649903ZA2
$10,025,000 5.00% Term Bond Due August 1, 2022†, Yield 4.14% CUSIP Number 649903ZB0
$ 7,740,000 4.00% Term Bond Due August 1, 2023, Yield 4.25% CUSIP Number 649903ZC8
$12,230,000 5.00% Term Bond Due August 1, 2024†, Yield 4.27% CUSIP Number 649903ZD6

† Priced to the February 1, 2018 par call date.

1. Copyright 2003, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2008 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 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 the Series 2008 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Medical Center 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, such information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The Series 2008 Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolutions have not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2008 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2008 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2008 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

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

The Medical Center has reviewed the parts of this Official Statement under the captions "PART 1 – INTRODUCTORY STATEMENT - The Medical Center", "PART 1 – INTRODUCTORY STATEMENT - Description of the Plan of Refunding", "PART 2-PLAN OF REFUNDING" (except for the information in the undesignated paragraph immediately preceding the subcaption "Payment of the Refinanced Note and Series 2008 Bonds" and under the subcaptions "Payment of FHA Mortgage Insurance Benefits" and "Prepayment of Refinanced Note from Hazard Insurance Proceeds or Condemnation Awards"), "PART 4 – PRINCIPAL, INTEREST AND ESTIMATED SCHEDULE OF SINKING FUND INSTALLMENTS", "PART 7 – ESTIMATED SOURCES AND USES OF FUNDS", "PART 10 – THE MEDICAL CENTER", "PART 11 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEDICAL CENTER", "PART 12 – BONDHOLDERS' RISKS" and "Appendix B–Audited Consolidated Financial Statements of Montefiore Medical Center for the Years Ended December 31, 2006, 2005 and 2004 and Certain Unaudited Consolidated Financial Information". The Medical Center shall certify as of the dates of sale and delivery by the Authority of the Series 2008 Bonds that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit to state any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Medical Center makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The Mortgage Servicer has reviewed the parts of this Official Statement relating to the Mortgage Servicer, the FHA Mortgage Insurance and the FHA Documents and shall certify as of the dates of sale and delivery by the Authority of the Series 2008 Bonds that such parts of this Official Statement as they related to the FHA Mortgage Insurance program do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading. The Mortgage Servicer makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

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

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

Under no circumstances shall the delivery of this Official Statement, or any sale made after its delivery, create any implication that the affairs of the Authority, FHA or the Medical Center 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 WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DAVID D. BROWN, IV - EXECUTIVE DIRECTOR GAIL H. GORDON, ESQ. – CHAIR

OFFICIAL STATEMENT RELATING TO

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
$126,000,000
MONTEFIORE MEDICAL CENTER
FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS,
SERIES 2008

PART 1 – INTRODUCTORY STATEMENT

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the Dormitory Authority of the State of New York (the "Authority") and its $126,000,000 Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 (the "Series 2008 Bonds").

The following is a brief description of certain information concerning the Series 2008 Bonds, the Authority and Montefiore Medical Center (the "Medical Center"). 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 hereto.

Purpose of the Issue

The proceeds of the Series 2008 Bonds, together with certain other available funds, are being used to currently refund all of the New York State Medical Care Facilities Finance Agency Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bonds 1995 Series A, (ii) fund the Reserve Account of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement less an amount equal to the Collateral Account Requirement, if any, and (iii) pay certain Costs of Issuance of the Series 2008 Bonds. See "PART 2 - PLAN OF REFUNDING" and "PART 7 - ESTIMATED SOURCES AND USES OF FUNDS". The proceeds of the Series 2008 Bonds will be loaned by the Authority to the Medical Center pursuant to the Loan Agreement, dated as of November 28, 2007 between the Medical Center and the Authority (the "Loan Agreement").

Authorization of Issuance

The Series 2008 Bonds will be issued pursuant to the Act, the Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bond Resolution adopted on June 23, 1999, as amended and supplemented (the "Resolution"), and the Montefiore Medical Center Series Resolution Authorizing Up To $168,000,000 FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 adopted on November 28, 2007 (the "Series Resolution", and collectively with the Resolution, the "Resolutions"). The Resolution authorizes the issuance of multiple Series of Bonds pursuant to separate series resolutions for the sole benefit of the Medical Center. Each Series of Bonds is to be separately secured by: (i) the funds and accounts established pursuant to a series resolution and the earnings thereon, and (ii) certain revenues received by the Authority from payments to be made by the Medical Center under a related note insured by the United States Secretary of Housing and Urban Development, acting through the Federal Housing Administration (the "FHA") and, in the event of a default by the Medical Center with respect to such FHA insured note, from FHA Mortgage Insurance Benefits (as defined herein) applicable to such FHA insured note. The Series Resolution authorizes the issuance of Series 2008 Bonds in an amount not to exceed $168,000,000. Pursuant to the Resolution, no loan agreement or mortgage entered into in connection with one Series of Bonds, shall secure any other Series of Bonds. Each Series of Bonds must be secured by a mortgage insured under the National Housing Act, as amended.

All references to funds and accounts in this Official Statement are to those funds and accounts authorized to be created pursuant to the Resolution and so designated and established by the Series Resolution. The Series 2008 Bonds represent the fifth Series of Bonds issued under the Resolution. The first series of bonds (the "Series 1999 Bonds") was issued on August 19, 1999 in the amount of $111,605,000. The second series of bonds (the "Series 2000 Bonds") was issued on August 30, 2000 in the amount of $18,000,000. The third series of bonds ("the Series 2004 Bonds") was issued on December 15, 2004 in the amount of $189,330,000. The fourth series of bonds ("the Series 2005 Bonds") was issued on September 22, 2005 in the amount of $152,185,000. See "PART 3 – THE SERIES 2008 BONDS".

Description of the Plan of Refunding

The proceeds of the Series 2008 Bonds, together with certain other available funds, are being used to currently refund all of the New York State Medical Care Facilities Finance Agency Montefiore Medical Center FHA-Insured Mortgage Revenue Bonds 1995 Series A (the "1995 Series A Bonds") currently outstanding in the aggregate principal amount of $140,580,000.

Proceeds of the 1995 Series A Bonds were used to (i) construct and equip an eight story, approximately 150,000 square foot Medical Arts Pavilion containing faculty practice and specialty clinics and certain diagnostic services for outpatient care, located at 3400 Bainbridge Avenue at the Moses Division, (ii) construct an eight story, 400 space parking garage adjacent to the Medical Arts Pavilion and connected to the Moses Division's inpatient complex, (iii) construct various infrastructure improvements at both the Moses Division (e.g., HVAC upgrade, renovation of lobby and nursing units) and the Weiler Division (e.g., upgrade of central plant, renovation of inpatient units), (iv) construct and equip the approximately 30,000 square foot Comprehensive Health Care Center, one of the Medical Center's community health centers, which is located at 306 East 161st Street, Bronx and which provides primary care to the area and serves as the principal teaching facility for the family medicine residency program, (v) refinance loans which provided funds to (a) renovate and/or construct a total of approximately 33,000 square feet of infill space used for medical administrative space, cardiac catheterization, ambulatory oncology and pacemaker services and (b) install a 5.5 megawatt cogeneration plant, all located at the Moses Division, and (vi) modernize and expand the Neonatal Intensive Care Unit at the Weiler Division.

Prior to their defeasance, the 1995 Series A Bonds are secured by a note and mortgage dated August 23, 1995 in the original principal amount of $157,176,000 (the "1995 Note" and the "1995 Mortgage," respectively) insured by the United States Secretary of Housing and Urban Development, acting by and through the Federal Housing Commissioner under Section 241 of the National Housing Act, as amended. The 1995 Note and the 1995 Mortgage are secured by a security agreement dated as of August 23, 1995 (the "1995 Security Agreement") and, in connection with the FHA insurance of the 1995 Note, the Medical Center and FHA entered into a regulatory agreement dated as of August 23, 1995 (the "Regulatory Agreement").

Simultaneously with the delivery of the Series 2008 Bonds, the 1995 Note will be amended and modified (as so amended and modified, the "Refinanced Note") and the 1995 Mortgage will be amended and modified (as so amended and modified, the "Modified Mortgage") as described in "PART 2 – PLAN OF REFUNDING" below. Monthly payments made by the Medical Center under the Refinanced Note shall be applied to the payment of the Series 2008 Bonds and certain other items. The Modified Mortgage together with a security interest in certain of the equipment and fixtures located in the Medical Center's facilities (collectively, the "Mortgaged Property") will provide security for the Series 2008 Bonds and repayment of the Refinanced Note. The Refinanced Note will continue to be insured by FHA under Section 241 of the National Housing Act, as amended.

Upon the defeasance of the 1995 Series A Bonds with the proceeds from the issuance of the Series 2008 Bonds and certain other available funds, in addition to the FHA-Insured mortgage loan evidenced by the Refinanced Note, the Medical Center will have outstanding four FHA-Insured mortgage loans made to it by the Authority (collectively, the "Other Medical Center FHA-Insured Loans").

- In 1999, the Authority issued the Series 1999 Bonds to finance a mortgage loan to the Medical Center in the amount of $103,445,300, which loan is secured by a FHA-insured Section 241 mortgage on substantially all of the Medical Center's real estate (the "1999 241 Loan").

- In 2000, the Authority issued the Series 2000 Bonds in order to finance a mortgage loan to the Medical Center in the amount of $16,591,000, which loan is secured by a FHA-insured Section 241 mortgage on a portion of the Medical Center's Moses Division parcel (the "2000 241 Loan").

- In 2004, the Authority issued the Series 2004 Bonds to finance a mortgage loan to the Medical Center in the amount of $172,244,000, which loan is secured by a FHA-insured Section 241 mortgage on substantially all of the Medical Center's real estate (the "2004 241 Loan").

- In 2005, the Authority issued the Series 2005 Bonds to finance a mortgage loan to the Medical Center in the amount of $147,954,000, which loan is secured by a FHA-insured Section 242 mortgage on substantially all of the Medical Center's real estate (the "242 Loan"). The 242 Loan was insured pursuant to Section 223(a)(7) of the National Housing Act, as amended.

The lien of the Modified Mortgage will be superior to the lien of the mortgages securing the Other Medical Center FHA-Insured Loans except for the mortgage executed in connection with the 242 Loan. A default under the Other Medical Center FHA Insured Loans may, at the sole option of FHA, constitute a default under the Refinanced Note and Modified Mortgage.

As of January 4, 2008, the outstanding aggregate principal amount of Other Medical Center FHA-Insured Loans was $412,324,748. See "PART 10 – THE MEDICAL CENTER – Previous FHA Insured Mortgage Loans" herein for a more complete description of the Other Medical Center FHA-Insured Loans.

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

FHA has agreed to insure repayment of the Refinanced Note under Section 241 of the National Housing Act, as amended, and the regulations promulgated thereunder. Generally, in connection with loans insured under Section 241 of the Act and applicable FHA regulations, mortgage insurance benefits are payable in the form of cash, FHA debentures or a combination thereof at the option of FHA and in its sole discretion following assignment of a note and a mortgage to FHA (the "FHA Mortgage Insurance Benefits"). However, pursuant to a letter dated November 15, 2007 (the "FHA Cash Lock Approval"), FHA has agreed to pay Mortgage Insurance Benefits in connection with the Refinanced Note in the form of cash. FHA Mortgage Insurance Benefits paid in cash will be applied to the Extraordinary Mandatory Redemption of the Series 2008 Bonds. See "Appendix C – Summary of Certain Provisions of the Resolution". See "PART 5 – FHA MORTGAGE INSURANCE" and "PART 2 – PLAN OF REFUNDING – Payment of FHA Mortgage Insurance Benefits" for more details concerning FHA Mortgage Insurance Benefits and the methods and conditions of payment.

The FHA Mortgage Insurance does not constitute a guaranty of timely or total payment of the principal of, Redemption Price or interest on the Series 2008 Bonds. FHA Mortgage Insurance Benefits will not be available immediately upon a default under the Refinanced Note or the Modified Mortgage and assignment thereof to FHA. In addition, processing claims for FHA Mortgage Insurance Benefits may involve certain time delays and such FHA Mortgage Insurance Benefits may be subject to certain deductions. To provide a source of funds for the timely payment of the principal of and interest on the Series 2008 Bonds prior to the receipt of FHA Mortgage Insurance Benefits, a Debt Service Reserve Fund has been established and funded at the Debt Service Reserve Fund

Requirement. The use of the Debt Service Reserve Fund, its limitations and the application of FHA Mortgage Insurance Benefits and other moneys if there are insufficient funds to pay the maturing principal of and interest on all Series 2008 Bonds Outstanding are described below under "PART 12 – BONDHOLDERS' RISKS – Adequacy of the Debt Service Reserve Fund," "PART 2 – PLAN OF REFUNDING –Payment of FHA Mortgage Insurance Benefits" and "Appendix C – Summary of Certain Provisions of Resolution". For a discussion of how the FHA Mortgage Insurance Benefits may be paid in an amount that is less than the Outstanding principal amount of the Series 2008 Bonds, and the consequences thereof, see "PART 5 – FHA MORTGAGE INSURANCE" and "PART 12 – BONDHOLDERS' RISKS – Reduction or Loss of Mortgage Insurance".

As further security for the Series 2008 Bonds, and subject to the qualifications set forth in the Resolution, the Authority will assign and pledge to the Trustee certain of its rights under the Loan Agreement, including the right to receive payments on the Refinanced Note; provided, however, that so long as no event of default has occurred, the Authority shall retain all rights and obligations as mortgagee under the FHA Documents and may give any consents or approvals permitted or required to be given by, and exercise all rights granted, to the mortgagee under the FHA Documents, subject in all respects to the provisions of the Resolution. In addition, the Authority will pledge and grant a security interest to the Trustee in the Trust Revenues for the Series 2008 Bonds and all moneys, securities and instruments held from time to time under the Debt Service Fund, the Debt Service Reserve Fund (subject to certain conditions in the Resolution) and Redemption Account. For a further description of all of the items to be pledged to the Trustee, see "PART 3 – THE SERIES 2008 BONDS – Security for the Series 2008 Bonds" herein and "Appendix C – Summary of Certain Provisions of the Resolution".

The Series 2008 Bonds are special obligations of the Authority and under the Resolutions are payable solely from the Trust Revenues pledged for the Series 2008 Bonds, including moneys derived from payments of principal and interest under the Refinanced Note, FHA Mortgage Insurance Benefits in the event of a default under the Refinanced Note and the Modified Mortgage, certain funds held by the Trustee, including the Debt Service Reserve Fund and the investment income thereon, net of amounts, if any, applied to the Arbitrage Rebate Fund. Pursuant to the terms of the Resolution, the funds and accounts established by the Series Resolution secure only the Series 2008 Bonds and do not secure any other Series of Bonds issued or to be issued under the Resolution regardless of their dates of issue.

The Authority shall not be obligated to pay the principal of, or interest on, the Series 2008 Bonds except from the Trust Revenues and funds pledged therefor under the Resolution and the Series Resolution. **Neither the faith and credit nor the taxing power of the State of New York or any municipality or political subdivision thereof is pledged to the payment of the principal of, redemption premium, if any, or interest on the Series 2008 Bonds. The Authority has no taxing power.**

The Series 2008 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2008 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development ("HUD") or FHA. In the event of conflict between the provisions of the FHA Documents and the Resolution, the Series Resolution or the Loan Agreement, the FHA Documents will control.

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

The Authority

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

The Medical Center

Montefiore Medical Center, located in the Bronx, New York, is a licensed 1,122-bed, not-for-profit, acute care, teaching institution. The Medical Center provides a wide range of primary, secondary, tertiary and quaternary health care related services. See "PART 10 - THE MEDICAL CENTER".

The Project

The Project consists of the current refunding of all of the 1995 Series A Bonds currently outstanding in the aggregate principal amount of $140,580,000 (the "Project").

PART 2 – PLAN OF REFUNDING

Substantially all of the proceeds of the Series 2008 Bonds, together with other available funds will be utilized by the Authority to currently refund all of the outstanding 1995 Series A Bonds in the aggregate principal amount of $140,580,000.

Upon delivery of the Series 2008 Bonds, the Medical Center is required to deliver to the Trustee an amount equal to the Collateral Account Requirement for deposit into the Collateral Account of the Debt Service Reserve Fund. Such requirement may be met with cash, a Letter of Credit or any combination thereof. For a description of the purpose and application of moneys in the Collateral Account, see "Payment of FHA Mortgage Insurance Benefits" below.

The portion of the Debt Service Reserve Fund Requirement deposited in the Reserve Account of the Debt Service Reserve Fund from the proceeds of the Series 2008 Bonds will be invested pursuant to the terms of an Investment Repurchase Agreement among the Authority, the Trustee and DEPFA Bank that expires no earlier than the date on which no Series 2008 Bonds remain Outstanding or the date no securities are on deposit in such Fund. The Resolution provides that net interest income on the Reserve Account will be deposited to the credit of the Debt Service Account of the Debt Service Fund.

Payment of Refinanced Note and Series 2008 Bonds

On August 23, 1995, the 1995 Note was initially endorsed by FHA for insurance under Section 241 of the National Housing Act, as amended, and the regulations thereunder. The 1995 Note was finally endorsed by FHA on May 24, 2000. Simultaneously with the delivery of the Series 2008 Bonds, the Refinanced Note in the amount of $121,438,038.09, will bear interest at the rate of 4.55% per annum payable in 182 monthly installments of $924,954.94. The final maturity date of the Refinanced Note is not being amended and will remain April 1, 2023.

The Medical Center will make monthly payments on the Refinanced Note which payments will be collected by the Mortgage Servicer on behalf of the Authority. Such payments will then be paid by the Mortgage Servicer, after deduction of the Servicing Fee, prior Mortgagee Advances and late charges if any, to the Trustee for deposit into the Debt Service Account. Net investment income from the Debt Service Reserve Fund for the Series 2008 Bonds will also be transferred to the Debt Service Account. The Resolution provides that on the last business day prior to each Interest Payment Date, the Trustee shall set aside monies in the Debt Service Account representing the following: (i) interest due on the Series 2008 Bonds on such Interest Payment Date; (ii) principal of the Series 2008 Bonds maturing on such Interest Payment Date; and (iii) to the extent required by the Resolution, transfers to the Redemption Account to be applied to Sinking Fund Installments (rounded downward to the nearest multiple of $5,000). All net investment earnings in the Debt Service Account shall be used to fund the Surplus Account. Funds in the Surplus Account will be used to pay the Trustee's annual fee and all fees and expenses of the Authority; any excess in the Surplus Account over $35,000 may be transferred to the Debt Service Account.

Payment of FHA Mortgage Insurance Benefits

Pursuant to the terms of the Resolution, if a payment default occurs under the Refinanced Note and Modified Mortgage and is continuing for thirty (30) days, the Refinanced Note and the Modified Mortgage shall be assigned to FHA in order to receive FHA Mortgage Insurance Benefits. Upon such event and until final payment by FHA of all Mortgage Insurance Benefits, unless and until such default is waived in accordance with the Resolutions, the Trustee shall transfer from the Collateral Account, if any, and the Reserve Account of the Debt Service Reserve Fund to the Debt Service Account on the second (2nd) Business Day preceding each Interest Payment Date an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest and principal then due on the Series 2008 Bonds Outstanding. See "PART 6 - CERTAIN PROVISIONS OF THE FHA DOCUMENTS".

However, no assurance can be given that moneys in the Collateral Account or Reserve Account of the Debt Service Reserve Fund will be sufficient to make all payments of debt service on the Series 2008 Bonds from the time a payment default occurs until final payment of FHA Mortgage Insurance Benefits is made. See "PART 12 - BONDHOLDERS' RISKS" and "PART 5 - FHA MORTGAGE INSURANCE". The procedure to be followed by the Authority in filing claims for Mortgage Insurance Benefits and the application of Mortgage Insurance Benefits are described in Appendix C under the headings "Summary of Certain Provisions of the Resolution - Remedies Under Mortgage and FHA Mortgage Insurance" and "-Application of FHA Mortgage Insurance Benefits".

Generally, in the event of a default and an assignment of a note and the corresponding mortgage to FHA, the FHA Mortgage Insurance Benefits may be paid in cash or debentures or any combination thereof at the discretion of FHA. However, pursuant to the FHA Cash Lock Approval, FHA has agreed to pay Mortgage Insurance Benefits with respect to the Refinanced Note in cash. FHA Mortgage Insurance Benefits received in the form of cash, will be applied to the Extraordinary Mandatory Redemption of the Series 2008 Bonds. See "Appendix C – Summary of Certain Provisions of the Resolution".

If such cash FHA Mortgage Insurance Benefits, together with all amounts then on deposit in all the funds and accounts (other than the Arbitrage Rebate Fund and the Mortgage Account and the Equity Account of the Construction Fund) established under the Resolutions including any unused portion of any Letter of Credit, are sufficient to redeem the Series 2008 Bonds, with interest to the redemption date and to pay all accrued and estimated fees and expenses of the Authority, the Trustee and the Mortgage Servicer, then any Investment Agreement or investment permitted by the Resolution in which moneys on deposit in any fund or account have been invested shall be liquidated or sold, and the proceeds thereof together with the proceeds of the FHA Mortgage Insurance Benefits and other available moneys shall be used to pay such fees and expenses and the balance shall be deposited in the Redemption Fund and used to redeem the Series 2008 Bonds.

In the event that such benefits are received from FHA in more than one cash installment, the Authority shall immediately deposit the first such installment in the Redemption Account after providing, by deposit to the Debt Service Account, for the payment of the maturing Principal Amount and interest due on the Series 2008 Bonds, if any, occurring on or prior to the date set for redemption and apply such moneys to the Extraordinary Mandatory Redemption of a portion of such Series 2008 Bonds. See "PART 3 – THE SERIES 2008 BONDS – Redemption of the Series 2008 Bonds".

It is anticipated that the Mortgage Insurance Benefits, together with the Trust Revenues held pursuant to the Resolution and Series Resolution, will be sufficient to pay the maturing principal of and interest on the Series 2008 Bonds. The Mortgage Insurance, however, does not constitute a guarantee or assurance of the timely payment of the principal or Redemption Price of, and interest on, the Series 2008 Bonds. Furthermore, FHA Mortgage Insurance Benefits, together with other Trust Revenues held on deposit under the Resolution and Series Resolution, may not be sufficient to pay the principal or Redemption Price of, and interest on the Series 2008 Bonds, depending upon the amount, if any, of the offsets made by FHA in calculating the payment of a claim for FHA Mortgage Insurance Benefits. See "PART 5 – FHA MORTGAGE INSURANCE".

Prepayment of Refinanced Note from Hazard Insurance Proceeds or Condemnation Awards

The Loan Agreement provides that hazard insurance proceeds and condemnation awards which are paid to the Authority as mortgagee under the Modified Mortgage upon a complete or partial destruction or condemnation (including eminent domain) of the Mortgaged Property shall, to the extent not applied to the repair, restoration or replacement of, or other approved HUD expenses for, the Mortgaged Property as may be permitted pursuant to the terms of the FHA Documents, the Loan Agreement and the Resolutions, be applied to the prepayment of the Refinanced Note. For information concerning redemption of Series 2008 Bonds from Refinanced Note prepayments, see "PART 3 – THE SERIES 2008 BONDS – Redemption of the Series 2008 Bonds".

PART 3 – THE SERIES 2008 BONDS

Description of the Series 2008 Bonds

The Series 2008 Bonds will be issued as fully registered bonds in the initial aggregate principal amount set forth on the cover page hereof. The Series 2008 Bonds will be dated their date of delivery and will bear interest from such date payable on August 1, 2008, and on each February 1 and August 1 thereafter and will bear interest at the rates and mature on the dates set forth on the inside cover page hereof. Interest on the Series 2008 Bonds shall accrue based upon a 360-day year of twelve 30-day months.

The Series 2008 Bonds will be issued in denominations of $5,000 or any integral multiple thereof. The Series 2008 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchase of beneficial interests in the Series 2008 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2008 Bonds, the Series 2008 Bonds will be exchangeable for other fully registered Series 2008 Bonds in any other authorized denominations of the same maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See "Book-Entry Only System" herein and "Appendix C – Summary of Certain Provisions of the Resolution".

The principal of and interest on the Series 2008 Bonds will be payable in lawful money of the United States of America. The principal or Redemption Price of the Series 2008 Bonds will be payable at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. Interest on the Series 2008 Bonds will be payable by check or draft mailed to the registered owners thereof at their addresses as shown on the registration books of the Authority. Interest is payable to the registered owners who are such registered owners at the close of business on the fifteenth day of the calendar month next preceding an interest payment date. In the event the Series 2008 Bonds shall no longer be issued in book-entry only format, Bondholders of $1,000,000 or more aggregate principal amount of Series 2008 Bonds may receive interest by wire transfer to the wire transfer address, within the continental United States specified by such Bondholder, upon the written request of such Holder received not less than 20 days prior to the next interest payment date, which written request may apply to multiple interest payment dates. Such Bondholders may receive the Redemption Price by wire transfer at the address in the continental United States specified by such Bondholder in a written request to the Trustee upon presentation and surrender to the Trustee of the Series 2008 Bond to be redeemed.

Security for the Series 2008 Bonds

The principal and Redemption Price of, and interest on, the Series 2008 Bonds are payable: (1) from payments to be made by the Medical Center under the Refinanced Note (other than the Servicing Fees and prior Mortgagee Advances, if any or late payment charges) and certain amounts payable under the Loan Agreement; (2) from Mortgage Insurance Benefits, in the event of a default by the Medical Center under the Refinanced Note and Mortgage and assignment thereof to FHA; and (3) from certain funds and accounts held by the Trustee pursuant to the Resolution and the Series Resolution and certain investment income thereon. The Series 2008 Bonds will be separately secured from all other bonds issued under the Resolution and the obligations of the Medical Center under the Refinanced Note are secured by the Modified Mortgage and by the Security Agreement. For a further description of the Mortgage Insurance Benefits, see "PART 5 – FHA MORTGAGE INSURANCE".

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be issued for the benefit of the Medical Center and authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds. The Holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series, including the Series 2008 Bonds.

With respect to the Series 2008 Bonds, the Resolutions provide for the establishment of a Debt Service Reserve Fund, which includes the following accounts: (a) a Reserve Account, funded from the proceeds of the Series 2008 Bonds, in an amount equal to the sum of (i) the maximum Principal Amount of the Series 2008 Bonds constituting Serial Bonds and interest thereon anticipated to come due in any twelve month period; (ii) an amount equal to the maximum amount of interest on the Series 2008 Bonds constituting Term Bonds becoming due in any twelve month period and (iii) the greater of either (y) one month's principal and interest payment on the Refinanced Note or (z) one month's interest at the interim rate on the Refinanced Note prior to the commencement of amortization; and (b) a Collateral Account, funded by the Medical Center with cash or a Letter of Credit in an amount, if any, equal to the Collateral Account Requirement.

The Series 2008 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2008 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD or FHA. The Series 2008 Bonds will not be a debt of the State of New York nor will the State be liable thereon. The Authority has no taxing power.

Additional Indebtedness

The Authority, as mortgagee under the Modified Mortgage, may consent to the Medical Center's incurring indebtedness in addition to the Refinanced Note, secured by a lien on the Mortgaged Property on a parity with or subordinate to (but not superior to) the lien of the Modified Mortgage. Substantially all of the Medical Center's real estate is also subject to the prior lien of the mortgage delivered by the Medical Center to secure the 242 Loan. As of January 4, 2008, the outstanding aggregate principal amount of Other Medical Center FHA-Insured Loans was $412,324,748.

Redemption of the Series 2008 Bonds

All redemptions of the Series 2008 Bonds are to be at a Redemption Price of 100% of the principal amount of the Series 2008 Bonds to be redeemed plus interest accrued to the redemption date.

Sinking Fund Installments. The Series 2008 Term Bonds maturing August 1, 2019, August 1, 2020, August 1, 2021, August 1, 2022, August 1, 2023, and August 1, 2024 are subject to Sinking Fund Installments in direct order of maturity (and within a maturity by lot) at a Redemption Price of 100% of the principal amount thereof on each February 1 and August 1 from funds remaining in the Debt Service Account and available for such purpose under the Resolutions after providing for the payment of maturing principal and interest then due on the Series 2008 Bonds. Since the amount of funds available to be applied to make Sinking Fund Installments may vary, the Resolutions do not require that Sinking Fund Installments be made in any specific amount, but only to the extent that funds are available in the Redemption Account therefor.

All of the Series 2008 Bonds are subject to Sinking Fund Installments to the extent Mortgage Insurance Benefits are on deposit and available therefor in accordance with the Resolutions at a Redemption Price equal to the principal amount to be redeemed on each February 1 and August 1 from funds remaining in the Debt Service Account after providing for the payment of interest and maturing principal then due on the Series 2008 Bonds.

Although the final maturity date of the Series 2008 Bonds is August 1, 2024, the payments of principal and interest under the Refinanced Note have been scheduled to provide sufficient funds, together with funds in the Debt Service Reserve Fund and certain investment earnings thereon, so that in the absence of a default under the Refinanced Note and Modified Mortgage, all Series 2008 Bonds Outstanding will be redeemed pursuant to Sinking Fund Installments by August 1, 2023. "PART 4 - PRINCIPAL, INTEREST AND ESTIMATED SCHEDULE OF SINKING FUND INSTALLMENTS" included in this Official Statement sets forth the estimated Sinking Fund Installments for the Series 2008 Bonds. Redemption from such amounts shall be in direct order of maturity of the Series 2008 Bonds and within a maturity by lot, or in such other manner as the Authority may direct to permit the timely payment of the principal of or interest on all Series 2008 Bonds.

Optional Redemption. The Series 2008 Bonds maturing on or before February 1, 2018, are not subject to optional redemption prior to maturity. The Series 2008 Bonds maturing on and after August 1, 2018 are subject to optional redemption prior to maturity by the Authority, but only upon the request of the Medical Center, on or after February 1, 2018 in whole or in part at any time at a Redemption Price equal to the Principal Amount to be redeemed, plus interest accrued to the redemption date.

Extraordinary Mandatory Redemption. The Series 2008 Bonds are subject to Extraordinary Mandatory Redemption in whole or in part at any time prior to maturity at a Redemption Price of 100% of the principal amount to be redeemed, plus interest accrued to the redemption date, on the earliest practicable date following:

(1) the deposit into the Redemption Account of proceeds of casualty insurance or condemnation awards with respect to the Mortgaged Property as are not applied to the repair, rebuilding or restoration of the Mortgaged Property or not applied to the prepayment of Other Medical Center FHA-Insured Loans, and other moneys required to be deposited in the Redemption Account by the Medical Center pursuant to the Loan Agreement;

(2) the deposit into the Redemption Account, upon the conditions specified in the Resolutions, of amounts of Mortgage Insurance Benefits received in cash and certain amounts held in the funds and accounts established under the Resolution; and

(3) the deposit into the Redemption Account, upon the conditions specified in the Resolutions, of proceeds of a refinancing and prepayment under the Refinanced Note following a default thereunder and a determination by

FHA that refinancing of all or a portion of the Refinanced Note resulting in such refinancing or prepayment will avoid a claim for Mortgage Insurance Benefits.

Purchase in Lieu of Optional Redemption. In lieu of redeeming the Series 2008 Bonds pursuant to Optional Redemption, the Trustee, at the direction of the Authority upon the request of the Medical Center, may call such Series 2008 Bonds for purchase in whole or in part at any time on and after February 1, 2018, at a purchase price equal to the Principal Amount to be purchased, plus interest accrued to the purchase date. Notwithstanding any provision of the Resolution to the contrary, in the event Series 2008 Bonds are called for Purchase in Lieu of 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.

Selection of Series 2008 Bonds for Other Than Sinking Fund Redemption. If fewer than all of the Series 2008 Bonds Outstanding shall be called for Optional Redemption, Extraordinary Mandatory Redemption or Purchase in Lieu of Optional Redemption, at the written direction of an Authorized Officer, the Trustee shall select for such redemption a Principal Amount of the Series 2008 Bonds of each maturity as directed by the Authority; provided, however, that Series 2008 Bonds tendered for purchase, whether such tender is on a mandatory or voluntary basis, shall, prior to any reoffering to the public, not be deemed Outstanding in connection with any subsequent partial optional redemption for purposes of those provisions of the Resolution relating to the selection of Series 2008 Bonds to be redeemed. If fewer than all of the Series 2008 Bonds of a particular maturity are to be called for redemption, the particular Series 2008 Bonds shall be selected by the Trustee by lot or by such method as is prescribed in the Resolution.

Notice of Redemption. Whenever Series 2008 Bonds are to be redeemed, the Trustee shall give notice of the redemption of such Bonds in the name of the Authority, postage prepaid, to the registered owners of any Series 2008 Bonds which are to be redeemed, at their last known address, if any, appearing on the registry books of the Authority, at least thirty but not more than forty-five days prior to the redemption date except that with respect to any Extraordinary Mandatory Redemption such notice shall be given at least ten but not more than thirty days prior to the redemption date. Such notice shall specify: (i) the Series 2008 Bonds to be redeemed (including date of issue, interest rate and maturity date); (ii) the redemption date; (iii) the Redemption Price; (iv) the source of the funds to be used for the redemption; (v) the numbers, any CUSIP number and other distinguishing marks of the Series 2008 Bonds to be redeemed (except in the event that all of the Outstanding Series 2008 Bonds are to be redeemed); (vi) of each such Bond, the principal amount thereof to be redeemed; (vii) that such Series 2008 Bonds will be redeemed at the principal corporate trust office of the Trustee giving the address thereof and the person or customer service name of a representative of the Trustee to whom inquiries may be directed; and (viii) that no representation is made as to the correctness of the CUSIP number either as printed on the Series 2008 Bonds or as contained in such notice and that an error in a CUSIP number as printed on such Bonds or as contained in such notice shall not affect the validity of the proceedings for redemption.

Such notice shall further state that on such date there shall become due and payable on each Series 2008 Bond to be redeemed, the Redemption Price thereof, together with interest accrued to the redemption date, if other than an Interest Payment Date, and that from and after such date, payment having been made or provided for, interest thereon shall cease to accrue. Failure of any registered owner to receive any such notice or any defect therein shall not affect the validity of a redemption of the Series 2008 Bonds with respect to which such notice has been given in accordance with the Resolutions.

Notice of Purchase in Lieu of Optional Redemption and its Effect. Notice of purchase in Lieu of Optional Redemption of the Series 2008 Bonds will be given in the name of the Medical Center to the registered owners of the Series 2008 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the purchase date specified in such notice. Series 2008 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event the Series 2008 Bonds are called for Purchase in Lieu of 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, except that such Series 2008 Bonds Purchased in Lieu of Optional Redemption will not be deemed Outstanding in connection with any subsequent partial Optional Redemption prior to any reoffering of those purchased Series 2008 Bonds solely for purposes of those provisions of the Resolution relating to the selection of Series 2008 Bonds in such a partial Optional Redemption.

The Medical Center's obligation to so purchase a Series 2008 Bond or to so 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 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 rendered 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 an interest on such Series 2008 Bonds in accordance with their respective terms.

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

For a more complete description of the redemption, purchase in lieu of redemption and other provisions relating to the Series 2008 Bonds, see "APPENDIX C -- SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION."

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2008 Bond will be issued for each maturity of the Series 2008 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic, computerized, book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Direct and Indirect Participants (collectively, "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 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 Participants 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 Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive definitive Series 2008 Bonds, except in the event that use of the book-entry 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 Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 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 Resolution and other related documents. For example, Beneficial Owners of 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 Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar for the Series 2008 Bonds and request that copies of notices be provided directly to them.

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

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

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

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, definitive Series 2008 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, definitive Series 2008 Bonds will also be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority, the Trustee and the Medical Center take no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICES FOR SUCH DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR 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.

So long as Cede & Co. is the registered owner of the Series 2008 Bonds, as nominee for DTC, references herein to the Bondholders, Holders, owners or registered owners of the Series 2008 Bonds (other than under the captions "PART 16 - TAX MATTERS" and "PART 23 - CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2008 Bonds.

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

The following table reflects the estimated debt service schedule (i) for the Series 2008 Bonds, including interest payments to be made on the Series 2008 Bonds, principal payments to be made at maturity of the Series 2008 Bonds and Sinking Fund Installments and (ii) other bonds issued by the Authority on behalf of the Medical Center and outstanding on the date of delivery of the Series 2008 Bonds. The portion of the schedule relating to the Series 2008 Bonds is based on the following assumptions: (i) that the first payment of principal of the Refinanced Note will be made on March 1, 2008; (ii) that no event of default will occur under the Refinanced Note or Modified Mortgage requiring the Authority to assign the Refinanced Note and Modified Mortgage to FHA; (iii) that the interest rate on the Refinanced Note will be 4.55% percent per annum until the final maturity of the Refinanced Note on April 1, 2023; (iv) that net interest income on the Reserve Account will be at the rate of approximately 3.83% per annum; and (v) that no prepayments are made on the Refinanced Note and the Series 2008 Bonds are not refunded in whole or in part. See "PART 6 – CERTAIN PROVISIONS OF THE FHA DOCUMENTS – The Refinanced Note".

The notes which follow the schedule describe circumstances under which the Sinking Fund Installments of the Series 2008 Bonds may vary from that which is set forth in the debt service schedule on the following page.

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Date	Principal Payments on Serial Bonds	Estimated Sinking Fund Installments on Term Bonds Maturing Aug. 1, 2019	Estimated Sinking Fund Installments on Term Bonds Maturing Aug. 1, 2020	Estimated Sinking Fund Installments on Term Bonds Maturing Aug. 1, 2021	Estimated Sinking Fund Installments on Term Bonds Maturing Aug. 1, 2022	Estimated Sinking Fund Installments on Term Bonds Maturing Aug. 1, 2023	Estimated Sinking Fund Installments on Term Bonds Maturing Aug. 1, 2024	Interest	Estimated Debt Service on all Other Authority Bonds Issued for the Medical Center *	Total Debt Service
8/01/2008	$1,815,000	15,000	--	--	--	--	--	$2,894,804	$16,883,703	$21,608,507
2/01/2009	2,675,000	20,000	--	--	--	--	--	2,957,950	16,887,443	22,540,393
8/01/2009	2,730,000	25,000	--	--	--	--	--	2,903,950	16,887,488	22,546,438
2/01/2010	2,785,000	25,000	--	--	--	--	--	2,848,725	16,890,366	22,549,091
8/01/2010	2,855,000	20,000	--	--	--	--	--	2,778,475	16,887,951	22,541,426
2/01/2011	2,915,000	25,000	--	--	--	--	--	2,720,875	16,891,498	22,552,373
8/01/2011	2,990,000	20,000	--	--	--	--	--	2,647,375	16,893,988	22,551,363
2/01/2012	3,050,000	25,000	--	--	--	--	--	2,587,075	16,897,941	22,560,016
8/01/2012	3,125,000	25,000	--	--	--	--	--	2,510,200	16,894,407	22,554,607
2/01/2013	3,190,000	25,000	--	--	--	--	--	2,447,075	16,900,992	22,563,067
8/01/2013	3,270,000	25,000	--	--	--	--	--	2,366,700	16,904,616	22,566,316
2/01/2014	3,335,000	30,000	--	--	--	--	--	2,300,675	16,904,640	22,570,315
8/01/2014	3,420,000	25,000	--	--	--	--	--	2,216,550	16,904,405	22,565,955
2/01/2015	3,505,000	30,000	--	--	--	--	--	2,130,425	16,895,843	22,561,268
8/01/2015	3,595,000	30,000	--	--	--	--	--	2,042,050	16,911,195	22,578,245
2/01/2016	3,685,000	30,000	--	--	--	--	--	1,951,425	16,911,025	22,577,450
8/01/2016	3,780,000	30,000	--	--	--	--	--	1,858,550	16,911,259	22,579,809
2/01/2017	3,875,000	30,000	--	--	--	--	--	1,763,300	16,916,368	22,584,668
8/01/2017	3,955,000	30,000	--	--	--	--	--	1,685,050	16,918,750	22,588,800
2/01/2018	4,055,000	35,000	--	--	--	--	--	1,585,425	16,919,449	22,594,874
8/01/2018	4,155,000	30,000	--	--	--	--	--	1,483,175	16,919,809	22,587,984
2/01/2019	--	4,295,000	--	--	--	--	--	1,378,550	16,919,924	22,593,474
8/01/2019	--	3,785,000	$ 620,000	--	--	--	--	1,271,175	16,933,813	22,609,988
2/01/2020	--	--	4,515,000	--	--	--	--	1,161,050	16,925,418	22,601,468
8/01/2020	--	--	3,940,000	$ 690,000	--	--	--	1,048,175	16,930,594	22,608,769
2/01/2021	--	--	--	4,745,000	--	--	--	932,425	16,933,778	22,611,203
8/01/2021	--	--	--	4,105,000	$ 760,000	--	--	813,800	16,939,864	22,618,664
2/01/2022	--	--	--	--	4,990,000	--	--	692,175	16,933,560	22,615,735
8/01/2022	--	--	--	--	4,275,000	$ 840,000	--	567,425	16,944,325	22,626,750
2/01/2023	--	--	--	--	--	5,240,000	--	443,750	16,942,134	22,625,884
8/01/2023	--	--	--	--	--	1,660,000	$12,230,000	338,950	16,952,175	31,181,125
2/01/2024	--	--	--	--	--	--	--	--	16,955,496	16,955,496
8/01/2024	--	--	--	--	--	--	--	--	16,954,313	16,954,313
2/01/2025	--	--	--	--	--	--	--	--	16,954,570	16,954,570
8/01/2025	--	--	--	--	--	--	--	--	17,926,139	17,926,139
2/01/2026	--	--	--	--	--	--	--	--	23,670,388	23,670,388
8/01/2026	--	--	--	--	--	--	--	--	12,209,625	12,209,625
2/01/2027	--	--	--	--	--	--	--	--	19,324,625	19,324,625
8/01/2027	--	--	--	--	--	--	--	--	6,505,625	6,505,625
2/01/2028	--	--	--	--	--	--	--	--	6,506,375	6,506,375
8/01/2028	--	--	--	--	--	--	--	--	6,509,125	6,509,125
2/01/2029	--	--	--	--	--	--	--	--	6,508,750	6,508,750
8/01/2029	--	--	--	--	--	--	--	--	6,510,250	6,510,250
2/01/2030	--	--	--	--	--	--	--	--	6,513,500	6,513,500
8/01/2030	--	--	--	--	--	--	--	--	6,513,375	6,513,375
2/01/2031	--	--	--	--	--	--	--	--	6,514,875	6,514,875
8/01/2031	--	--	--	--	--	--	--	--	6,517,875	6,517,875
2/01/2032	--	--	--	--	--	--	--	--	6,517,250	6,517,250
8/01/2032	--	--	--	--	--	--	--	--	16,318,000	16,318,000

* Amounts are subject to certain assumptions similar to those described on the prior page with respect to the Series 2008 Bonds.

The actual debt service payments on the Series 2008 Bonds may vary from the estimated schedule set forth on the previous page for various reasons, including the following:

1. If an event of default occurs under the Refinanced Note and the Modified Mortgage, and the Refinanced Note and the Modified Mortgage are assigned to FHA, certain funds held pursuant to the Resolutions and certain of the Mortgage Insurance Benefits, or the proceeds thereof, when received, will be applied to pay the interest due on

the Series 2008 Bonds, any maturing Principal Amount of the Series 2008 Bonds and, if provision in the Mortgage Insurance Benefits has been made therefor, the fees and expenses of the Trustee, the Authority and the Mortgage Servicer, and Mortgagee Advances; and the balance will be applied to Sinking Fund Installments of all the Series 2008 Bonds at the direction of the Authority based on a revised Cash Flow Statement and within a maturity by lot. Sinking Fund Installments to be made under such circumstances may vary from the amounts set forth on the above schedule.

2. To the extent the Medical Center prepays the Refinanced Note and provides other required funds, the Trustee shall redeem Series 2008 Bonds and the remaining payments on the Refinanced Note will be reduced, thus reducing the amounts available in each succeeding semi-annual period for redemption of Series 2008 Bonds. In such event, each succeeding payment due on the Refinanced Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Refinanced Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Refinanced Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2008 Bonds as described in "PART 3 – THE SERIES 2008 BONDS – Optional Redemption", above.

3. Any such cash payment made with respect to an event of default under the Refinanced Note, the Modified Mortgage and the Mortgage Insurance Benefits shall be applied to the Extraordinary Mandatory Redemption of Series 2008 Bonds, which would affect future Sinking Fund Redemptions.

4. To the extent the Refinanced Note is prepaid with the proceeds of hazard insurance, the Trustee shall redeem Series 2008 Bonds and the remaining payments on the Refinanced Note will be reduced, thus reducing the amounts available in each succeeding semiannual period for redemption of Series 2008 Bonds. In such event, each succeeding payment due on the Refinanced Note will be adjusted to an amount which, when paid monthly and applied first to interest on the outstanding balance of the Refinanced Note and the remainder to the reduction of principal, will be sufficient to pay the outstanding balance of the Refinanced Note, as adjusted, over the remaining term thereof, and the Trustee shall redeem from the excess funds the Series 2008 Bonds as described in "Optional Redemption" of "PART 3 – THE SERIES 2008 BONDS" above.

PART 5 – FHA MORTGAGE INSURANCE

General

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

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

The National Housing Act, as amended, and the applicable regulations provide that claims for Mortgage Insurance Benefits under mortgages insured pursuant to Section 241 are to be paid in cash, debentures, or in any combination thereof, at the option of FHA. However, pursuant to the FHA Cash Lock Approval, FHA has agreed to pay Mortgage Insurance Benefits in connection with the Refinanced Note in cash.

FHA regulations provide that the maximum insurable mortgage amount cannot exceed 90% of FHA's estimate of the cost of the property or project, including equipment to be used in its operation when the proposed improvements are completed and the equipment is installed. The Modified Mortgage meets these requirements.

Default and Payment of Mortgage Insurance Benefits

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

A mortgagee is entitled to receive the benefits of the Mortgage Insurance after the mortgagor has defaulted and such default, as defined in the regulations, has continued for a period of thirty days subject to the following requirements. If the default, as defined in the regulations, continues to exist at the end of a thirty-day grace period, the mortgagee is required to give FHA written notice of (1) the default within thirty days after such grace period, and (2) its intention to file an insurance claim and of its election either to assign the mortgage or to acquire and convey title to FHA within forty-five days after such grace period. Within an additional thirty days after notifying FHA of such election, the mortgagee must file its application form for Mortgage Insurance Benefits and effect such assignment, commence foreclosure proceedings or acquire title to the mortgaged property, with the approval of FHA, by means other than foreclosure, unless the time for taking action is extended by FHA.

In addition to the above requirements, FHA regulations provide that, in the event of a monetary default during the period when an optional prepayment under a note is not permitted or a prepayment premium in excess of one percent (1%) is payable under the Refinanced Note, the Authority, as mortgagee must request an extension of a period of three months of the requirement to file its intention and election to file a Mortgage Insurance claim in connection with such default. FHA may approve such request for the three months or a shorter period of time, or FHA may disapprove the request. The decision on such a request is at the sole discretion of FHA, based on its analysis of the financial condition of the "mortgagor" (as defined in the FHA Documents) and the assessment of FHA of the feasibility of arranging a successful refinancing in whole or in part. FHA has stated that it will consider granting such an extension, during which time the Authority as mortgagee will assist the mortgagor in refinancing the Refinanced Note, only if (a) the operation of the mortgaged property has resulted in a net income deficiency which has not been caused solely by management inadequacy or lack of interest by the mortgagor, and is of such a magnitude that the mortgagor is currently unable to make required debt service payments, pay all operating expenses in connection with the mortgaged property and fund all required reserves, (b) there is a reasonable likelihood that the mortgagor can arrange to refinance the note in default at a lower interest rate or otherwise reduce the debt service payments through partial prepayment, and (c) refinancing the note in default at a lower rate or partial prepayment of such note is necessary to restore the operations of the mortgaged property to a financially viable condition and to avoid a Mortgage Insurance claim.

Notwithstanding the above timetable established by FHA, the Resolution requires that if the Medical Center fails to make any payment required under the Refinanced Note or the Modified Mortgage and such failure continues for a period of thirty days, or, if following a default by the Medical Center in the performance of any covenant in the Regulatory Agreement, as incorporated by reference therein, or the Modified Mortgage, FHA shall have requested, and the Authority shall have declared an acceleration of the unpaid principal balance of the Refinanced Note, the Authority shall, not later than one Business Day after the end of such thirty-day grace period (or acceleration, as the case may be) give, or cause the Mortgage Servicer to give, written notice to FHA, the Trustee and the Rating Services including, among other things, a statement of (1) the occurrence of such default, (2) the acts or omissions giving rise to the default, (3) the time period, if any, available to cure such default, (4) a schedule of remaining Interest Payment Dates and a schedule of debt service payments due on the Series 2008 Bonds, (5) a schedule of the funds available to make payments as they become due on the Series 2008 Bonds, (6) the fact that the Modified Mortgage was given to secure an issue of tax-exempt bonds, (7) the Authority's election to assign the Refinanced Note and the Modified Mortgage to FHA, and (8) the Authority's intention and election to file a claim for the Mortgage Insurance Benefits in accordance with the FHA Documents. In filing such notice (the "Notice of Assignment"), the Authority or the Mortgage Servicer shall request priority processing of the Mortgage Insurance claim. Immediately upon the filing of such Notice, the Authority or the Mortgage Servicer shall request (a) required forms and instructions relating to the assignment of the Modified Mortgage and (b) an endorsement of the title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority shall submit the legal documentation for review by the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of the Series 2008 Bonds Outstanding, within 20 days of the date such notice was sent to FHA, the Authority shall take all actions necessary to assign the Refinanced Note and the Modified Mortgage to FHA and to recover such claim on the Mortgage Insurance. Thereafter, the Authority shall commence and proceed with diligence to complete and submit for review to FHA (not later than thirty days after the date of recordation of the assignment to FHA), in consultation with the Mortgage Servicer, the fiscal documentation and any additional legal documentation required after consultation with the Office of Finance and Accounting of FHA. In the event the assignment of the Refinanced Note and the Modified Mortgage will be completed later than the last business day preceding the thirtieth day following the giving of notice to FHA, notice thereof shall be given by the Authority to the Rating Services.

Notwithstanding the provisions set forth above, the Resolution provides that in the event of a monetary default under the Refinanced Note and the Modified Mortgage during a period when a prepayment premium is payable under the Refinanced Note, within one Business Day following the lapse of the thirty-day grace period, the Authority, as the mortgagee under the Modified Mortgage, shall, or shall cause the Mortgage Servicer to (1) notify FHA and the Rating Services of the default, (2) file with FHA a request for a three-month extension of the time to file its notice of intention and election to file a claim for mortgage insurance in connection with such default, and (3) file a copy of such extension request with the Authority and the Rating Services. In filing such notice, the Authority shall, or shall cause the Mortgage Servicer to, state that it intends to request priority processing of the mortgage insurance claim. Immediately upon the filing of such notice and request, the Authority shall, or shall cause the Mortgage Servicer to, request forms and instructions relating to the assignment of the Modified Mortgage, and within five Business Days of the receipt of such forms and instructions, the Authority shall, or shall cause the Mortgage Servicer to, submit legal documentation for review by the Office of General Counsel of FHA.

During any extension period approved by FHA (which, except as provided below, shall not be longer than three months), the Authority shall take the following actions, as appropriate: (1) assist the mortgagor in arranging a refinancing of the Refinanced Note to cure the default and avert the filing of the claim for Mortgage Insurance; (2) report to FHA on a monthly basis the progress, if any, in arranging the refinancing; (3) cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the Mortgage Insurance claim; (4) if thirty days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Series 2008 Bonds, notify FHA of such deficiency and request the immediate payment of FHA Mortgage Insurance Benefits in cash; and (5) if a determination is made by the Authority that the refinancing of the Refinanced Note is not feasible (a) file a request with FHA for its concurrence in such determination, (b) submit to FHA a notice of intention and election to file a claim for Mortgage Insurance, (c) file a copy of such notice of intention and election with the Trustee, the Rating Services, and (d) proceed with the processing of the Mortgage Insurance claim in a timely fashion in the manner followed for a monetary default, as described above.

If the request by the Authority for the extension is not approved or if a refinancing either is not arranged or is arranged and so approved but cannot be completed within any approved extension period, the Authority shall, or shall cause the Mortgage Servicer to, (1) file with FHA notice of its intention to file an insurance claim and its election to assign the Modified Mortgage within two Business Days of the receipt of the decision from FHA not to approve an extension or a refinancing or within two Business Days of a determination by the Authority that a refinancing cannot be arranged or cannot be completed within the approved extension period, (2) file a copy of such intention and election with the Trustee and the Rating Services, and (3) thereafter proceed with the processing of the Mortgage Insurance claim in a timely fashion in the manner followed for a monetary default, as described above. The Authority will not request more than one additional extension of the initial extension period approved by FHA. If the conditions for such further extension are not met, the Authority will proceed with processing the Mortgage Insurance claim in a timely fashion in the manner followed for a monetary default, as described above.

To the extent a refinancing is arranged and approved by FHA, the Resolution provides that the Refinanced Note shall be prepaid in whole or in part, and the proceeds shall be applied to the Extraordinary Mandatory Redemption of Series 2008 Bonds; provided, however, that such refinancing will result in a prepayment of the Refinanced Note prior to the expiration of the approved extension period. To the extent there is a partial prepayment of the Refinanced Note pursuant to an approved refinancing, the Authority, as the mortgagee, shall consent to any subordinate or parity liens on the Mortgaged Property as may be required.

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

(a) declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Refinanced Note by notice in writing to the Medical Center, and shall within one Business Day thereof give, or cause the Mortgage Servicer to give, to FHA, the Trustee and the Rating Services written notice of such default and of the Authority's intention and election to file a claim for Mortgage Insurance Benefits. In filing such notice the Authority or Mortgage Servicer shall request priority processing of the Mortgage Insurance claim. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer shall request (a) required forms and instructions relating to the assignment of the Modified Mortgage and (b) an endorsement of the title insurance policy for the Modified Mortgage showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority shall submit, or cause to be submitted, the legal documentation for review by the Office of General Counsel of FHA. Unless directed in writing to the contrary by the Holders of 100% in aggregate principal amount of the Series 2008 Bonds Outstanding, within twenty days of the date such notice was sent to FHA or unless such default has been cured, the Authority shall take all actions necessary to assign the Refinanced Note and the Modified Mortgage to FHA and to recover such claim on the Mortgage Insurance. Thereafter, the Authority shall continue with diligence to complete and submit for review to FHA (no later than thirty days after the date of recordation of the assignment to FHA) fiscal documentation and any additional legal documentation in consultation with the Office of Finance and Accounting of FHA; or

(b) enter into an agreement with the Medical Center, approved by FHA, extending the time for curing such default; provided (i) the Authority has notified the Rating Service, and (ii) confirmation has been received from the Rating Service as to its rating for the Series 2008 Bonds.

Prior to the date the Refinanced Note and Modified Mortgage are assigned to FHA, the Medical Center may cure its default as described in "Appendix C – Summary of Certain Provisions of the Resolution – Acceleration and Annulment Thereof," in which event the Authority shall withdraw its Notice of Assignment to FHA. In all cases, the Authority and the Trustee must have first received written confirmation from FHA that the withdrawal of any Notice of Assignment or election to receive FHA Mortgage Insurance Benefits of the Refinanced Note and the Modified Mortgage will not adversely affect the Mortgage Insurance, or be construed as a waiver or reduction thereof.

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

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

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

In connection with a claim for FHA Mortgage Insurance Benefits, FHA may require delivery to it of certain cash items. Cash items are defined to include, among other things, any cash held by or on behalf of the mortgagee which has not been applied to reduce the Modified Mortgage, funds held by the mortgagee for the account of the mortgagor, and any undrawn balance under letters of credit used in lieu of a cash deposit. The mortgagee is responsible for all funds in its custody and must therefore obtain approval from FHA (and others when required) prior to release of any funds which may be in its possession. Failure properly to protect such funds, including letters of credit, may result in a deduction from the FHA Mortgage Insurance Benefits with respect to the Modified Mortgage in an amount equal to funds FHA asserts should have properly been held as a deposit. If the deposits are held in the form of a letter of credit, it is the mortgagee's responsibility to convert the letter of credit to cash in the event the funds are to be delivered to HUD or applied to redemption of the Series 2008 Bonds.

When FHA pays Mortgage Insurance Benefits in cash, rather than in FHA debentures, its normal practice is to offset certain cash items against the amount of the Mortgage Insurance Benefits. If FHA were to require the delivery of certain cash items before paying the Mortgage Insurance Benefits, the Resolution requires that the Trustee transfer to FHA the amount, if any, on deposit in the Construction Fund. Although FHA may require the reduction of the Mortgage Insurance Benefits by the amount of certain cash items, FHA will not require a reduction by the amount held in other funds and accounts held by the Authority except that the amount of such benefits is subject to reduction or surcharge if funds have been disbursed from a sinking fund in a manner or for purposes not in compliance with the regulatory agreement.

The timing of payment by FHA is subject to change depending upon overall FHA policy considerations and work load. Mortgage Insurance payments may be delayed if disputes arise as to the amount of the payment, or for other reasons described under "PART 12 – BONDHOLDERS' RISKS" herein. Accordingly, no assurance can be given as to when Mortgage Insurance Benefits will be available for payment of debt service on or redemption price of the Series 2008 Bonds. Although the Debt Service Reserve Fund would be available to pay debt service on the Series 2008 Bonds during the period prior to payment by FHA in full of any Mortgage Insurance claim, there is no assurance that the Mortgage Insurance claim would be paid in full prior to exhaustion of the funds in such Debt Service Reserve Fund.

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

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

Casualty Insurance Requirements

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

Under applicable FHA regulations, if a mortgagee receives proceeds from any policy of casualty insurance, it may exercise its option under the mortgage to use such proceeds for repairing, replacing or rebuilding the mortgaged property, but not for application to the mortgage indebtedness or make any other disposition of the proceeds without FHA's prior written approval. If FHA fails to give its approval to the use of the insurance proceeds within sixty days after written request by the mortgagee, the mortgagee may use or apply the funds for the purposes specified in the mortgage without prior FHA approval.

In the event that casualty insurance proceeds are applied to prepayment of the Refinanced Note, they shall be deposited in the Redemption Fund for application, together with other required payments, to the Extraordinary Mandatory Redemption of all or a portion of the Series 2008 Bonds. See "PART 3 – THE SERIES 2008 BONDS – Redemption of the Series 2008 Bonds" herein.

PART 6 – CERTAIN PROVISIONS OF THE FHA DOCUMENTS

The Refinanced Note

On August 23, 1995, the 1995 Note was initially endorsed by FHA for insurance under Section 241 of the National Housing Act, as amended, and the regulations thereunder. The 1995 Note was finally endorsed by FHA on May 24, 2000. Simultaneously with the delivery of the Series 2008 Bonds, the Refinanced Note in the amount of $121,438,038.09, will bear interest at the rate of 4.55% per annum payable in 182 monthly installments of $924,954.94. The final maturity date of the Refinanced Note is not being amended and will remain April 1, 2023. The Refinanced Note and the Modified Mortgage will memorialize FHA's new agreement to pay Mortgage Insurance Benefits in connection with the Refinanced Note in the form of cash and certain other terms required by FHA.

Payments on the Refinanced Note are to be made by the Medical Center to the Mortgage Servicer on behalf of the Authority, as FHA mortgagee, on the first day of each month. In the event of a failure by the Medical Center to make any payment on the Refinanced Note when due, if such default is not cured prior to the date the next payment is due, the entire amount of the Refinanced Note may be declared due and payable by the Authority, as FHA mortgagee.

A default under the Other Medical Center FHA-Insured Loans may, at the sole option of FHA, constitute a default under the Refinanced Note and Modified Mortgage. See "Part 1 – INTRODUCTORY STATEMENT – Plan of Refunding".

If the Series 2008 Bonds are no longer considered to be Outstanding, the Refinanced Note and Modified Mortgage may secure a new issue of bonds. Additional fees must be paid by the Medical Center which are related to the costs of the Authority to redeem bonds. Upon prepayment in part, payment of the remaining principal amount will be recast over the remaining term to the maturity of the Refinanced Note so as to be payable in approximately equal monthly amounts which, when applied first to interest on the outstanding balance and the remainder to principal, will be sufficient to repay the amounts due on the Refinanced Note by its maturity.

The Modified Mortgage

Simultaneously with the delivery of the Series 2008 Bonds, the Medical Center will execute and deliver a Note and Mortgage Modification Agreement modifying the 1995 Mortgage (the "Modified Mortgage") in a form and in the manner prescribed by FHA. The Modified Mortgage will continue the lien of the 1995 Mortgage and will remain in full force and effect until final payment of the Refinanced Note.

The Modified Mortgage (in a form and in the manner prescribed by FHA), as executed and delivered by the Medical Center, continues the lien on the Mortgaged Property together with all buildings, improvements and fixtures thereon, rents, issues and profits thereof, and all building materials, equipment, furnishings and other property incident to use and occupancy thereof. Until the final payment of the Refinanced Note, the Medical Center agrees not to sell, encumber or alienate the Mortgaged Property in any way without the consent of the Authority and FHA. In the Modified Mortgage, the Medical Center also covenants that it will not voluntarily create or permit to be created any other lien or liens against the Mortgaged Property or execute or file for record any instrument which imposes a restriction upon the sale or occupancy of the Mortgaged Property on the basis of race, creed or color. ***The lien of the Modified Mortgage will be superior to the lien of the mortgages securing the Other Medical Center FHA-Insured Loans <u>except for</u> the mortgage executed in connection with the 242 Loan. A default under the Other Medical Center FHA-Insured Loans may, at the sole option of FHA, constitute a default under the Refinanced Note and Modified Mortgage.*** See "Part 1 – INTRODUCTORY STATEMENT – Plan of Refunding" and "PART 10- THE MEDICAL CENTER – Previous FHA Insured Mortgage Loans". The Authority is the mortgagee on all of the mortgages securing the Other Medical Center FHA-Insured Loans.

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

The Medical Center is required to keep the property insured against casualties as stipulated by FHA, such insurance to be carried for terms and with companies acceptable to the Authority, as FHA mortgagee. Coverage shall not be less than the greater of 80% of the actual cash value of the insurable improvements and equipment or the unpaid balance of the Refinanced Note. Policies shall be endorsed with a standard mortgagee clause, payable to the Authority. Any awards or claims for damages arising on account of a condemnation are payable or assigned to the Authority, as FHA mortgagee, to the extent of the indebtedness. Under the Modified Mortgage, the Medical Center covenants that it will not commit or permit waste and that it will maintain the Mortgaged Property in good repair and will promptly comply with all applicable laws and regulations affecting the property. If the Medical Center fails to make any required inspection, repair, care or attention of any kind to the property, the Authority, in its discretion, may do so.

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

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

The Authority may accelerate the indebtedness if any payment shall be overdue by 30 days, or if the Medical Center fails to perform any other covenant in the Refinanced Note and the Modified Mortgage subject to certain FHA approvals (see "PART 5 – FHA MORTGAGE INSURANCE").

Pursuant to the terms of the Resolution, the FHA Documents may be amended by the parties thereto, provided that no such amendments may have a material adverse effect on the security for the Series 2008 Bonds.

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

The Regulatory Agreement

The Regulatory Agreement which was entered into between the Medical Center and FHA on August 23, 1995, sets forth certain of the Medical Center's obligations in connection with the management and operation of the Medical Center and the Project. The Regulatory Agreement is incorporated by reference into the Modified Mortgage.

The Regulatory Agreement prohibits the use of the Project for any purpose other than the purposes for which it was intended. The Regulatory Agreement also prohibits the conveyance, transfer or encumbrance of the property or any personal property of the Project. The Regulatory Agreement further provides that the Medical Center may use all rents and other receipts from the Project only for expenses of the Medical Center including reasonable operating expenses and necessary repairs.

The Regulatory Agreement provides that the Medical Center may not, without prior written approval of FHA, remodel, add to or demolish any part of the facilities financed or refinanced with the proceeds of the Series 2008 Bonds. The Medical Center also is required to maintain such facilities in good repair.

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

PART 7 – ESTIMATED SOURCES AND USES OF FUNDS

Estimated Sources of Funds	
Principal Amount of Series 2008 Bonds	$126,000,000.00
Funds available in connection with the refunding of the 1995 Series A Bonds	28,653,990.67
Net Original Issue Premium	8,395,944.70
Total Sources of Funds	$163,049,935.37
Estimated Uses of Funds	
Deposit to Redemption Account	$145,008,548.47
Debt Service Reserve Fund for Series 2008 Bonds	12,230,000.00
Costs of Issuance(1)	3,476,386.90
Other Financing-Related Costs(2)	2,335,000.00
Total Uses of Funds	$163,049,935.37

(1) Includes underwriters' discount, the Authority Fee, certain other fees and expenses related to the financing and the rounding amount.
(2) Consists of the rate lock termination payment and a rating agency-mandated deposit to the Surplus Account established under the Resolution.

PART 8 – THE MORTGAGE SERVICER

Merrill Lynch Mortgage Lending, Inc. ("MLML") will act as mortgage servicer with respect to the Refinanced Note. MLML is a subsidiary of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), the senior managing underwriter of the Series 2008 Bonds.

MLML will enter into a subservicing agreement with Prudential Huntoon Paige Associates, Ltd. ("Huntoon") to perform its obligations as servicer for the Project. Until October 1989, when it was sold, Huntoon was known as Merrill Lynch MBS, Inc. and was a wholly-owned subsidiary of Merrill Lynch. As of January 1, 2008, Huntoon was serving as subservicer under subservicing agreements with MLML, for 25 hospital and nursing home loans insured by FHA with a total original principal amount of approximately $1,380,000,000.

PART 9 - THE PROJECT

The Project consists of the current refunding of all of the 1995 Series A Bonds currently outstanding in the aggregate principal amount of $140,580,000.

PART 10 – THE MEDICAL CENTER

Certain information contained in this PART 10 and elsewhere in this Official Statement that relate to the Medical Center are estimates, projections and statements describing possible future events or outcomes that are based on the beliefs of, and assumptions made by, the management of the Medical Center. Such information involves known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Medical Center to be materially different from any expected future results or performance. Such factors include, but are not limited to, items discussed in "PART 11 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEDICAL CENTER."

Introduction

Montefiore Medical Center ("Montefiore" or the "Medical Center") is a voluntary, acute care teaching hospital located in the Bronx, New York. The Medical Center is a New York not for-profit corporation exempt from federal income tax pursuant to Section 501(a) of the Code as an organization described in section 501(c)(3) of the Code. Montefiore currently has a 1,122 certified bed capacity at two facilities in the Bronx, New York: the 726 bed Henry and Lucy Moses Division located at 111 East 210th Street (the "Moses Division") and the 396 bed Jack D. Weiler Hospital of the Albert Einstein College of Medicine located at 1825 Eastchester Road (the "Einstein Division"). Montefiore was organized in 1884 as a hospital for patients with chronic disabling conditions. The Moses and Einstein Divisions have been located at their present sites since 1912 and 1967, respectively. The Children's Hospital at Montefiore was completed in 2001 and is located at the Moses Division.

Montefiore provides comprehensive primary, secondary, tertiary and quaternary healthcare services primarily to the residents of the borough of the Bronx. In addition to its acute care hospital based programs, Montefiore operates one of the nation's largest hospital based home health agencies, a methadone maintenance treatment program, a hospital sponsored renal dialysis program, and the Montefiore Medical Group ("MMG"), a 21-site primary care network located throughout the Bronx and Westchester County. In addition, Montefiore administers the clinical activity of the Medical Center's full time faculty and research activities funded by grants and contracts with the National Institute of Health, corporations and other entities.

Montefiore is the university hospital for, and the primary affiliate of, the Albert Einstein College of Medicine ("AECOM"). With 838 graduate medical residents, Montefiore's teaching program is the 4th largest in the United States. AECOM has no financial obligation with respect to the payment of debt service on the Series 2008 Bonds.

Existing Facilities

All of the Medical Center's inpatient and emergency facilities are located at the Moses Division and the Einstein Division. Ambulatory care facilities are located primarily at the two hospitals, a medical office building adjacent to the Moses Division, the Montefiore Medical Park (a facility several blocks from the Einstein Division), the Comprehensive Health Care Center at 305 East 161st Street, Bronx, New York and numerous off site locations principally in the Bronx and Westchester County. Montefiore's laundry services are located at 1776 Hoe Avenue, Bronx, New York. Administrative space is located at the Moses and Einstein Divisions, as well as in several leased office buildings in the Bronx and Westchester. The Medical Center leases the site of the Einstein Division from Yeshiva University under a lease expiring in 2055. All principal patient care, ancillary and support service buildings owned by the Medical Center, as well as the Medical Center's leasehold interest in the Einstein Division, are encumbered by the Medical Center's existing FHA insured mortgages, including the Mortgage securing the loan to be made by the Authority to Montefiore from the proceeds of the Series 2008 Bonds.

Services and Programs

Montefiore offers a broad range of diagnostic and therapeutic services for adults and children on an inpatient and outpatient basis. As of September 30, 2007, its certified bed complement (excluding bassinets) included the following services:

Montefiore Certified Bed Complement

	Moses Division	Einstein Division
Medical-Surgical	532	264
Intensive Care	37	22
Coronary Care	12	10
Pediatric	92	-
Pediatric Intensive Care	14	-
Maternity	-	50
Psychiatric	22	-
Rehabilitation	-	22
AIDS	13	-
Neonatal Intensive Care	0	28
Bone Marrow Transplant	4	-
Total	726	396

The Medical Center provides services in several specialties and subspecialties including: anesthesiology, cardiology, cardiothoracic surgery, dentistry, dermatology, emergency services, endocrinology, gastroenterology, general surgery, geriatrics, hematology, immunology, infectious disease, internal medicine, laboratory medicine, neonatology, nephrology, neurology, neurosurgery, nuclear medicine, obstetrics and gynecology, oncology, ophthalmology, oral surgery, orthopedic surgery, otolaryngology, pathology, pediatrics, plastic surgery, podiatry, psychiatry, pulmonology, diagnostic radiology, radiation oncology, rehabilitation medicine, rheumatology, thoracic surgery, urology and vascular surgery.

Services provided at the Moses Division include: acute and chronic renal dialysis, cystoscopy, outpatient physical medicine and rehabilitation, outpatient psychiatry, therapeutic radiology, radiology, designated AIDS services, kidney transplant, bone marrow transplant, heart transplant, adult and pediatric open heart surgery, ambulatory surgery, adult and pediatric cardiac catheterization, comprehensive epilepsy, outpatient dentistry, family planning, diagnostic and therapeutic nuclear medicine, inpatient and outpatient physical therapy, social work, audiology, speech language pathology, computed tomography ("CT") scanning, linear accelerator, magnetic resonance imaging ("MRI"), emergency department, part time clinics and primary medical care.

Services provided at the Einstein Division include: acute and chronic renal dialysis, kidney transplant, diagnostic and therapeutic nuclear medicine, social work, ambulatory surgery, cystoscopy, speech language pathology, adult cardiac catheterization, adult open heart surgery, emergency department, lithotripsy, diagnostic and therapeutic radiology, CT scanning and MRI.

The Medical Center is licensed to operate multiple ambulatory care facilities in the Bronx and southern Westchester County offering, among others, primary medical care, imaging, dental, methadone maintenance and school health services.

Montefiore operates 24 hour emergency departments at both divisions.

Academic Affiliation with the Albert Einstein College of Medicine

The Medical Center is the primary teaching affiliate for the Albert Einstein College of Medicine ("AECOM"), a division of Yeshiva University, and maintains residency and fellowship training programs in abdominal radiology, addiction psychiatry, adolescent medicine, allergy and immunology, anesthesiology, behavioral and developmental pediatrics, cardiac electrophysiology, cardiology, cardiothoracic anesthesiology, child neurology, child psychiatry, clinical neurophysiology, critical care, cytopathology, dentistry, dermatology, dermatopathology, emergency medicine, endocrinology, family practice, forensic psychiatry, gastroenterology, geriatric psychiatry, geriatrics, hematology/oncology, hematopathology, infectious diseases, internal medicine, interventional cardiology, medical genetics, musculoskeletal radiology, nephrology, neurological surgery, neurology, neurology sleep medicine, neuropathology, neuroradiology, nuclear medicine, obstetrics and gynecology, ophthalmology, oral surgery, orthodontics, orthopedic surgery, otolaryngology, pathology, pediatrics, pediatric critical care, pediatric emergency medicine, pediatric endocrinology, pediatric gastroenterology and nutrition, pediatric hematology oncology, pediatric infectious disease, pediatric neonatology, pediatric nephrology, pediatric neurology, pedodontics, physical medicine, plastic surgery, prosthodontics, psychiatry, psychosomatic medicine, pulmonology, radiation oncology, radiology, rheumatology, social medicine, social pediatrics, surgery, thoracic surgery, urology, vascular interventional radiology and vascular surgery. These programs presently provide training to approximately 838 residents and fellows and are fully accredited by either the Accreditation Council for Graduate Medical Education or the American Dental Association.

Montefiore and AECOM are parties to agreements under which the two institutions maintain their respective identities and governing boards. AECOM recognizes Montefiore as its primary teaching affiliate. AECOM also agrees to provide Montefiore with at least a majority of AECOM's medical students up to 225 students for clinical clerkships and Montefiore agrees to provide clinical clerkships for a total of 225 students or 75% of AECOM's students, whichever is less.

Related Organizations

There are several active entities affiliated with the Medical Center. A brief description of those entities follows:

1) CMO The Care Management Company, LLC, and MMC Contract Management Organization, Inc. CMO The Care Management Company, LLC ("CMO") is a single member New York limited liability company which is not recognized as a separate entity for tax purposes. The sole member of CMO is MMC Contract Management Organization, Inc., a taxable not-for-profit entity. The Medical Center is the sole member of MMC Contract Management Organization, Inc. CMO provides a broad spectrum of management services to the Medical Center affiliated IPAs and Montefiore Behavioral Care, IPA No. 1, Inc. All of its directors are senior management employees of the Medical Center.

2) Gun Hill MRI, P.C. ("GunHill") is a New York Professional Service Corporation which offers certain radiological services. The sole member and President of GunHill is the person who, at any time, is Montefiore's Chairman of Radiology. GunHill is an exempt organization as described in Section 501(c)(3) of the Code.

3) Emerging Health Information Technology, LLC ("EHIT") is a New York for-profit limited liability company which is not recognized as a separate entity for tax purposes. EHIT provides information processing solutions to its customers through a wide range of information technology and outsourcing support services. It is a wholly owned subsidiary of Montefiore, and its board of directors consists of representatives of Montefiore senior management.

4) MMC Corporation ("MMCC") is a New York not-for-profit corporation which is an exempt organization as described in Section 501(c)(3) of the Code. Its directors are the Chairman of the Board of Trustees and senior management employees of Montefiore. Its officers are officers and senior management employees of Montefiore. MMCC owns real estate that is leased to the Medical Center.

5) MMC GI Holdings East, Inc. ("MMC GI East") is a New York not-for-profit corporation formed in 2005 whose sole member is the Medical Center. The purpose of MMC GI East is to enter into joint ventures which will operate offsite outpatient endoscopy centers.

6) MMC GI Holdings West, Inc. ("MMC GI West") is a New York not-for-profit corporation formed in 2005 whose sole member is the Medical Center. The purpose of MMC GI West is to enter into joint ventures which will operate offsite outpatient endoscopy centers.

7) MMC IPA, Inc. ("IPA Inc.") is a taxable New York not-for-profit corporation which contracts with insurance companies to be responsible for providing the healthcare services to a defined covered group of individuals. It also contracts with healthcare providers, including the Medical Center, to provide the necessary services to the covered population. All participating providers are members of the corporation who, in accordance with the Not-for-Profit Corporation Law and the IPA Inc. bylaws, elect the board of directors. The board of directors of the corporation consists of representatives of Montefiore senior management, Montefiore employed physicians and voluntary physicians on the Montefiore medical staff. A majority of the directors are employees of Montefiore. Effective January 1, 2008, MMC IPA No. 7, Inc. and MMC IPA No. 8, Inc., each a taxable New York not-for-profit corporation which contracted with an insurance company to be responsible for healthcare services to a defined group of individuals and each of which had the Medical Center as to its sole corporate member, merged into IPA, Inc. with IPA, Inc. as the surviving entity.

8) Montefiore Behavioral Care, IPA No. 1, Inc. ("MBCIPA") is a taxable New York not-for-profit corporation which contracts with insurance companies and the Medical Center's integrated provider associations ("IPAs") to be responsible for the behavioral healthcare services to a defined covered group of individuals. It also contracts with healthcare providers to provide for the necessary services to the covered group of individuals. Montefiore is the sole member of MBCIPA and the board of directors of the MBCIPA consists of representatives of the Montefiore administration and Montefiore employed physicians and voluntary physicians on the Montefiore medical staff. A majority of the directors are employees of Montefiore.

9) Montefiore Health System, Inc. ("MHS") is a New York not-for-profit corporation which is an exempt organization as described in Section 501(c)(3) of the Code. The corporate members of MHS are the same individuals who serve as the Executive Committee of the Medical Center. MHS is the sole corporate member of the Medical Center as well as Our Lady of Mercy Medical Center ("OLM"), OLM Ambulatory Care Center, Inc. ("OLM Ambulatory") and O.L.M. Parking Corporation ("OLM Parking").

10) Montefiore Hospital Housing Section II, Inc. ("Housing II"), a New York not-for-profit corporation organized under the Private Housing Finance Law of New York State, provides housing to Montefiore employees and others. Housing II is an exempt organization as described in Section 501(c)(2) of the Code. All of its directors are officers or senior management employees of Montefiore. It owns and operates a 28-story apartment building with a 7-floor parking garage, located at 3450 Wayne Avenue, Bronx, New York.

11) Montefiore Medical Center Residential Corp. I, Inc. ("Residential I"), a New York not-for-profit corporation which is an exempt organization as described in Section 501(c)(2) of the Code, provides housing to Montefiore employees and others. All of its Directors and officers are officers and senior management employees of the Medical Center. It owns and operates a 12-story apartment building located at 3411 Wayne Avenue, Bronx, New York.

12) Mosholu Preservation Corporation ("MPC") is a New York not-for-profit corporation and an exempt organization as described in Section 501(c)(3) of the Code. The purposes of MPC are to support of the Medical Center through the acquisition and rehabilitation and operation of apartment and other buildings in the area of Montefiore. It currently owns six properties in the Bronx. Trustees of the Medical Center nominate a majority of the board of directors of MPC, and five of the current eight directors are Trustees of Montefiore.

13) University Behavioral Associates, Inc. ("UBA") is a taxable New York not-for-profit corporation which provides staff and systems to assist MBCIPA in effectively managing the behavioral healthcare needs of patients. UBA also has several contracts with New York City and federal agencies to provide substance abuse case management services. Montefiore is the sole member of UBA, and the board of directors of UBA consists representatives of Montefiore senior management and full time employed physicians on the Montefiore medical staff. A majority of the directors are employees of Montefiore.

None of the entities described above, other than the Medical Center, have any financial obligation with respect to the payment of debt service on the Series 2008 Bonds. However, the accounts of the CMO, GunHill, EHIT, MMCC, IPA Inc., MBCIPA, Housing II, Residential I, MPC and UBA are all included in the audited and unaudited consolidated financial statements of the Medical Center included in Appendix B.

Affiliations

In April, 1999, the Medical Center entered into an agreement with The Bronx-Lebanon Hospital Center ("BLHC") to explore mutually beneficial business and medical opportunities. The Medical Center installed certain management information systems at BLHC and provides lab services for BLHC which BLHC does not otherwise provide. BLHC has no financial obligation with respect to the payment of debt service on the Series 2008 Bonds.

On January 26, 2006, MHS became the sole corporate member of the Medical Center, replaced Catholic Healthcare System as the corporate member of OLM and replaced Our Lady of Mercy Healthcare System, Inc. as the sole corporate member of OLM Ambulatory and OLM Parking.

On March 8, 2007, OLM and OLM Parking filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of the United States Bankruptcy Code. Simultaneous with the Chapter 11 filing, OLM and OLM Parking filed a motion with the Bankruptcy Court to approve an asset purchase agreement entered into by OLM and OLM Parking, as sellers, and the Medical Center, as purchaser (the "OLM Asset Purchase Agreement"). Under the terms of the OLM Asset Purchase Agreement, the Medical Center agreed to acquire certain assets of OLM and OLM Parking and assume certain of their liabilities. The OLM Asset Purchase Agreement was approved by the Bankruptcy Court on July 2, 2007. The closing on the OLM Asset Purchase Agreement has not yet occurred and is now contingent on the Medical Center's obtaining all required governmental regulatory approvals for the transaction.

The United States Attorney's Office in the Eastern District of New York is asserting a claim against OLM in the amount of $30 million in connection with substance abuse services billed by OLM to the New York Medicaid program. On December 14, 2007, the Office of the Inspector General of the Department of Health and Human Services ("OIG") served a subpoena on MHS for the production of records of MHS and certain affiliates, including the Medical Center, relating to the affiliation between MHS and OLM, the subsequent execution of the OLM Asset Purchase Agreement and the substance abuse program that had been operated by OLM. No claim has been made by the OIG or the United States Attorney's Office against MHS or the Medical Center with respect to substance abuse services billing by OLM. There can be no assurance that the OIG or the United States Attorney's Office will not assert a claim in the future against the Medical Center and the Medical Center is currently unable to determine whether a claim, if asserted and successful, would have a material adverse impact on it. MHS is in the process of responding to the subpoena.

Governance

Montefiore, a New York not-for-profit corporation, received a determination letter from the Internal Revenue Service that it is qualified as an exempt organization under Section 501(c)(3) of the Code.

Montefiore is governed by a Board of Trustees (the "Board") consisting of not less than 3 nor more than 80 members who serve staggered three year terms and are elected at the annual meeting of the members of the Medical Center. As of January 7, 2008, there were 50 members of the Board including 3 ex-officio members. There are four regular meetings of the Board of Trustees scheduled each year, including the annual meeting. The officers of the Medical Center are elected at the annual meeting of the Board held in May of each year.

As of January 7, 2008, the members of the Board, their year of first appointment, the year of expiration of their current term and their principal occupations are as follows:

Name/Office	Year First Elected	Year Term Expires	Occupation
Oded Aboodi	2003	2008	Chairman & CEO; Alpine Capital Group
Jay B. Abramson	1998	2008	Executive Vice President; Cramer, Rosenthal, McGlynn, LLC (Investment Banking)
Margaret Hayes Adame	2000	2008	President; Fashion Group International
George Asch	1991	2006	Managing Director; Barrett Associates (Investment Managers)
Joseph W. Bartlett, Esq.	1987	2006	Attorney; Fish & Richardson P.C.
Patricia Bauman	2001	2007	Co-Director; Bauman Foundation
Herbert C. Bernard	1975	2006	Former President; Shuttleworth Carton Company (Manufacturer) and Helm Realty Investment Company
Robert A. Bernhard, *Executive Vice Chairman*	1959	2007	Co-Chairman; Munn, Bernhard and Associates (Investment Advisors)
Bruce L. Bozeman, Esq.	1991	2010	Senior Partner; The Bozeman Law Firm, LLP
Lawrence B. Buttenwieser, Esq.	1960	2008	Counsel; Katten Muchin Rosenman LLP
George Campbell Jr., Ph.D.	2000	2010	President; The Cooper Union for the Advancement of Science and Art
Bruce Doniger	2002	2009	President; J.E. and Z.B. Butler Foundation
Arthur D. Emil, Esq.	1970	2010	Partner; Cohen Tauber Spievack & Wagner, LLP
Kim S. Fennebresque	2004	2009	Chairman and CEO; Cowen and Company, LLC (Investment Banking)
Karen L. Finerman	2004	2009	President; Metropolitan Capital Advisors, Inc. (Investment Management)
Jay N. Goldberg *AECOM appointee*	1999	ex-officio	Senior Managing Director; Hudson Ventures Partners, L.P. (Investment Banking)
Ruth Gottesman	2007	2008	Chair, Board of Overseers; Albert Einstein College of Medicine
David C. Gottlieb	1996	2009	Senior Partner; EMF Financial Products, LLC
George D. Gould	2004	2010	Vice Chairman; Klingenstein Fields and Co., LLC (Investment Banking)
Barry W. Gray	1993	2008	President and Chief Executive Officer; A.C. Israel Enterprises Inc. (Investments)
Patricia Green	2005	2009	President; Green Charitable Foundation
John H. Gutfreund	1968	2009	Senior Advisor; C.E. Unterberg, Towbin (Investments)

Name/Office	Year First Elected	Year Term Expires	Occupation
Thomas L. Harrison	2005	2010	Chairman and CEO; Diversified Agency Services, The Omnicom Group
John Heffer	2000	2009	Former President; HSBC Business Credit (USA). Managing Member; Chatham Business Credit, LLC
Lewis Henkind	1996	2010	President; Lewis Henkind Company (Real Estate)
Helen A. Johnson	1986	2010	Retired, New York State Office of Court Administration
David B. Keidan	2004	2009	President; Buckingham Capital Management, Inc.
Gershon Kekst	1985	2010	President; Kekst and Company (Corporate and Financial Communications)
Cynthia King Vance	2007	2010	Consultant
Alan M. Klein, Esq.	2007	2008	Partner; Simpson Thacher & Bartlett, LLP
Jay B. Langner *Chairman Emeritus*	1976	2010	Private Investor
Alan G. Mnuchin	2002	2008	Managing Principal; AGM Partners, LLC (Investment Advisor)
Margaret S. Nathan	1970	2008	Philanthropist
Peter J. Neufeld, Esq.	1989	2009	Partner; Cochran Neufeld & Scheck, LLP
Ned S. Offit	2006	2009	Co-Chief Executive Officer; Offit Capital Advisors, LLC (Investment Advisor)
John W. Riehm	1983	2010	Chairman; R/G Ventures, Inc. (Securities)
Gayle F. Robinson	2001	2009	Executive Search Consultant
Edward J. Rosenthal	1976	2010	Vice Chairman Emeritus; CRM Capital LLC (Investments)
Jon W. Rotenstreich	1980	2008	President; Jon Rotenstreich Consultants LLC (Consulting)
Ruth Saporta *Auxiliary President*	1985	ex-officio	Retired; Visiting Nurse Service of New York
Steven M. Safyer, M.D. *President*	2008	ex officio	President and Chief Executive Officer; Montefiore Medical Center
Richard D. Segal	2006	2008	President & CEO; Seavest, Inc. (Consulting)
Hon. Felice K. Shea	1996	2008	Retired; Justice of the New York State Supreme Court
David F. Stein	1990	2010	Vice Chairman; J. & W. Seligman & Co. (Investment Management)
Edwin H. Stern, III	1968	2008	Vice President; Seiden Krieger Associates, Inc. (Executive Search Consultants)
David A. Tanner *Chairman*	1998	2009	Executive Vice President; Conti Group (Investment Banking)
Daniel R. Tisch	1981	2009	Partner; Mentor Partners (Risk and Arbitrage Investment)
Robert V. Tishman, *Honorary Chairman*	1957	2008	Chairman; Tishman Speyer Properties
Kenneth D. Weiser, *Treasurer*	1994	2008	Senior Partner; Weiser LLP (Certified Public Accountants)
Jide J. Zeitlin	1998	2008	President; The Keffi Group, Ltd. (private equity group)

The Board of Trustees monitors Montefiore's operations through a varied and active group of fourteen committees: Audit; Children's Hospital at Montefiore; Compensation; Compliance; Development; Executive; Finance; Home Health Agency Governing Body; Investment; Legal/Compliance; Medical; Governance & Nominating; Planning; and Real Estate and Facilities Committees.

Conflict of Interest

The Medical Center's conflict of interest policy requires any potential conflict of interest to be disclosed on the record to the Board. Any transaction with the Medical Center or its affiliates in which a Board member has a financial interest must be determined to be fair and reasonable to the Medical Center.

Senior Management

The senior management of the Medical Center consists of the President and Chief Executive Officer, President Emeritus, Executive Vice President-Corporate, Executive Vice President-Operations, Executive Vice President-Finance, and several senior vice presidents.

Steven M. Safyer, M.D., President and Chief Executive Officer (58). Dr. Safyer was appointed President and Chief Executive Officer of the Medical Center effective January 7, 2008 and is responsible for the overall operation of the Medical Center. He joined the Medical Center in 1982 and was promoted to the position of Senior Vice President, Chief Medical Officer in 1998. Prior to his appointment as Senior Vice President, Chief Medical Officer, Dr. Safyer held the following positions at the Medical Center: Vice President, Medical Affairs (1995-1998); Medical Director, Moses Division (1993-1995); Executive Director of Rikers Island Health Services (1990-1993); and Medical Director of Rikers Island Health Services (1986-1990). Dr. Safyer is a board certified physician in Internal Medicine and holds academic appointments as Professor of Medicine and Professor of Epidemiology and Population Health at the Albert Einstein College of Medicine. Dr. Safyer is a fellow of the New York Academy of Medicine, serves on the executive committee and governing board of the Greater New York Hospital Association and is the Chair of the Bronx Regional Health Information Organization, an independent organization for health information sharing of which the Medical Center is a member. Dr. Safyer received his Doctor of Medicine degree from AECOM in 1982 and his Bachelor of Science degree from Cornell University in 1971.

Spencer Foreman, M.D., President Emeritus (72). Dr. Foreman joined the Medical Center as President and Chief Executive Officer in 1986 and served in that capacity until his retirement in January, 2008. He is certified by the American Board of Internal Medicine in both internal medicine and pulmonary disease and holds academic appointments as Professor of Medicine and Professor of Epidemiology and Population Health at the Albert Einstein College of Medicine. He is a fellow of the American College of Physicians and a member of the National Academy of Science's Institute of Medicine. Prior to joining the Medical Center, Dr. Foreman served for thirteen years as Chief Executive Officer of Sinai Hospital of Baltimore (1973-1986). From 1962 to 1973, Dr. Foreman was a commissioned officer in the U.S. Public Health Service, reaching the rank of (naval) captain. Dr. Foreman has been the Chairman of the Board of the Greater New York Hospital Association (1992-1993), Chairman of the Board of the League of Voluntary Hospitals (1994-1997) and Chairman of the Association of American Medical Colleges (1992-1993). Dr. Foreman received his Doctor of Medicine degree from the University of Pennsylvania in 1961 and his Bachelor of Science degree from Ursinus College in 1957. In 2004, he was elected Chairman of the Board of Trustees of Ursinus College.

Donald L. Ashkenase, Executive Vice President-Corporate (64). Mr. Ashkenase joined the Medical Center in 1987 as Senior Vice President-Finance and was promoted to his present position in 1988. Prior to joining the Medical Center, Mr. Ashkenase served as Vice President for Finance of Long Island Jewish Medical Center (1977-1987) and with the New York City Health and Hospitals Corporation as First Vice President-Finance (1975-1976), Director, Operations/Assistant to the President (1974-1975) and Special Assistant, Senior Vice President (1972-1974). Prior to joining the New York City Health and Hospitals Corporation, Mr. Ashkenase held various health care administrative positions in the military and the health care industry. Mr. Ashkenase received his Masters of Business Administration degree in Hospital Administration from Wagner College in 1974 and his Bachelor of Science degree in accounting from Brooklyn College in 1965.

Robert B. Conaty, Executive Vice President-Operations (63). Mr. Conaty joined the Medical Center as Executive Vice President-Operations in 1986. Prior to joining the Medical Center, Mr. Conaty served as the Executive Vice President (1985-1986), Vice President (1979-1985) and Associate Vice President (1977-1979) of the Sinai Hospital of Baltimore. From 1972-1977, Mr. Conaty was employed in various capacities by Menorah Medical Center in Kansas City, Missouri. He is a Fellow of the American College of Healthcare Executives. Mr. Conaty received his Master of Administration degree in Health Care Administration in 1973 from The George Washington University and his Bachelor of Science degree from St. Joseph's University in 1966.

***Joel A. Perlman, Executive Vice President-Finance* (59).** Mr. Perlman joined the Medical Center in 1988 as its Chief Financial Officer. Prior to joining the Medical Center, Mr. Perlman served as Senior Vice President/Treasurer of St. Francis Medical Center, Trenton, New Jersey (1980-1988); Supervisor, Ernst & Young (formerly Ernst & Whinney) (1976-1980); Associate Director of Financial Aid at Trenton State College (1973-1976); and Planning Analyst at American Express Co. (1971-1972). Mr. Perlman, a Certified Public Accountant, received his Masters degree in Administration from Columbia University in 1973 and his Bachelor of Business Administration degree, *magna cum laude*, from Pace University in 1971.

Elaine Brennan, RN, Senior Vice President-Operations (68). Ms. Brennan joined the Medical Center in 1983 as Assistant Director of Nursing and was promoted to Associate Director/Director of Nursing in 1987, Vice President-Operations in 1994 and Senior Vice President-Operations in 1998. Prior to joining the Medical Center, Ms. Brennan served as Coordinator, Nursing Services, The Mount Sinai Medical Center, New York, New York (1980-1983) and Nursing Care Coordinator, Veterans Administration Medical Center, New York, New York (1961-1980). Ms. Brennan received her Masters degree in Professional Studies with a concentration in Health Care Administration in 1986 from the New School for Social Research and her Bachelor of Science degree in Nursing Education from Seton Hall University in 1961.

Stanley L. Jacobson, Esq., Senior Vice President and General Counsel (70). Mr. Jacobson joined the Medical Center in 1995 as Senior Vice President and Special Counsel for Business Affairs and was appointed to his current position in 1999. Prior to joining the Medical Center, Mr. Jacobson was a senior partner in the law firm of McLaughlin & Stern, LLP and its predecessors (1969-1995) after having been an associate in that firm (1962-1968). Mr. Jacobson received his Bachelor of Arts degree from Columbia College in 1959 and his Bachelor of Law degree from New York University Law School in 1962.

Managed Care Arrangements

The Medical Center has formed several integrated provider associations ("IPAs"). See "Part 10 – THE MEDICAL CENTER - Related Organizations." The purpose of the IPAs is to coordinate the full-risk and partial risk managed care activities of the Medical Center and many of the Medical Center's physicians, including contracting with managed care organizations for capitated risk arrangements. The IPAs have entered into contractual agreements with most of the major managed care organizations operating in New York. Under such arrangements, the IPAs receive monthly premiums per enrollee during the term of the contract. The IPAs manage and, directly or through arrangements with other healthcare providers, deliver health care services to enrollees in accordance with the terms of the subscriber agreements. As a result of these arrangements, the number of lives under full risk capitation in the Medical Center's delivery system was 99,869 at September 30, 2007 accounting for 13.4% of inpatient discharges at September 30, 2007. The Medical Center plans to expand these types of arrangements but there can be no assurance that such expansion will be completed.

Administrative services are provided to the IPAs pursuant to a contract with the CMO, a wholly owned subsidiary of the Medical Center. The CMO anticipates providing services to other IPAs, some of which may be unrelated to the Medical Center.

Medical and Dental Staff

As of September 30, 2007, there were 2,077 physician and dentist members of the medical and dental staff of the Medical Center holding appointments in three categories: full time (1,092), part time (278) and voluntary (707). The medical and dental staff is organized into 24 clinical departments which include: family medicine, medicine (which includes the specialties of cardiology and gastroenterology), pediatrics, oncology (oncology is a division within the Department of Medicine at the Einstein Division and a separate department at the Moses Division), neurology, epidemiology & population health, obstetrics & gynecology, ophthalmology, orthopedic surgery, plastic & reconstructive surgery, surgery, cardiothoracic surgery, dentistry, neurosurgery, otolaryngology, urology, anesthesiology, nuclear medicine, pathology, psychiatry, rehabilitation medicine, radiation oncology, emergency medicine and radiology. Numerous specialties and subspecialties are represented within the 24 departments. As of September 30, 2007, approximately 83.7% of the medical and dental staff was board certified and their average age was approximately 49.1 years. In the nine months ended September 30, 2007, the ten highest admitting physicians accounted for approximately 7.1% of total Medical Center admissions and the average age of the ten highest admitting physicians as of September 30, 2007 was approximately 37.6 years.

All Chairmen of the respective hospital services, other than the Chairman of Orthopedic Surgery, are Chairmen of the same academic department at the Albert Einstein College of Medicine.

Following is a summary by clinical department of the number of full-time, part-time and voluntary physicians/dentists, their average age and the percentage of department staff who are board certified:

Medical and Dental Staff Composition as of September 30, 2007

Clinical Department	Number of Physicians/Dentists	Average Age	Percent Board Certified
Anesthesiology	53	48.0	75.5%
Cardiothoracic Surgery	13	51.2	92.3
Dentistry	96	48.3	22.9
Emergency Medicine	61	39.4	73.8
Epidemiology & Social Medicine	3	63.0	66.7
Family Medicine	95	44.7	80.0
Medicine	663	49.0	90.2
Neurology	64	50.4	75.0
Neurosurgery	8	53.3	87.5
Nuclear Medicine	9	57.6	100.0
Obstetrics & Gynecology	132	47.0	71.2
Oncology	40	49.5	95.0
Ophthalmology	90	52.6	92.2
Orthopedic Surgery	40	48.6	77.5
Otolaryngology	30	52.0	93.3
Pathology	46	52.7	87.0
Pediatrics	320	49.2	88.1
Plastic & Recon. Surgery	32	49.0	93.8
Psychiatry	90	52.6	84.4
Radiation Oncology	8	43.3	87.5
Radiology	70	49.4	94.3
Rehabilitation Medicine	35	50.5	94.3
Surgery	45	51.8	91.1
Urology	34	53.2	88.2
Total	2,077	49.1	83.7%

Source: Medical Center Records

The following table shows the breakdown of discharges by major specialty grouping for calendar years 2004, 2005 and 2006 and the nine (9) month periods ended September 30, 2006 and 2007.

Percent of Discharges by Major Specialty Groupings
For Calendar Years 2004, 2005 and 2006
and Nine (9) Month Periods ended September 30, 2006 and 2007

	Year Ended December 31,			Nine (9) Months Ended September 30,	
Major Specialty Grouping	**2004**	**2005**	**2006**	**2006**	**2007**
Medical	54.7%	55.7%	55.8%	55.0%	55.4%
Surgical	18.5	17.5	17.1	18.2	17.7
Pediatrics*	10.3	10.7	10.8	10.8	10.8
Maternity	8.2	8.2	8.5	8.3	8.4
Psychiatric	1.0	0.8	0.7	0.7	0.6
Rehabilitation	0.9	0.8	0.7	0.7	0.6
Newborn	6.4	6.3	6.4	6.3	6.5
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

* Pediatrics includes the neonatal intensive care unit and adolescents
Source: Medical Center Records

Service Area and Other Area Hospitals

Service Area

Montefiore's primary service area, the Bronx, had a population estimated at 1,323,167[1] in 2003. Bronx County was the source of 87.1% of the Medical Center's discharges in 2006 and 88.2% of the Medical Center's discharges in the nine month period ended September 30, 2007.

Other Area Hospitals

Montefiore competes with hospitals in Bronx, New York and Westchester counties. The following table sets forth the number of certified beds, occupancy rates and number of discharges for the year ended December 31, 2006 for Montefiore and other acute care hospitals located in the Bronx, New York, the primary service area of Montefiore.

[1] Population data was compiled by Environmental Systems Research Institute

Certified Beds, Occupancy Rates and Discharges of the Medical Center and Other Acute Care Hospitals Located in The Bronx, New York for the Year Ended December 2006

Hospital	Certified Beds[1]	Occupancy Rate	Discharges[2]
Montefiore Medical Center	1,122	71.8%	57,878
Jacobi Medical Center[3]	457	80.0	20,124
Bronx-Lebanon Hospital Center	579	81.4	27,033
Our Lady of Mercy Medical Center[4]	369	63.3	15,281
Lincoln Medical and Mental Health Center[3]	347	70.9	21,658
St. Barnabas Hospital	446	75.9	24,630
North Central Bronx Hospital[3]	213	68.2	8,252
New York Westchester Square Medical Center	205	62.6	7,651

(1) Certified beds as of October 25, 2007.
(2) Discharges are acute care discharges, including rehabilitation and psychiatry.
(3) These hospitals are part of the New York City Health and Hospitals Corporation hospital system.
(4) In 2006, Our Lady of Mercy entered an affiliation agreement with Montefiore. See "PART 10 – THE MEDICAL CENTER - Affiliations".

Source: New York State Department of Health SPARCS System

Utilization

A summary of the Medical Center's historical utilization data for the calendar years ended December 31, 2004, 2005 and 2006 and the nine-month periods ended September 30, 2006 and 2007 is presented in the following table:

Historical Utilization for Calendar Years Ended December 31, 2004, 2005 and 2006 and Nine (9) Months Ended September 30, 2006 and 2007

	Year Ended December 31,			Nine (9) Months Ended September 30,	
	2004	2005	2006	2006	2007
Licensed beds	1,062	1,062	1,122	1,122	1,122
Discharges (1)	57,927	61,213	63,515	47,838	49,229
Patient days (1)	320,203	327,680	349,906	261,783	270,305
Average length of stay (days)	5.53	5.35	5.52	5.47	5.49
Medicare case mix index	1.53	1.49	1.50	1.48	1.50
Non-Medicare case mix index	1.75	1.77	1.87	1.88	1.89
Average % occupancy (1)	82.4%	84.5%	85.4%	85.5%	88.3%
Medical/Surgical occupancy rates	81.4%	83.6%	84.2%	84.3%	87.2%
Maternity occupancy rate	88.2%	92.3%	100.1%	99.7%	102.5%
Psychiatry occupancy rate	104.5%	104.9%	104.5%	104.4%	104.3%
Rehabilitation occupancy rate	89.7%	89.3%	89.9%	90.0%	87.1%
Emergency room visits(2)	141,603	152,514	162,356	121,671	122,507
Outpatient clinic visits (on-site)	139,882	144,415	144,371	109,794	105,492
Ambulatory surgery procedures	29,826	29,524	29,463	22,326	19,635
Montefiore Medical Group Primary Care visits	715,310	738,294	752,261	555,796	565,845
Faculty Practice Volume	2,007,096	2,216,263	2,071,098	1,583,018	1,541,425
Home Care Visits	427,847	462,235	478,341	357,057	378,146

(1) Excludes newborns and long-term care
(2) Excludes patients seen in emergency department and admitted to the Medical Center

Source: Medical Center Records

Management's Discussion and Analysis of Utilization

In 2005 and 2006, Medical Center discharges increased by 3,286 (5.7%) and 2,302 (3.8%), respectively, over prior year levels. During the same periods, patient days increased by 7,477 (2.3%) and 22,226 (6.8%), respectively, over prior year levels. The increase in inpatient activity was attributable, in part to an increase in admissions to the medical service from emergency room visits, growth in Children's Hospital discharges and growth in maternity services made possible by the partial completion of the 2004 Project. The average length of stay in 2005 declined by .18 days (3.3%) from 2004 levels but increased .17 days (3.2%) in 2006 to 5.52 days. The case mix index declined slightly (2.6%) for Medicare patients in 2005 but increased slightly (1.1%) for non-Medicare patients. In 2006, the case mix index increased slightly (.7%) for Medicare patients and increased for non-Medicare patients (5.6%) due in part to the implementation of a new New York State grouper in 2006.

Medical/surgical occupancy increased from 81.4% in 2004 to 84.2% in 2006, reflecting growth in inpatient activity offset in part by an increase in the licensed bed capacity by 60 beds during 2006. Psychiatry continued to operate at capacity. Occupancy in rehabilitation experienced no material change, while maternity occupancy increased from 88.2% in 2004 to 100% in 2006. Overall occupancy increased from 82.4% in 2004 to 85.4% in 2006.

Emergency Department visits increased by 7.7% to 152,514 visits in 2005 and by 6.5% to 162,356 visits in 2006, due in part to the implementation of new emergency services at the Weiler Division in 2004 and new emergency services at the Moses Division in 2006. Outpatient clinic visits increased by approximately 3.2%. In 2005, faculty practice volume increased by 10.4% compared to 2004 levels but decreased by 6.6% in 2006. Approximately 7.4% of the 2005 increase and most of the 2006 decrease was due to a change in the method of billing for medical oncology services. Montefiore Medical Group primary care visits increased 3.2% in 2005 over 2004 levels. Ambulatory surgery procedures remained at the same level during the period 2004 through 2006 due to capacity constraints in surgical services.

In the nine-month period ended September 30, 2007, discharges increased by 1,391 (2.9%) and patient days increased by 8,522 (3.3%) compared to the nine-month period ended September 30, 2006. The increase in inpatient activity was attributable, in part, to an increase in admissions to the medical service from emergency room visits and the completion of the 2004 Project, growth in Children's Hospital discharges, and growth in maternity services made possible by the completion of the 2004 Project. The average length of stay was not materially different from 2006. The case mix index increased slightly for Medicare patients (1.4%) and non-Medicare patients (.5%).

Medical/surgical occupancy increased to 87.2% in 2007, reflecting growth in inpatient activity. Psychiatry and maternity beds remained filled, operating at capacity. Occupancy in rehabilitation experienced no material change, and overall occupancy increased from 85.5% to 88.3%.

Emergency Department visits increased by .7% to 122,507 visits in 2007. Outpatient clinic visits declined by 4,302 (3.9%) due to a change in the method of billing for medical oncology and radiation oncology services. Faculty practice volume decreased by 2.6% due to a change in the method of billing for oncology services. Montefiore Medical Group primary care visits increased 1.8% in 2007 over 2006 levels. Ambulatory surgery procedures declined by 2,691 (12.1%) due to the commencement of operations during 2007 of two affiliated offsite GI centers and the relocation of patients to those sites who were historically treated at the hospital divisions.

Consolidated Statements of Operations

The following Summary of Consolidated Statements of Operations of the Medical Center (the "Summary") for each year of the three years ended December 31, 2004, 2005 and 2006 are derived from the Medical Center's financial statements which have been audited by Ernst & Young LLP, independent auditors. The data should be read in conjunction with the financial statements and the related notes included in Appendix B to this Official Statement. In addition, the unaudited consolidated statements of financial position as of September 30, 2007 and the related consolidated statements of operations, changes in net assets, and cash flows for the nine-month periods September 30, 2007 and September 30, 2006 are set forth in Appendix B to this Official Statement. The data in the Summary for the nine-month periods ended September 30, 2007 and 2006 are derived from unaudited financial statements which include all adjustments which the Medical Center considers necessary to summarize fairly the results for such periods. The operating results for the nine-month periods ended September 30, 2007 and 2006 should not be considered indicative of the results for the full fiscal years. The Summary should be read in conjunction with the financial statements and related notes included in Appendix B of the Official Statement.

As set forth in Note 1 to the 2006 audited consolidated financial statements included in Appendix B, the audited financial statements and the summary of historical operations presented below, include financial performance information with respect to the Medical Center and the subsidiary organizations controlled by the Medical Center. The subsidiary organizations are not parties to the Note or Mortgage and are not liable for the debts of the Medical Center.

During 2007, the Medical Center determined that its investments in marketable and other securities previously classified as available for sale securities, were more accurately classified as trading securities. As a result of this determination, unrealized gains and losses are reported in other operating revenue in the Summary and in the unaudited consolidated statement of operations included in Appendix B for the nine-month period ended September 30, 2007. The results for the nine-month period ended September 30, 2006 were reclassified to conform to the 2007 presentation. In previous years, the Medical Center's investments were classified as available for sale, and as such, unrealized gains and losses were excluded from income from operations. Therefore, unrealized gains and losses included in the Medical Center’s audited consolidated statements of operations as set forth in Appendix B for the years ended December 31, 2006, 2005 and 2004 have been reclassified in the Summary to be consistent with the current year presentation.

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Summary of Consolidated Statements of Operations
(In Thousands)

	(Audited) Year Ended December 31,			(Unaudited) Nine (9) Months ended September 30,	
	2004	2005	2006	2006	2007
Operating revenue					
Net patient service revenue	$1,642,682	$1,767,347	$1,914,312	$1,420,523	$1,534,090
Other operating revenue	136,280	145,295	166,940	119,151	139,159
Total operating revenue	1,778,962	1,912,642	2,081,252	1,539,674	1,673,249
Operating expenses					
Salaries and wages	753,196	805,637	870,077	643,406	695,947
Employee benefits	195,973	224,669	235,264	179,060	185,824
Supplies and other expenses	686,204	738,327	807,116	591,391	649,371
Depreciation and amortization	75,473	76,989	84,345	63,346	68,155
Interest	30,791	31,667	35,638	26,443	28,060
Loss on long-term debt refinancing	-	6,341	-	-	-
Total operating expenses	1,741,637	1,883,630	2,032,440	1,503,646	1,627,357
Income from operations	37,325	29,012	48,812	36,028	45,892
Net assets released from restrictions used for purchases of property, buildings and equipment	94	436	36	36	375
Change in net additional minimum pension liability	1,085	945	(1,264)	-	-
Effect of change in accounting for defined pensions and other post retirement plans	-	-	(12,216)	-	-
Change in fair value of derivative	(7,586)	-	-	-	-
Cumulative effect of change in accounting for investment in limited liability company	(3,715)	-	-	-	-
Amortization of long-term mortgage premium	-	-	-	-	247
Increase in unrestricted net assets	$27,203	$30,393	$35,368	$36,064	$46,514

Source: Audited Consolidated Financial Statements of the Medical Center for the years ended December 31, 2004, 2005 and 2006 and Medical Center unaudited consolidated financial statements for the nine-month period ended September 30, 2007, reclassified to conform to 2007 presentations.

Management's Discussion and Analysis of Recent Financial Performance

Year ended December 31, 2005 compared to year ended December 31, 2004

For the year ended December 31, 2005, the Medical Center's increase in unrestricted net assets was $30,393,000 compared to $27,203,000 for the year ended December 31, 2004, an increase of $3,190,000 (11.7%). The 2004 increase in unrestricted net assets was net of a decrease in unrestricted net assets of $3,715,000 as a result of the July 1, 2004 adoption of Emerging Issues Task Force Issue 03-16 – Accounting for Investments in Limited Liability Companies. This action resulted in a change to the equity method of accounting for an investment in a limited liability company. In addition, the 2004 increase in unrestricted net assets was also net of a decrease of $7,586,000 as a result of a loss on the change in fair value of a derivative instrument resulting from the Medical Center entering into a forward-starting interest rate swap agreement. The purpose of the swap was to lock in a desired interest rate in anticipation of a borrowing that occurred in December 2004. For the year ended December

31, 2005, income from operations decreased by $8,313,000 (-22.3%) compared to the year ended December 31, 2004.

For the year ended December 31, 2005, net patient service revenue increased $124,665,000 (7.6%) compared to the year ended December 31, 2004. Inpatient revenue increased $69,518,000 (8.8%) primarily due to increases in admissions and third party payment rates. Outpatient revenue increased by $16,441,000 (3.4%) as a result of growth in faculty practice revenue and increased volume and rates in the medical group and homecare divisions and in certain hospital-based outpatient services. Capitated premium revenue increased $38,706,000 (10.3%) primarily due to increases in rates and Medicare enrollment.

Other operating revenue increased $9,015,000 (6.6%) for the year ended December 31, 2005 compared to the year ended December 31, 2004, primarily as a result of an increase of $3,033,000 (60.4%) in revenue from meeting certain patient care quality initiatives, $2,358,000 (3.5%) associated with research and other grant programs, and $1,486,000 (102.4%) in equity earnings from the investment in HF Management Services, LLC.

For the year ended December 31, 2005 total operating expenses increased $141,993,000 (8.2%) over the year ended December 31, 2004. Salaries and wages increased $52,441,000 (7.0%) primarily as a result of increases in the number of employees associated with increased volume and contractual and market rate increases for registered nurses and other personnel. Employee benefits expense increased $28,696,000 (14.6%) primarily due to the increased salaries and wages and increased health and welfare plan costs. For the same period, supplies and other expenses increased $52,123,000 (7.6%) resulting primarily from increases in medical claim expenses associated with the MMC IPAs for which there was a greater increase in capitated premium revenue, and increases in patient care expenses associated with increased patient volume. Depreciation and amortization expense increased $1,516,000 (2.0%) due to additions in property, buildings and equipment. Interest expense increased by $876,000 (2.8%) as a result of higher average borrowings outstanding. Total operating expenses for the year ended December 31, 2005 also included the loss of $6,341,000 resulting from the refinancing of the FHA 242 insured mortgage loan.

Year ended December 31, 2006 compared to year ended December 31, 2005

For the year ended December 31, 2006, the Medical Center's increase in unrestricted net assets was $35,368,000 compared to $30,393,000 for the year ended December 31, 2005, an increase of $4,975,000 (16.4%). The 2006 increase in unrestricted net assets was net of a decrease in unrestricted net assets of $12,216,000 as a result of the adoption of the recognition and disclosure provisions of the Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. This action resulted in the recognition of the funded status of the Medical Center's defined benefit pension and postretirement plans on December 31, 2006. In addition, the change in the net additional minimum pension liability in 2006 resulted in a decrease in unrestricted net assets of $1,264,000, compared to an increase in 2005 of $945,000. For the year ended December 31, 2006, income from operations increased by $19,800,000 (68.2%) compared to the year ended December 31, 2005.

For the year ended December 31, 2006, net patient service revenue increased $146,965,000 (8.3%) compared to the year ended December 31, 2005. Inpatient revenue increased $102,478,000 (11.9%) primarily due to increases in third party payment rates, admissions and case mix index. Outpatient revenue increased by $18,684,000 (3.8%) as a result of growth in faculty practice revenue and increased volume and rates in the medical group and homecare divisions and in certain hospital-based outpatient services. Capitated premium revenue increased $25,803,000 (6.3%) primarily due to increases in rates.

Other operating revenue increased $21,645,000 (14.9%) for the year ended December 31, 2006 compared to the year ended December 31, 2005, primarily as a result of a increases in investment income including realized and unrealized gains on marketable and other securities of $20,335,000 (125.7%).

For the year ended December 31, 2006 total operating expenses increased $148,810,000 (7.9%) over the year ended December 31, 2005. Salaries and wages increased $64,440,000 (8.0%) primarily as a result of increases in the number of employees associated with increased volume and patient acuity as well as contractual and market rate increases for registered nurses and other personnel. Employee benefits expense increased $10,595,000 (4.7%) primarily due to the increased salaries and wages. For the same period, supplies and other expenses increased

$68,789,000 (9.3%) resulting primarily from increases in patient care expenses associated with volume and patient acuity, medical claim expenses associated with the MMC IPAs for which there was a greater increase in capitated premium revenue and malpractice insurance expense. Depreciation and amortization expense increased $7,356,000 (9.6%) due to additions in property, buildings and equipment. Interest expense increased by $3,971,000 (12.5%) as a result of higher average borrowings outstanding and interest on the 2004 FHA section 241 insured mortgage loan relating to project components placed in service, partially offset by lower interest resulting from the September 2005 refinancing of the FHA section 242 insured mortgage loan.

Nine-month period ended September 30, 2007 compared to nine-month period ended September 30, 2006

For the nine-month period ended September 30, 2007, the Medical Center's increase in unrestricted net assets was $46,514,000 compared to $36,064,000 for the nine-month period ended September 30, 2006, an increase of $10,450,000 (29.0%). For the nine-month period ended September 30, 2007, income from operations increased by $9,864,000 (27.4%) compared to the nine-month period ended September 30, 2006.

Net patient service revenue for the nine-month period ended September 30, 2007 increased $113,567,000 (8.0%) compared to the comparable period in 2006. Inpatient revenue increased $53,961,000 (7.6%) primarily due to increases in third party payment rates, admissions and case mix index. Outpatient revenue increased by $39,425,000 (10.3%) as a result of growth in faculty practice revenue and increased volume and rates in the medical group and homecare divisions and in certain hospital-based outpatient services. Capitated premium revenue increased $20,181,000 (6.1%) primarily due to increases in rates.

Other operating revenue increased $20,008,000 (16.8%) for the nine-month period ended September 30, 2007 compared to the nine-month period ended September 30, 2006, primarily as a result of increased investment income including realized and unrealized gains on marketable and other securities of $13,551,000 (65.5%) and increased revenues generated by EHIT of $3,464,000 (66.3%).

For the nine-month period ended September 30, 2007 total operating expenses increased $123,711,000 (8.2%) over the comparable period for 2006. Salaries and wages increased $52,541,000 (8.2%) primarily as a result of increases in the number of employees associated with increased volume and patient acuity as well as contractual and market rate increases for registered nurses and other personnel. Employee benefits expense increased $6,764,000 (3.8%) primarily associated with the increased salaries and wages. For the same period, supplies and other expenses increased $57,980,000 (9.8%) resulting primarily from increases in patient care expenses associated with volume and patient acuity, medical claim expenses associated with the MMC IPAs for which there was a corresponding increase in capitated premium revenue and malpractice insurance expense. Depreciation and amortization expense increased $4,809,000 (7.6%) due to additions in property, buildings and equipment. Interest expense increased by $1,617,000 (6.1%) as a result of higher average borrowings outstanding and interest on the 2004 FHA section 241 insured mortgage loan relating to project components placed in service.

Recent Changes in Unrestricted Net Assets

For the two-month period ended November 30, 2007 the Medical Center's increase in unrestricted net assets was $6,156,000 compared to $19,443,000 during the comparable period in 2006, a decrease of $13,287,000, primarily caused by net realized and unrealized gains on marketable and other securities of $1,822,000 during the two-month period ended November 30, 2007 compared to $10,498,000 during the comparable period in 2006.

Sources of Patient Service Revenue and Reimbursement Methodologies

The major portion of Montefiore's patient service revenue is derived from third party payors. Montefiore provides services to patients insured under the Medicare and Medicaid programs as well as by Empire Blue Cross and Blue Shield ("Blue Cross") and other commercial insurance companies. The following table shows the percentage distribution of total patient discharges (excluding newborns and skilled nursing) by payor source for the years ended December 31, 2004, 2005 and 2006 and the nine-month periods ended September 30, 2006 and 2007.

Percent of Discharges by Payor Source
For the Calendar Years 2004, 2005 and 2006
And Nine (9) Months ended September 30, 2006 and 2007

	Year ended December 31,			Nine (9) Months ended September 30,	
	2004	**2005**	**2006**	**2006**	**2007**
Medicare	26.8%	26.9%	25.0%	25.3%	23.4%
Medicaid	19.2	17.5	17.2	16.9	16.9
Blue Cross	6.6	6.1	6.5	7.0	6.8
Commercial	6.3	5.8	5.3	4.9	5.6
Managed Care	24.9	27.5	30.7	30.1	31.8
IPA	14.0	14.5	13.6	13.7	13.4
Other	2.2	1.7	1.7	2.1	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Medical Center Records

The increase in Medicare percentage of discharges and decrease in Medicaid percentage of discharges during the year ended December 31, 2005 compared to the year ended December 1, 2004 is primarily attributable to New York State becoming a Medicare Part A Buy-in state effective July 1, 2004. Medicare beneficiaries who previously had Part B coverage only are now also covered by Part A. In addition, during the last several years, the percentage of inpatients covered by managed care plans, including Medicaid managed care and Medicare managed care, have increased.

All revenue statistics and reimbursement information in this Part represent historical data and may not be indicative of future activity. The Medical Center cannot assess or predict the ultimate effect on its operations that may result from future reimbursement legislation or regulations.

Reimbursement Methodologies

A brief synopsis of reimbursement methodologies applicable to the Medical Center is as follows:

Medicare. Medicare is the commonly used name for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendment 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+Choice 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 health plans. Medicare Part D provides outpatient prescription drug coverage to Medicare beneficiaries.

Medicare is administered by the Centers for 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 for Medicare to providers in these states or regions.

The Medical Center is paid for services to the majority of Medicare inpatients under a federal prospective payment system ("PPS"). Under inpatient PPS, payments are based on a standard national amount (adjusted for New York City Metropolitan MSA wage levels), depending on the patient's diagnosis ("Diagnosis Related Group" or "DRG") without regard to each hospital's actual inpatient operating and capital costs. On October 1, 2007, the

Medicare program began a two-year phase-in of refinements to the DRG system in order to change the number and weights of DRGs. Hospitals receive payment for cases that exceed DRG-specific cost thresholds as well as the costs of organ procurement and a predetermined amount per discharge for Medicare inpatient-related capital costs. Under inpatient PPS, hospitals also receive payments for training physicians and other medical professionals (graduate medical education or "GME" payments) and payments for providing care to a high level of Medicaid and disabled patients (disproportionate share payments). There are two forms of payment for GME: Direct Graduate Medical Education ("DGME") and Indirect Medical Education ("IME") payments. DGME payments support the direct costs of training (e.g., resident stipends, supervision), while IME payments support the higher infrastructure teaching hospitals incur relating to teaching, greater patient acuity and their extensive "stand-by" capabilities. The standardized rates are updated annually (the "update factor") based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the "market basket"). Currently, the update factor equals the percentage increase in the market basket (for hospitals that timely submit data to CMS on quality indicators), but from time to time, Congress has enacted legislation reducing these updates below the market basket.

PPS methodologies also apply to hospital outpatient services ("Outpatient PPS"). Under Outpatient PPS, most outpatient services are grouped into one of approximately 800 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. A limited number of services are based on fee schedules or other reimbursement methodologies.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA") introduced a prescription drug benefit under Medicare (Medicare Part D), created incentives for health care insurance companies to offer Medicare managed care plans known as Medicare Advantage and provided for a number of hospital-related reimbursement changes. With respect to teaching hospitals, the MMA included a provision for the redistribution of residents in certain circumstances to other hospitals based on a set of criteria that favored rural areas and certain urban areas not categorized as large urban and certain other programs. The Medical Center has not lost residency slots as a result of this provision. The MMA also created a Hospital Quality Initiative, under which hospitals are required to submit data to CMS related to quality indicators to avoid a reduction in their annual market basket rate increases. The Medical Center is enrolled in this program, is reporting the necessary data and has received a full market basket update each year since the inception of the Hospital Quality Initiative in 2005. Other hospital reimbursement related provisions in the MMA include revisions to IME payments through 2007, reclassification of MSAs (thereby revising the wage indices across the country) and the introduction of a new technology payment add-on under certain circumstances where the DRG payment does not adequately cover the cost of a new device, drug or other development.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the rate of increase in the cost of the program. Future actions by the federal government are expected to continue the trend toward more restrictive Medicare reimbursement for hospital services.

Medicare Managed Care. Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. During recent years, the major health maintenance organizations ("HMOs") in the Medical Center's service area have reduced the premiums on these Medicare HMO products and there has been an increase in enrollment of these products as a result. Enrollment in a Medicare managed care product is voluntary and enrollees may dis-enroll and re-enroll in the traditional Medicare fee-for-service system at any time. Managed care products for the Medicare population are typically offered by commercial insurers and HMOs.

Medicare enrollees in managed care products have their health care managed and paid for by the applicable insurer, HMO or similar entity (the "managed care plan"). The managed care plan is reimbursed by the Medicare program on a monthly per-beneficiary amount for each Medicare enrollee. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan seeks to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. Enrollment in Medicare managed care plans is expected to continue to increase. In 2006, Medicare managed care represented approximately 14.4% of the Medical Center's inpatient payor mix.

Medicaid. Medicaid is designed to pay providers for care given to the 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 of the states establishes its own eligibility standards, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state. After its state plan is approved, a state is entitled to federal matching funds for Medicaid expenditures. The current federal share is approximately 50% in New York State, and the remainder of the costs is shared by the State and the social services district of the patient's residence.

Medicaid operates as a vendor payment program. Subject to federally-imposed upper limits and specific restrictions, states may either pay providers directly or may pay for Medicaid services through various prepayment arrangements such as HMOs. Providers participating in Medicaid must accept Medicaid payment rates as payment in full except as noted below. 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 age 18, hospital or nursing home patients who are expected to contribute most of their income to institutional care, and categorically needy HMO enrollees.

Pursuant to the New York Health Care Reform Act of 1996 ("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 March 31, 2008.

Under NYHCRA, payment for services rendered to Medicaid, workers' compensation and no-fault patients is determined through 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. In addition, State issued DRG weights, which are a measure of case mix, are applied to the per case payment amount. Specialty hospitals and psychiatric, AIDS, alcohol and drug dependency, epilepsy, medical rehabilitation and other exempt units (e.g. burn unit) 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. For hospitals that experience a substantial change in volume or length of stay as compared to the base year (generally 1987), a volume adjustment, either positive or negative, may be applied to the payment rates. Capital costs, including interest and principal or depreciation and amortization of financing expenses, but excluding certain Medicaid capital costs, are considered separately and in effect are passed through in reimbursement rates.

Every year the Medicaid reimbursement rates paid to hospitals for the forthcoming year must be certified by the State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. The State has enrolled a substantial portion of its Medicaid population into private managed care plans as part of a waiver it received from the federal government under Section 1115 of the Social Security Act. Several areas of the State, including New York County, are under mandatory managed care enrollment: the Medicaid population is required to enroll in managed care, unless they fall into one of several exempt categories. In 2006, Medicaid managed care represented approximately 16.9% of the Medical Center's inpatient discharge volume.

Under NYHCRA, mechanisms are established for the financing of public goods consisting of indigent care, health care initiatives and graduate medical education. Third party payers 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 payers to reflect the need for financing losses resulting from bad debts and the cost of charity care. Amounts received from the Indigent Care 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 Graduate Medical Education pools are funded and distributed on a regional basis. Graduate Medical Education Pool distributions are based on a proxy using hospital historical data. The funding of these distributions is dependent on the receipts paid into the pool on a calendar year basis. Health care initiatives pay for special projects, particularly expansion of coverage of special need categories, including children. The New York State Commissioner of Health has begun discussions with the industry to implement healthcare reform in the coming years. Such change may affect these pools as well as other payments to hospitals.

In connection with NYHCRA's extension through March 31, 2008, the workforce recruitment and retention payments adjustment which expired on December 31, 2006 was not renewed. The tax on a hospital's gross receipts from all patient care services (with limited exclusions) and other operating income on a cash basis, which expired on March 31, 2007, was not renewed.

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

Self-pay patients are billed in accordance with a financial aid policy based on the patient's ability to pay.

Previous FHA Insured Mortgage Loans

In 1984, the New York State Medical Care Facilities Finance Agency ("MCFFA") issued bonds (the "1984 Bonds") to finance a mortgage loan to the Medical Center in the amount of $221,255,000, secured by an FHA-insured Section 242 mortgage on substantially all of the Medical Center's real estate. The proceeds of the loan were utilized primarily to construct and equip approximately 400,000 square feet of new patient care facilities, a 43,000 square foot administrative and ambulatory care facility, and a central laundry. In 1989, MCFFA issued bonds (the "1989 Bonds") to refund the 1984 Bonds. In 1996, the 1989 Bonds were refunded with bonds issued by the Authority (the "1996 Bonds"). The 1996 Bonds were refunded in 2005 with the proceeds of the Series 2005 Bonds issued by the Authority. The Series 2005 Bonds funded an FHA Insured Section 242 loan insured pursuant to Section 223(a)(7) of the National Housing Act, as amended (the "Section 242 Loan").

In 1995, MCFFA issued bonds to finance a second mortgage loan to the Medical Center in the amount of $157,176,000, is secured by a FHA-insured Section 241 mortgage on substantially all of the Medical Center's real estate (the "1995 241 Loan"). The proceeds of this loan were used to provide the Medical Center with improved ambulatory care facilities and enhanced inpatient capacity. The project consisted principally of (a) an eight story 150,000 square foot medical arts pavilion and attached 400 car garage, (b) a 30,000 square foot ambulatory care facility in the South Bronx, (c) a variety of projects for the renovation and improvement of the Medical Center's two hospitals and (d) a cogeneration plant providing 60% of the Moses Division's electrical requirements. The 1995 241 Loan will be refinanced with the proceeds of the Series 2008 Bonds.

In 1999, the Authority issued the Series 1999 Bonds to finance a third mortgage loan to the Medical Center in the amount of $103,445,300, secured by a FHA-insured Section 241 mortgage on substantially all of the Medical Center's real estate (the "1999 241 Loan"). The proceeds of this loan financed the construction of the Children's Hospital at the Moses Division, renovation and expansion at the Einstein Division for operating suites and expanded inpatient cardiac services and a relocated and expanded gastroenterological procedures suite. In addition, certain indebtedness was refinanced. A default under the notes and mortgages securing the Section 242 Loan and the 1995 241 Loan, may at the sole option of FHA constitute a default under the 1999 241 Loan.

In 2000, the Authority issued the Series 2000 Bonds in order to finance a fourth mortgage loan to the Medical Center in the amount of $16,591,000, secured by a FHA-insured section 241 mortgage on a portion of the Medical Center's real estate (the "2000 241 Loan"). The proceeds of this loan financed design, construction, and installation of an addition to the Medical Center's cogeneration and chiller plants at the Moses Division. A default under the notes and mortgages securing the Section 242 Loan, the 1995 241 Loan and the 1999 241 Loan, may be at the sole option of FHA constitute a default under the 2000 241 Loan.

In 2004, the Authority issued the Series 2004 Bonds in order to finance a fifth mortgage loan to the Medical Center in the amount of $172,244,000, secured by a FHA-Insured section 241 mortgage on a portion of the Medical Center's real estate (the "2004 241 Loan"). The proceeds of the 2004 241 Loan financed (i) at the Moses Division (A) renovation of the Northwest Building; (B) construction of a 10,000 square foot addition to the Children's Hospital and (C) an upgrade of certain facility infrastructure and building systems; (ii) at the Einstein

Division: (A) renovation and upgrading of the maternity services unit, (B) expansion of the emergency department, and (C) upgrade of certain facility infrastructure and building systems; and (iii) the purchase of a building at 1617 Poplar avenue and renovation into a 14,400 square foot radiation Oncology Center, and (iv) renovations to the Laundry Building at 1776 Hoe Avenue (the "2004 Project"). As of September 30, 2007, the 2004 Project was approximately 90.3% complete.

A default under the notes and mortgages securing the Section 242 Loan, the 1999 241 Loan, the 2000 241 Loan and/or the 2004 241 Loan, may, at the sole option of FHA, constitute a default under the Refinanced Note and Modified Mortgage.

Liquidity

The following table sets forth: (i) the Medical Center's unrestricted cash and investments and average daily operating expenses as of and for the years ended December 31, 2004, 2005 and 2006 from its consolidated audited financial statements as of and for the years then ended, and as of and for the nine-month periods ended September 30, 2006 and 2007 from the unaudited consolidated financial statements for the nine-month period ended September 30, 2007, and (ii) the Days Cash on Hand ratio derived therefrom.

	As of December 31,			As of September 30,	
($ in thousands)	2004	2005	2006	2006	2007
Unrestricted cash and investments [(1)]	$300,775	$425,881	$470,104	$418,587	$513,605
Average daily operating expenses [(2)]	$4,358	$4,753	$5,162	$5,098	$5,530
Days cash on hand[(3)]	69	90	91	82	93

(1) Includes all cash, cash equivalents and investments that are not restricted by donors or other third parties.
(2) Total operating expenses for the period exclusive of depreciation and amortization and the provision for doubtful accounts, divided by number of days in the period.
(3) Unrestricted cash and investments divided by average daily operating expenses.

Debt Service Coverage

The following table sets forth the amount available for debt service for the years ended December 31, 2004, 2005 and 2006, and historical coverage of the actual annual debt service requirement on debt outstanding in those years for the Medical Center and its controlled tax-exempt and taxable entities.

	As of December 31,			As of September 30,	As of September 30,
($ in thousands)	2004	2005	2006	2006	2007
Income from Operations[1]	$37,325	$29,012	$48,812	$36,028	$45,892
Depreciation and amortization	75,473	76,989	84,345	63,346	68,155
Interest	30,791	31,667	35,638	26,443	28,060
Amounts available for debt service	$143,589	137,668	168,795	$125,817	$142,107
Actual debt service	$59,164	59,734	64,193	$47,786	$51,151
Actual debt service coverage ratio	2.43	2.30	2.63	2.63	2.78

[1] Based on reclassified amounts. See "Consolidated Statement of Operations".

Investments

The marketable securities and other investments of the Medical Center and its controlled tax-exempt and taxable entities consist of the following as of December 31, 2006 (dollars in thousands):

Marketable Securities	
Mutual Funds	$451,280
U.S. government and government agency securities	95,483
Corporate Debt	48,283
Equity securities	21,469
Other investments	39,432
Total Investments	$655,947

The Medical Center Board of Trustees has adopted an Investment Policy which sets forth guidance for the Investment Committee as to how to implement their investment responsibilities. The Investment Committee of the Board provides ongoing oversight and the management of all funds belonging to the Medical Center. The overall investment objective of the funds is to preserve the Medical Center's ability to meet future capital and investment needs. The asset allocation of the funds is determined by the Investment Committee, subject to minimum and maximum percentage allocations. These allocations are to be reviewed periodically by the Investment Committee. In addition, the Investment Committee limits concentration of investments. The retention of investment managers and review of their performance is under the purview of the Investment Committee. The Medical Center utilizes an external investment consultant to provide professional investment analysis and to assist in evaluating the performance of the fund managers.

Capitalization

The following table sets forth the long-term debt, net of current portion, unrestricted net assets, total capitalization and percentage of debt to capitalization of the Medical Center and its controlled tax-exempt and taxable entities at December 31, 2004, 2005 and 2006.

	As of December 31, ($ in thousands)		
	2004	**2005**	**2006**
Long-term Debt, net of current portion	$476,564	$584,817	$625,039
Unrestricted Net Assets	179,703	210,096	245,464
Total Capitalization	$656,267	$794,913	$870,503
Percentage of Debt to Capitalization	72.6%	73.6%	71.8%

Capital Expenditures/Future Plans

In 2005, 2006 and the nine-month period ended September 30, 2007, the Medical Center incurred capital expenditures of approximately $170.2 million, $125.2 million, and $74.1 million respectively, for acquisition of plant, buildings and equipment (net of disposal) of which approximately $221.1 million was financed during 2005, 2006 and the nine-month period ended September 30, 2007 with the proceeds of long-term debt consisting of $187.7 million of bond proceeds (including $150.2 million of the 2004 241 Loan) and $33.4 million of capitalized leases. In addition, the Medical Center closed on a new tax-exempt lease in the amount of $9,971,705 in December, 2007.

As of September 30, 2007, the following Certificate of Need ("CON") applications are presently under development, under review or approved but not complete at the New York State Department of Health.

Pending Montefiore CON Applications
As of September 30, 2007

Project Name	CON Status	Project Cost (000's)
2004 Project	Final Approval	$191,385
Acquire Assets of OLM and OLM Parking	Under Review	$ 37,500
Nursing Unit Renovations	Under Review	$ 2,200
Equipment Replacement(1)	Under Review	$ 2,900
Equipment Replacement(1)	Final Approval	$ 5,265
Child Psychiatry Relocation	Final Approval	$ 1,723
Relocation of Substance Abuse Program	Under Development	$ 15,000
Equipment Replacement(1)	Under Development	$10,000
Initiate Liver Transplant Program	Contingent Approval	$367
Rosenthal Building Renovation	Under Development	$ 10,000
Moses Operating Rooms Renovation	Under Development	$ 6,000
Nursing Unit Renovations	Under Development	$ 6,400

(1) To be financed in part by capital equipment leases.

Outstanding Indebtedness

The following is a summary of long term debt at December 31, 2006 and September 30, 2007 (in $000) of the Medical Center and its controlled tax-exempt and taxable entities:

	December 31, 2006[a]	September 30, 2007
FHA Section 242 insured mortgage loan	$142,599	$139,233
FHA Section 241 insured mortgage loans[b]	370,885	395,114
HDC residential revenue bonds	8,000	7,800
Bank loans	6,260	4,862
Housing II mortgage loans	19,629	19,563
Housing I mortgage loan	1,738	1,708
MCORP bonds payable	37,472	37,461
Capital leases[c]	59,009	48,328
Other	2,878	2,546
Long-term mortgage premium	7,586	7,339
	$656,056	$663,954
Less current portion	(31,017)	(32,725)
Total long-term debt[d]	$625,039	$631,229

[a] See Medical Center's consolidated audited financial statements included in Appendix B.

[b] There are four Section 241 loans, three of which have been fully drawn by the Medical Center at December 31, 2006 and September 30, 2007. Of the $172,244,000 2004 241 Loan, $136,052,451 and $167,288,899 at December 31, 2006 and September 30, 2007, respectively, were drawn and are reflected in the above amounts. By November, 2007, the full amount of the $172,244,000 loan was drawn. The 1995 241 Loan, of which $126,517,868 and $123,040,098 were outstanding at December 31, 2006 and September 30, 2007, respectively, is being refinanced with the proceeds of the Series 2008 Bonds.

[c] The Medical Center closed on a tax exempt lease with the Authority in December 2007 in the amount of $9,971,705.

[d] The Medical Center's total long-term debt was $611,223,000 at September 30, 2006. The $20,006,000 increase in total long-term debt at September 30, 2007 compared to September 30, 2006 was primarily due to $43,056,000 in draws on the 2004 241 Loan and $12,049,000 in new capital lease obligations, partially offset by scheduled payments of long-term debt.

Licensure and Accreditation

The Medical Center has operating certificates from the New York State Department of Health and the New York State Department of Mental Health. Montefiore also has a certificate of approval from the New York State Office of Alcoholism and Substance Abuse Services to operate a methadone treatment program. The Medical Center is accredited by The Joint Commission and is approved for participation in the Medicare and Medicaid programs.

Nursing

As of September 30, 2007, there were approximately 2,526 full-time equivalents ("FTEs") on the nursing staff of the Medical Center consisting of 1,850 FTE registered nurses, 400 FTE nursing attendants, 94 FTE LPNs, 107 FTE unit clerks and 75 FTE nursing supervisors. In recent years, the Medical Center has not experienced difficulty in recruiting an adequate number of nurses. The number of nursing FTE employees has increased since December 31, 2004, by approximately 11.7% primarily to meet the needs of increased patient volumes.

Employees

As of September 30, 2007, the Medical Center employed 12,662 FTEs. The number of FTE employees has increased since December 31, 2005 by approximately 8.9% primarily to meet the needs of increased patient volume.

Benefits offered to eligible employees include: health insurance covering hospitalization, major medical expenses, prescription drugs, dental, hearing, and vision; short and long term disability; life and accidental death and dismemberment insurance; a non-contributory defined contribution pension plan; and tuition reimbursement. The Medical Center is in compliance with its funding obligations under the above benefit plans. The Medical Center also offers two post retirement benefit plans.

The Medical Center has four collective bargaining agreements with its employees. The Medical Center's agreement with the New York Health's Human Service Union/1199 SEIU, representing service, clerical and technical associates, which expires November 11, 2008, covers 6,369 employees. The Medical Center's agreement with the New York State Nurses Association representing registered nurses, which covers 2,279 employees, expires January 15, 2009. The Medical Center's agreement with the American Physical Therapy Association, covering 53 physical therapists, expired on December 31, 2007 and a new contract is being negotiated. The Medical Center's agreement with Weiler/Einstein Physical Therapy Associates, covering 24 employees, expires June 30, 2008.

Educational Programs

In addition to its academic affiliation with Albert Einstein College of Medicine, Montefiore provides clinical training to radiology technicians, radiotherapy technicians, microbiology technicians and physical and occupational therapists in affiliation with area colleges and universities. The pharmacy also has a formal residency program and trains undergraduates in an agreement with Long Island University College of Pharmacy.

Insurance

The Medical Center maintains comprehensive all risk form property insurance as well as general liability, hospital professional liability and worker's compensation insurance coverage. Property insurance is purchased from and underwritten by several carriers including domestic and foreign insurance carriers as well as captive insurance carriers and is subject to deductibles. Workers' compensation insurance is purchased from commercial insurers for statutory limits. General liability and professional liability insurance is purchased from an insurance program for institutions that are affiliated with the Federation of Jewish Philanthropies (the "Federation"). The insurance program is underwritten by several insurance carriers including a domestic insurance carrier as well as captive insurance carriers. At the present time the professional liability section of this insurance coverage involves five hospitals and a number of nursing homes.

Most non Medical Center medical staff members with admitting privileges are required to maintain professional liability insurance coverage in amounts not less than $2.3 million per occurrence and $6.9 million in the aggregate.

Litigation

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

PART 11 – RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEDICAL CENTER

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

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

General

The 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 payments payable by the Medical Center pursuant to the Refinanced Note, the FHA Mortgage Insurance Benefits with respect to the Refinanced Note, the funds and accounts held by the Trustee pursuant to the Series 2008 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 payments will be made by the Medical Center in amounts sufficient to provide funds for payment of debt service on the Bonds when due and to make other payments necessary to meet the obligations of the Medical Center. Further, there is no assurance that the revenues of the Medical Center can be increased sufficiently to match increased costs that may be incurred. The Bonds do not constitute an obligation or indebtedness of, and the payment of the Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD and FHA.

The receipt of future revenues by the Medical Center is subject to, among other factors, federal and state regulations and policies affecting the health care industry and the policies and practices of managed care providers, private insurers and other third-party payors, and private purchasers of health care services. The effect on the Medical Center of recently enacted statutes and recent regulatory changes and of future changes in federal, state and private policies cannot be determined at this time. Loss of established managed care contracts could also adversely affect the future revenues of the Medical Center.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for health care services, including an anticipated continued pressure on utilization, the capabilities of the management of the Medical Center, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Medical Center, increased use of contracted discounted payment schedules with HMOs, PPOs and other payors, economic and demographic developments in the United

States and in the service area in which facilities of the Medical Center are located, competition from other health care institutions, changes in interest rates which affect investment results and investment returns, and changes in rates, costs, third-party payments and governmental regulations concerning payment, are among other factors which may adversely affect revenues and expenses and, consequently, the Medical Center's ability to make payments pursuant to the Refinanced Note. See "PART 10 - THE MEDICAL CENTER" and "APPENDIX B – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF MONTEFIORE MEDICAL CENTER FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 AND CERTAIN UNAUDITED CONSOLIDATED FINANCIAL INFORMATION."

Legislative Regulatory and Contractual Matters Affecting Revenue

The health care industry is heavily regulated by the federal and state governments. A substantial portion of revenue for health care providers is derived from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. 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 Medical Center cannot be predicted.

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

The Medical Center has received, from time to time, subpoenas, civil investigatory demands, or other informal inquiries from state and federal governmental agencies or investigators. It is often impossible to determine the specific nature of the investigation, or whether the Medical Center might have any potential liability under a cause of action that might subsequently be asserted by the government. Moreover, the Medical Center is generally not informed when such investigations are resolved without the assertion of any claims. The Medical Center's Management considers these investigations a routine part of operations in the current health care climate, and expects them to continue in the future. See "Regulatory Reviews and Audits" below.

State Budget

The State's 2007-08 enacted budget adopted several cost containment measures that may affect hospitals such as the Medical Center, including a reduction in the trend factor, non renewal of the worker recruitment and retention adjustment, changes in Pool funding, and reductions in Medicaid managed care payments. In addition, the State plans to update the DRG weighting system which could impact Medical Center revenue. The Medical Center provided for the impact of the 2007-08 State budget in the Medical Center's budget process. The effect of future reform on the Medical Center cannot be predicted.

Department of Health Regulations

The Medical Center is subject to regulations of New York State Department of Health ("DOH"). Compliance with such regulations may require substantial expenditures for administrative or other costs. The Medical Center's ability to add services or beds or to modify targeted existing services materially is also subject to DOH review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Medical Center's ability to make changes to its service offerings and respond to changes in the competitive environment may be limited.

State Commission on Healthcare

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the Legislature authorized the creation of a "Commission on Health Care Facilities in the Twenty-First Century" (the "Commission") charged with studying the State's hospital and nursing home systems and making recommendations (the "Recommendations") for closure, resizing, conversion, consolidation and restructuring. The Commission was comprised of 18 statewide commissioners and 6 regional commissioners from each of the six regions in the State (Long Island, New York City, Hudson Valley, Northern, Central and Western). In making the Recommendations, the Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors, as determined by the Commissioner of Health or the Commission. In its final report released on November 28, 2006 (the "Final Report"), the Commission's Recommendations targeted nearly 50 hospitals for restructuring and nine hospitals for closure. These closures and restructurings will impact the flow of patients in the New York healthcare market. However, the magnitude of the impact is not known at this time. If and when the Recommendations are fully implemented, the Commission anticipates a reduction of approximately 4,200 hospital beds and 3,000 nursing home beds statewide, while creating home and community-based alternatives to nursing home placement. Federal and State funds are expected to be available to assist, in part, with the costs of implementing the Recommendations, assuming that any conditions requisite to such financing are met. In accordance with procedures established in the legislation creating the Commission, the Governor approved the Final Report and the Legislature did not exercise its right provided by those procedures to reject the Final Report in its entirety on or before December 31, 2006. Therefore, the Recommendations are to be implemented by the Commissioner of Health, with full implementation scheduled for June 2008. Several lawsuits have been filed, and a temporary restraining order issued, challenging the authority of the Commission, which, if successful, could affect implementation of some or all of the Recommendations. The Medical Center is not identified in the Final Report as an entity targeted for closure or restructuring of any kind.

Managed Care and Other Private Initiatives

Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Payment methodologies include per diem rates, case-rate payments, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. Managed care programs are expected to reduce significantly the utilization of health care services generally and inpatient services in particular. In addition, some managed care organizations have from time to time delayed reimbursements to hospitals, thereby affecting the cash flows of those hospitals. The Medical Center's financial condition may be adversely affected by these factors.

Medicare and Medicaid Managed Care

The Medicare program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may dis-enroll and re-enroll in the traditional fee-for-service Medicare system at will. Medicare managed care products can be offered only by a licensed HMO or a specially approved network called a Provider Sponsored Organization ("PSO"). At this time, the New York region has a limited number of approved PSOs.

The Medicare program pays the HMO a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in an HMO product. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the HMO pays for all the covered and medically necessary services delivered to the enrollee in the month. The HMO is at full financial risk for costs incurred for caring for its enrollees in the given month. Although Medicare HMOs have a strong interest to control utilization and thereby control costs for its population, implementation has proven more difficult.

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. For the majority of Medicaid recipients in New York County enrollment in a managed care program is mandatory in order to receive Medicaid benefits. The rules for the enrollment of Medicaid patients in managed care programs, premium payments to managed care organizations, and the resulting and potential financial risks to the Medical Center are similar to those already discussed for Medicare managed care programs. The change to Medicaid managed care may also result in a decrease in Medicaid patient revenue over time, although currently the contracts in place are at, or just slightly below, traditional Medicaid reimbursement. The teaching component of Medicaid reimbursement will continue to be paid by the State directly to the hospitals. See "PART 10 - THE MEDICAL CENTER - Sources of Patient Service Revenue and Reimbursement Methodologies."

Regulatory Reviews and Audits

The Medical Center, like other health care institutions, is subject to regulatory reviews and audits of its governmental reimbursement and, based on the results of such reviews and audits, 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. New York is included in this review project, and the review process has begun. The Medical Center has fulfilled its identified repayment obligations.

In 2006, the Office of the New York State Attorney General commenced an informal, industry-wide inquiry regarding amounts recognized as reserves, however denominated, on the institutional cost report and/or financial statement of New York's skilled nursing facilities and hospitals. The Medical Center has responded to this request. It is too early to determine whether the inquiry will take the form of a formal investigation or otherwise have a material adverse impact on New York hospitals including the Medical Center.

Competition

The Medical Center faces and will continue to face competition from other hospitals and integrated delivery systems that offer similar health care services. See "PART 10 – THE MEDICAL CENTER – Service Area and Other Area Hospitals" herein. Competition could also result from certain health care providers that may be able to offer lower priced services to the population served by the Medical Center. These services could be substituted for some of the revenue generating services currently offered by the Medical Center. The services that could serve as substitutes for hospital treatment include skilled, specialized and residential nursing facilities, home care, drug and alcohol abuse programs, ambulatory surgical centers, expanded preventive medicine and outpatient treatment, freestanding independent diagnostic testing facilities, and increasingly sophisticated physician group practices. Certain of such forms of health care delivery are designed to offer comparable services at lower prices, and the federal government and private third-party payors may increase their efforts to encourage the development and use of such programs. Similarly, efforts to increase consumer choice of available sources of health care could affect the Medical Center's ability to maintain its market share at current levels.

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

The competition for physicians has intensified in recent years, with frequent recruitment efforts by hospitals both locally and nationally to attract physicians away from competing hospitals in order to bolster admissions and profitability attributable to the patients such physicians frequently bring with them or are able to attract.

The growth of e-commerce may result in a shift in the way that health care is delivered. Persons residing in the Medical Center's service area may be able to receive certain health services from remote providers. For example, physicians are increasingly able to provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered on-line. Additionally, other service providers may now compete with the Medical Center by advertising and providing easy registration for their services through this medium.

Recent "pay-for performance" initiatives designed to reward hospitals, physicians, medical groups and other providers for achieving improvements in quality and clinical outcomes will likely impact how health care services are provided in the future. Quality benchmarks established by a number of industry organizations serve as the basis for these reward programs. There are currently over 100 pay-for-performance programs operated nationwide by health plans, employer coalitions and public insurance programs. CMS is conducting several pay-for-performance demonstration programs and legislation has been introduced in Congress on pay-for-performance for physicians. Because these initiatives are relatively new, it is unclear what the financial impact will be of participating in these programs.

Management of the Medical Center believes that insurers will encourage competition among hospitals and providers on the basis of price and payment terms and quality. To some degree, payors have used these factors to direct patients to particular hospitals, physicians or other providers for specified services or to exclude hospitals, physicians or other providers from their network of providers. Because patients typically receive lower rates of reimbursement for using out-of-network providers, utilization of a provider, such as the Medical Center, could be adversely affected as a result.

Workforce Shortages

Health care providers depend on qualified nurses and allied health professionals to provide quality service to patients. There is currently a nationwide shortage of qualified nurses and allied health professionals. This shortage and the more stressful working conditions it creates for those remaining in the profession are increasingly viewed as a threat to patient safety and may trigger the adoption of state and federal laws and regulations intended to reduce that risk. For example, some states are considering legislation that would prohibit forced overtime for nurses. In response to the shortage of qualified nurses and allied health professionals, health care providers have increased and could continue to increase wages and benefits to recruit or retain professional and nursing staff and have had to hire more expensive contract personnel. The shortage could also limit the operations of health care providers by limiting the number of patient beds available. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Medical Center's ability to control costs and its financial performance.

Increased Costs

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

Outlier Payments

In 2002, CMS initiated an audit of aggressive pricing strategies at one of the nation's largest hospital chains. The audit, which was designed to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations, focused on the charge data used by the hospitals to calculate their outlier reimbursements, and whether the charge data was inflated to increase reimbursements. The Office of Inspector General (“OIG”) of DHHS and the Department of Justice have also initiated probes into the potentially abusive billing practices of such organizations.

Following the initiation of the above noted audit, CMS issued Program Memoranda to its fiscal intermediaries (*i.e.*, non-governmental organizations or agencies that contract with the federal government to process Medicare claims) directing them to analyze outlier payments and to identify other hospitals across the country with high outlier payments. CMS indicated that hospitals found to have engaged in strategies to obtain excessive outlier payments could be referred to the CMS Program Integrity Unit for further investigation, and, where appropriate, to the OIG. CMS also issued a rule that would change the way outlier payments are calculated commencing August 2003. The rule is intended to limit the opportunity of a hospital to manipulate the outlier formula to maximize reimbursement and allow recovery of overpayments in certain cases. In late January, 2008, the Medical Center and other hospitals received subpoenas from the OIG seeking documentation with respect to outlier payments. There can be no assurance that the OIG will not assert a claim in the future against the Medical Center and the Medical Center is currently unable to determine whether a claim, if asserted and successful, would have a material adverse impact on it. The Medical Center is in the process of responding to the subpoena.

Federal and State "Fraud and Abuse" Laws and Regulations

The federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in return for or to induce business that may be paid for, in whole or in part, under a federal health care program including, but not limited to, the Medicare and Medicaid programs. In addition to criminal penalties, including fines of up to $25,000 and five years imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the federal health care programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. The Medical Center conducts activities of these general types or similar activities.

The OIG has published 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 relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to review the Special Fraud Alerts issued by the OIG for further guidance, seek an Advisory Opinion from OIG regarding the proposed arrangement, or alter them in order to ensure compliance with the Anti-Kickback Law. Failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful but may increase the likelihood of challenge.

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that are not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by OIG officials) that they may create liability in connection with a wide variety of business transactions. 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 Medical Center). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or *qui tam* action brought by a private individual in the name of the government could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, such as practice purchases, physician recruiting and retention programs, various forms of hospital assistance to individual physicians, medical practices or physician contracting entities, physician referral services, hospital-physician services or management contracts, and space or equipment rentals between hospitals and physicians. The Medical Center conducts these or similar types of activities, which pose varying degrees of risk. Much of this risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Medical Center is not aware of any challenge or investigation with respect to such matters, there can be no assurance that one or more will not occur in the future.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") created a new program operated jointly by DHHS and the United States Attorney General to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Law. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to federal health care programs, provides for intermediate sanctions and expands the scope of civil monetary penalties. Subsequent federal legislation expanded the authority of the OIG to exclude persons from federal health care programs, increased certain civil and monetary penalties for violations of the Anti-Kickback Law and added a new monetary penalty for persons who contract with a provider that the person knows or should know is excluded from the federal health care programs. Finally, actions which violate the Anti-Kickback Law or similar laws may also involve liability under the federal civil False Claims Act (the "FCA"), which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the FCA may be brought by the United States Attorney General or as a *qui tam* action.

In light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Medical Center will not be found to have violated the

Anti-Kickback Law and, if so, whether any sanction imposed would have a material adverse effect on the operations of the Medical Center.

False Claims

There are many complex rules that a health care provider must follow with respect to the submission of claims. The failure to follow these rules may be found in the admitting process, the care delivery process, the coding process or the billing process. The FCA allows the United States government, through the United States Attorneys' Office or the Department of Justice, to recover significant damages from persons or entities that knowingly or recklessly submit fraudulent claims for payment to any federal agency. It also permits individuals, as plaintiffs or "whistleblowers," to initiate actions on behalf of the government. Under the FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. If a health care provider is found to have violated the FCA, the potential liability is substantial. The violator can be held liable for up to triple the actual damages incurred by the government. It can also be fined a penalty of $5,500 to $11,000 for each violation of the FCA and be temporarily or permanently excluded from the federal health programs.

Importantly, the FCA broadly defines the terms "knowing" and "knowingly." Specifically, knowledge will have been proven for purposes of the FCA if the person: (i) has actual knowledge of the information; (ii) acts in deliberate ignorance of the truth or falsity of the information; or (iii) acts in reckless disregard of the truth or falsity of the information. Moreover, the statute specifically provides that a specific intent to defraud is not required in order to prove that the law has been violated.

In addition to the FCA, the Civil Monetary Penalties Law authorizes the imposition of substantial civil money penalties against an entity that engages in activities including, but not limited to, (1) knowingly presenting or causing to be presented, a claim for services not provided as claimed or which is otherwise false or fraudulent in any way; (2) knowingly giving or causing to be given false or misleading information reasonably expected to influence the decision to discharge a patient; (3) offering or giving remuneration to any beneficiary of a federal health care program likely to influence the receipt of reimbursable items or services; (4) arranging for reimbursable services with an entity which is excluded from participation from a federal health care program; (5) knowingly or willfully soliciting or receiving remuneration for a referral of a federal health care program beneficiary; or (6) using a payment intended for a federal health care program beneficiary for another use. A hospital that participates in arrangements known as "gainsharing," through which the hospital pays physicians to limit or reduce services to Medicare fee-for-service beneficiaries also may be subject to substantial civil monetary penalties. The Secretary of HHS, acting through the OIG, has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

Finally, it is a criminal federal health care fraud offense to: (1) knowingly and willfully execute or attempt to execute any scheme to defraud any health care benefit program; or (2) obtain, by means of false or fraudulent pretenses, representations or promises, any money or property owned or controlled by any health care benefit program. Penalties for a violation of this federal law include fines and/or imprisonment, and a forfeiture of any property derived from proceeds traceable to the offense.

Management of the Medical Center is not aware of any violations by the Medical Center of the "false claims" laws. However, there can be no assurances that the Medical Center will not be charged with, or found to have violated such laws and, if so, that any fines or other penalties would not have a material adverse effect on its operations.

Restrictions on Referrals

The Federal Ethics in Patient Referrals Act (known as the "Stark Law") prohibits, subject to limited exceptions, a physician (or an immediate family member of such physician) who has a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services. The Stark Law also prohibits a person or entity from presenting or causing to be presented a claim for payment under the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology and certain other imaging 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), orthotics and prosthetic devices and supplies, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services (not including lithotripsy). Beginning January 2007, nuclear medicine services and supplies is included in the definition of designated health services.

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

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

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

The exceptions under the Stark provisions can be broken down into three categories, based upon the nature of the financial relationship between the referring provider and the entity receiving the referral. The three categories of exceptions include: (i) exceptions to ownership arrangements, (ii) exceptions to compensation arrangements, and (iii) exceptions to both compensation and ownership arrangements. Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violation of Stark may lead to denial of payment for prohibited referrals, the need to refund payments received, significant civil monetary penalties and/or exclusion from federal health care programs. Under an emerging legal theory, knowing violations of the Stark Law may also serve as the basis for liability under the FCA.

Joint Ventures

The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Law, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In a Special Fraud Alert issued in 1989, the OIG raised concern about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to "lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals." In the Special Fraud Alert, the OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a "shell" (i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In 2003, the OIG issued a Special Advisory Bulletin indicating that "contractual joint ventures" (where a provider expands into a new line of business by contracting with an entity that already provides the items or

* Under the State Provisions, a practitioner is defined as a licensed or registered physician, dentist, podiatrist, chiropractor, nurse, midwife, physician assistant or special assistant, physical therapist, or optometrist.

services) may violate the Anti-Kickback Law and expressing skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures.

In addition, under the federal tax laws and regulations governing organizations exempt from federal income taxes under Section 501(c)(3) of the Code ("Section 501(c)(3) Organizations"), a tax-exempt hospital's participation in a joint venture with for-profit entities must further the hospital's exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital's tax-exemption may be revoked, the hospital's income from the joint venture may be subject to tax, or the parties may be subject to some other sanction. See "Internal Revenue Code Limitations" for further discussion of risks related to the tax-exempt status of the Medical Center.

Any evaluation of compliance with the Anti-Kickback Law or laws and regulations governing Section 501(c)(3) Organizations depends on the totality of the facts and circumstances. While management of the Medical Center believes that the joint venture arrangements to which the Medical Center is a party are in material compliance with the Anti-Kickback Law and OIG policies, and the laws and regulations governing Section 501(c)(3) Organizations, there can be no assurance that the Internal Revenue Service ("IRS") or OIG will not take a contrary view. Any determination that it is not in compliance with such laws, regulations or policies could have a material adverse effect on the future operational or financial condition of the Medical Center.

HIPAA

HIPAA was enacted by Congress to mandate portability of health insurance. Congress included in HIPAA certain "administrative simplification" provisions intended to reduce the administrative costs of processing health care payments by encouraging the electronic exchange of health information and the use of standardized formats for health care claims and other transactions. Congress recognized, however, that increased electronic exchange of health information presents privacy concerns and security risks and, therefore, also required that privacy and security safeguards be put into place.

HIPAA and its regulations apply to health plans, health care clearinghouses, and those health care providers who electronically conduct certain financial and administrative transactions (e.g., electronic health care claim submissions). Regulations regarding privacy, security and transaction standards have been finalized. The final privacy regulations address five basic privacy principles: (i) consumer control over health information, (ii) boundaries on patient record use and release, (iii) safeguards for personal health information, (iv) accountability for patient record use and release, and (v) a balance between public responsibility and privacy protections. The final transaction standards and security regulations are also now effective.

Under HIPAA, there will be specific federal penalties if a patient's right to privacy is violated. Civil violations, including disclosures made in error, will carry a monetary penalty of $100 per violation up to $25,000 per year. Criminal penalties for intentional violations carry fines of up to $250,000 and 10 years in prison.

Compliance with HIPAA has required expensive and substantial changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in monitoring of ongoing compliance with the various regulations. The Medical Center maintains formal plans for compliance with all applicable HIPAA requirements, has trained its staff and employees in these requirements and maintains specified HIPAA Compliance Officers for Privacy and Security who have been provided the authority to supervise, update and enforce policies and procedures designed to assure HIPAA compliance.

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. This law mandates certain medical screening and stabilizing treatment requirements be met before a patient who is medically unstable or in labor may be transferred to another facility, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. This law applies even when the hospital is temporarily on diversion status. The law further prohibits hospitals delaying such screening or treatment in order to inquire about an individual's method of payment.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties of up to $50,000 per violation. Accordingly, failure of the Medical Center to meet its responsibilities under the law could adversely affect its financial condition.

Enforcement and Accreditation Activity

Enforcement activity against health care providers is increasing, and enforcement authorities are adopting more aggressive approaches. The Medical Center is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board and professional and industrial associations of staff and employees, applicable professional review organizations, The Joint Commission, the Environmental Protection Agency, the IRS and other federal, state and local governmental agencies, including those that administer the National Health Planning and Resources Development Act and the Occupational Safety Health Act.

The Medical Center is frequently subject to audits and other investigations relating to various segments of its operations, as are many other medical centers throughout the nation. Because of the complexity of the laws to which it is subject, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in expensive and prolonged enforcement action against the Medical Center.

Renewal and continuation of certain 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 Medical Center. 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 Medical Center's scope of licensure, certification or accreditation, could reduce payments received by it or could require repayment of amounts which it had previously received.

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 on January 31, 2005. These issuances (collectively, the "Guidances") provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. However, the presence of a compliance program is not an assurance that health care providers, such as the Medical Center, will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that they will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs).

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. Management of the Medical Center is actively engaged in efforts to comply with these requirements.

Not-for-Profit Status

As a non-profit tax-exempt organization, the Medical Center is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation for charitable purposes. At the same time, the Medical Center 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 health care facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Medical Center's ability to finance its future capital needs and could have other adverse effects on the Medical Center which cannot be predicted at this time. The Code continues to subject unrelated business income of non-profit organizations to taxation.

Third-party reimbursement methodologies create financial incentives for hospitals to recruit and retain physicians who will admit patients and utilize hospital services. The Medical Center's use of these incentives is limited, however, by legal restrictions, including limitations with respect to permitted activities of tax-exempt organizations and the federal Medicare and Medicaid statutes. As a tax-exempt organization, the Medical Center is limited in its 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 scrutinized a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents examine numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of certain health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status. The Medical Center, like many hospitals, may have entered into arrangements, directly or through affiliates, with physicians that are of the kind that the IRS has indicated it will examine in connection with audits of tax-exempt hospitals. Any suspension, limitation, or revocation of the Medical Center's tax-exempt status or assessment of significant tax liability could have a materially adverse effect on it and might lead to loss of tax exemption of interest on the Bonds. Management is not aware of any current inquiry, challenge or investigation, and believes that all such arrangements entered into by the Medical Center are consistent in all material respects with the limits imposed on tax-exempt organizations.

Revocation of the tax-exempt status of the Medical Center 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 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 Medical Center to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and non-exempt individuals or entities. While management believes that the Medical Center's arrangements with private persons and entities are generally consistent with guidance by IRS, 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 Medical Center.

The Taxpayer Bill of Rights Act 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 general tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Although the Medical Center is not the subject of any such audit at this time, other hospitals located in the State have been the subject of such audits.

Antitrust

Antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, payer contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Violation of the antitrust laws could subject the Medical Center to criminal and civil enforcement by federal and state agencies, as well as by private litigants seeking damages. The most common areas of potential liability are joint action among providers with respect to payer contracting, medical staff credentialing, and use of a hospital's local market position for entry into related health care businesses. From time to time, the Medical Center may be involved with all of these types of activities, and it cannot be predicted whether or to what extent liability may arise. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case.

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

Environmental Matters

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As an owner and operator of properties and facilities, the Medical Center may be subject to potentially material liability for costs of investigating and remediating releases of any substances, either on its properties or that have migrated from its properties or that have been improperly disposed of off-site, and the harm to persons or property that such releases may cause. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of infectious, toxic, radioactive, flammable and other hazardous materials, waste, 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 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 Medical Center will not encounter such risks in the future, and such risks may result in material adverse consequences to its operations or financial condition.

Malpractice Lawsuits

Although the frequency of malpractice lawsuits filed against physicians and hospitals has stabilized in recent years, the size of the awards has grown and the dollar amounts of patient damage recoveries is potentially significant. A number of insurance carriers have withdrawn from this segment of the insurance market citing underwriting losses, and premiums have increased in the last several years. The effect of these developments has been to significantly increase the operating costs of hospitals, including the Medical Center.

Technological Changes

Medical research and resulting discoveries have grown exponentially in the last decade. Federal legislation was passed in 1992 that levied fees on industry to support a substantial upgrade and reorganization of the federal Food and Drug Administration, the agency that regulates the introduction of new drugs and devices to the market, for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices, which has cut in half the median time required for new drug approval. Other legislation decreased the types of devices regulated and reformed the biologics approval process. Once new drugs secure market approval, they are often included on hospitals' formularies — the list of drugs maintained by the hospitals for patient care. New drugs and devices could also reduce utilization or render obsolete the way that services are currently rendered, thereby either increasing expense or reducing revenues.

New drugs and devices may add greatly to the Medical Center's cost of providing services with no or little offsetting increase in federal or other third-party reimbursement because the costs of new drugs and devices may not be accounted for in the DRG or other third-party payment received by hospitals. The PPS system imposed on outpatient services does permit a direct pass-through of the costs of certain new technologies defined by the government and the Medical Center's contracts with some of its managed care organizations may provide for adjustments to payment rates to reflect the costs of such new drugs, devices or technologies.

Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and the Medical Center may have to incur significant costs to acquire the equipment needed to maintain or enhance its competitive position. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the Medical Center to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations. For example, the costs to acquire and implement an electronic medical records system are significant but it is widely believed that it will lead to greater efficiencies in the provision of patient care and improved quality of care. CMS recently published new Stark exceptions for electronic prescribing and electronic medical records technology. The OIG published similar safe harbors for the Anti-Kickback Law. The final rules provide some relief from the restrictions hospitals have faced in providing such technology to physicians.

Future Legislation

In addition to legislative proposals previously discussed herein, other legislative proposals that could have an adverse effect on the Medical Center include: (a) any changes in the taxation of not-for-profit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax exempt financing for Section 501(c)(3) Organizations; and (c) regulatory limitations affecting the ability of the Medical Center to undertake capital projects or develop new services.

Legislative bodies have considered legislation concerning the charity care standards that non-profit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating that non-profit, charitable hospitals have an open-door policy toward Medicare and Medicaid patients as well as offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on non-profit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. The scope and effect of legislation, if any, that may be enacted at the federal or state levels with respect to charity care of non-profit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, could have the effect of subjecting a portion of the income of the Medical Center to federal or state income taxes or to other tax penalties and adversely affect the ability of the Medical Center to generate net revenues sufficient to meet its obligations and to pay the debt service on the Bonds and its other obligations.

Other Risk Factors

The following additional factors, among others, may adversely affect the operations of health care providers, including the Medical Center, to an extent that cannot be determined at this time:

- Employee strikes and other adverse labor actions and conditions, which could result in a substantial reduction in revenues without a corresponding decrease in costs;
- Increased unemployment or other adverse economic conditions in the Medical Center's service area which might increase the proportion of patients without health insurance benefits or who otherwise are unable to pay fully for the costs of their care;
- Efforts by employers to reduce the costs of health insurance by having employees bear a greater portion of their health care costs, causing employees to be more selective and cost-conscious in choosing health care services;
- Reduced need for hospitalization or other health care services arising from medical and scientific advances;
- 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 Medical Center generally carries;
- Developments affecting the federal or state tax-exempt status of not-for-profit hospitals or of securities such as the Bonds;
- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates;
- Bankruptcy of an indemnity/commercial insurer, managed care plan, provider or other payor;
- Acts of war or acts of so-called terrorists, including the use of weapons capable of mass destruction; and
- The need to find qualified replacements for the Medical Center's workforce as existing employees reach retirement age.

PART 12 – BONDHOLDERS' RISKS

The discussion herein of risks to Holders of the Series 2008 Bonds is not intended as dispositive, comprehensive or definitive, but rather is intended only to summarize certain matters which could affect payment on the Series 2008 Bonds. However, Holders of the Series 2008 Bonds should be aware of these matters and other potential risks that could adversely affect the Medical Center's ability to make payments on the Refinanced Note which supports the Series 2008 Bonds. Other sections of this Official Statement should be referred to for a more detailed description of risks described in this part, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal office of the Authority and the Trustee.

General

The Series 2008 Bonds are special and limited obligations of the Authority payable solely from the amounts payable under the Refinanced Note, certain payments under the Loan Agreement, the Mortgage Insurance Benefits, and certain amounts in the Debt Service Reserve Fund and other funds held pursuant to the Resolutions (excluding the Arbitrage Rebate Fund).

The Series 2008 Bonds may be redeemed earlier or later than described above under "PART 4 – PRINCIPAL, INTEREST AND ESTIMATED SCHEDULE OF SINKING FUND INSTALLMENTS" due to various factors.

A default with respect to the Section 241 Loans, shall, at the option of FHA, constitute a default on the Refinanced Note and the Modified Mortgage.

Adequacy of Revenue

The primary security for the Series 2008 Bonds is the Refinanced Note and Modified Mortgage and the benefits of the FHA Mortgage Insurance. Reliance has been placed by the Authority upon the underwriting criteria utilized by FHA in insuring the Modified Mortgage as evidence of the adequacy of the Medical Center's revenue to maintain the Mortgaged Property and make the payments required under the Refinanced Note and the Modified Mortgage. The Underwriters have not made any independent evaluations of such revenue and makes no representations as to the adequacy of such revenue to maintain the Mortgaged Property and to make payments required under the Refinanced Note and the Modified Mortgage.

Reduction or Loss of Mortgage Insurance

As more fully discussed above under "PART 5 – FHA MORTGAGE INSURANCE," the failure to maintain adequate casualty insurance on the Mortgaged Property may result in the loss of Mortgage Insurance Benefits in the event of damage to or destruction of the Mortgaged Property. Mortgage Insurance Benefits may also be lost for failure to pay required Mortgage Insurance premiums to FHA and failure to provide FHA with required notices or otherwise to comply with FHA rules and regulations governing insurance claims. The Servicing Agreement requires that the Mortgage Servicer supervise the Medical Center with regard to the payment of casualty and Mortgage Insurance premiums, and that the Mortgage Servicer provide FHA with required notices, in some cases at the direction of the Authority. To the extent offsets are made in the payment of the Mortgage Insurance Benefits, depending upon the amount of such offsets, the total amount of the Mortgage Insurance Benefits may not be adequate to provide for the timely payment of the Principal Amount and interest on the Series 2008 Bonds.

A default under the Loan Agreement, the Resolutions or any other document to which the Medical Center is a party, which is not also a default under the Refinanced Note or the Modified Mortgage, or under the Regulatory Agreement will not entitle the Authority to present a claim for Mortgage Insurance Benefits.

Events of Taxability

If the Medical Center does not comply with certain covenants of the Medical Center set forth in the Loan Agreement or if certain representations or warranties made by the Medical Center in the Loan Agreement or in certain certificates of the Medical Center are false or misleading, the interest payable on the Series 2008 Bonds may become subject to inclusion in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008 Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that the interest on the Series 2008 Bonds should become subject to inclusion in gross income for federal income tax purposes, the Resolution does not provide for payment of any additional interest on the Series 2008 Bonds, the redemption of the Series 2008 Bonds or the acceleration of the payment of debt service on the Series 2008 Bonds.

Adequacy of the Debt Service Reserve Fund

As described in "PART 2 – PLAN OF REFUNDING – Payment of FHA Mortgage Insurance Benefits" and "PART 3 – THE SERIES 2008 BONDS – Security for the Series 2008 Bonds," a Debt Service Reserve Fund has been established to provide additional funds for payment of the maturing principal of and interest on the Series 2008 Bonds in the event of a default under the Modified Mortgage and the assignment thereof to FHA because the Mortgage Insurance Benefits will not be paid immediately. However, no assurance can be given that such amounts available in the Debt Service Reserve Fund will be sufficient to pay in full the maturing Principal Amount of and interest on the Series 2008 Bonds in the event of a default under the Modified Mortgage and the assignment thereof to FHA if the final payment of the Mortgage Insurance Benefits is not made prior to the third Interest Payment Date from the date of default under the Modified Mortgage. It is expected that the Mortgage Insurance Benefits and certain other moneys held by the Trustee should be sufficient to provide for the payment of all of the Series 2008 Bonds Outstanding on or prior to their maturity and interest due thereon in the event of a default under the Modified Mortgage and the assignment thereof to FHA.

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

PART 13 – THE AUTHORITY

Background, Purposes and Powers

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

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

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

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

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

At December 31, 2007, the Authority had approximately $34.6 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.

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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 December 31, 2007 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
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	5,060,675,745	0	5,060,675,745
Upstate Community Colleges of the State University of New York	1,397,910,000	593,095,000	0	593,095,000
Senior Colleges of the City University of New York	8,609,563,549	3,005,421,270	0	3,005,421,270
Community Colleges of the City University of New York	2,194,081,563	529,738,730	0	529,738,730
BOCES and School Districts	1,693,231,208	1,253,000,000	0	1,253,000,000
Judicial Facilities	2,161,277,717	738,632,717	0	738,632,717
New York State Departments of Health and Education and Other	3,362,370,000	2,054,770,000	0	2,054,770,000
Mental Health Services Facilities	5,682,130,000	3,650,920,000	0	3,650,920,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	913,895,000	827,890,000	0	827,890,000
Totals Public Programs	$40,666,668,036	$18,587,498,462	$ 0	$ 18,587,498,462

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 14,796,041,020	$ 7,000,083,940	$ 198,125,000	$ 7,198,208,940
Voluntary Non-Profit Hospitals	12,567,404,309	7,771,100,000	0	7,771,100,000
Facilities for the Aged	1,798,670,000	1,048,545,000	0	1,048,545,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 29,437,720,329	$ 15,819,728,940	$ 198,125,000	$ 16,017,853,940
Grand Totals Bonds and Notes	$ 70,104,388,365	$ 34,407,227,402	$ 198,125,000	$ 34,605,352,402

Outstanding Indebtedness of the Agency Assumed by the Authority

At December 31, 2007, the Agency had approximately $578 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 December 31, 2007 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding
Mental Health Services Improvement Facilities	$ 3,817,230,725	$ -
Non-Public Programs	**Bonds Issued**	**Bonds Outstanding**
Hospital and Nursing Home Project Bond Program	$ 226,230,000	$ 3,605,000
Insured Mortgage Programs	6,625,079,927	541,824,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	32,510,000
Total Non-Public Programs	9,265,549,927	577,939,927
Total MCFFA Outstanding Debt	$ 13,082,780,652	$ 577,939,927

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 expires on March 31, 2008.

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

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2008 Bonds.

Legislation

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

Environmental Quality Review

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

Independent Auditors

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

PART 14 – 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 of the State may properly and legally invest funds in their control.

The Series 2008 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 15 – NEGOTIABLE INSTRUMENTS

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

PART 16 – TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2008 Bonds in order that interest on the Series 2008 Bonds will be and remain not includable in gross income under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, required ownership of the bond-financed facilities by a Section 501(c)(3) organization or a governmental unit, limits on the amount of tax-exempt financing of capital expenditures incurred on or before August 5, 1997, from which certain users (and related parties) of the facilities resulting from such expenditures may benefit, and the rebate to the United States of certain earnings with respect to investments. Failure to comply with the continuing requirements may cause interest on the Series 2008 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Resolution, Series Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Medical Center have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code.

In the opinion of Winston & Strawn LLP, New York, New York ("Bond Counsel"), based upon an analysis of existing statutes, regulations, rulings and court decisions, interest on the Series 2008 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance by the Authority and the Medical Center (and their successors) with the covenants, and the accuracy of the representations (as to which Bond Counsel has made no independent investigation) referenced above. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

In addition, Bond Counsel has relied on the opinions of Dennett Law Offices, P.C., counsel to the Medical Center, regarding the current qualification of the Medical Center as an organization described in Section 501(c)(3) of the Code, and other matters. Neither Bond Counsel nor counsel can give or has given any opinion or assurance about the future activities of the Medical Center, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of the Medical Center to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest payable with respect to the Series 2008 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2008 Bonds.

Certain requirements and procedures contained or referred to in the Resolution, the Series Resolution, the Loan Agreement, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2008 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Bond Counsel is further of the opinion that interest on the Series 2008 Bonds is not an "item of tax preference" for purposes of the federal alternative minimum tax on individuals and corporations. However, interest on the Series 2008 Bonds owned by corporations (other than S corporations, Regulated Investment Companies, Real Estate Investment Trusts, Real Estate Mortgage Investment Conduits and Financial Asset Securitization Investment Trusts) will be included in the calculation of adjusted current earnings, a portion of which is an adjustment to corporate alternative minimum taxable income for purposes of calculating the alternative minimum tax imposed on corporations (but not individuals). Corporate purchasers of the Series 2008 Bonds should consult their tax advisors concerning the computation of any alternative minimum tax.

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2008 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing an Series 2008 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2008 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Certain maturities of the Series 2008 Bonds may be initially offered to the public at prices less than the principal amount thereof payable at maturity. If the first price at which a substantial amount of the Series 2008 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and principal amount constitutes original issue discount with respect to each Series 2008 Bond of the same maturity (the "Discount Bonds"). Bond Counsel is of the opinion that original issue discount, as it accrues, is excludable from gross income for federal income tax purposes and is subject to the alternative minimum tax to the same extent as is interest on the Series 2008 Bonds. Original issue discount accrues in each taxable year over the term of the Discount Bonds under the "constant yield method" described in regulations interpreting Section 1272 of the Code, with certain adjustments. Original issue discount may be treated as continuing to accrue in each taxable year even if payment of the Discount Bonds becomes doubtful. Accruals of original issue discount are treated as tax-exempt interest earned by owners on the accrual basis of tax accounting and as tax-exempt interest received by owners on the cash basis of tax accounting (with possible tax consequences under the alternative minimum tax, as described above) even though no cash corresponding to the accrual is received in the year of accrual. The tax basis of a Discount Bond if held by an original purchaser, can be determined by adding to such owner's purchase price of such Discount Bond the original issue discount that has accrued. Holders of Discount Bonds should consult their own tax advisors with respect to the calculation of the amount of the original issue discount that will be treated for federal income tax purposes as having accrued for any taxable year (or portion thereof) of such owners and with respect to other federal, state and local tax consequences of owning and disposing of the Discount Bonds.

Certain maturities of the Series 2008 Bonds may be initially offered to the public at prices in excess of their principal amounts (the "Premium Series 2008 Bonds"). Bond Counsel is of the opinion that the initial purchaser (other than a purchaser who holds such Series 2008 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) with an initial adjusted basis in a Premium Series 2008 Bond in excess of its principal amount will have amortizable bond premium that is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of such Premium Series 2008 Bond based on the purchaser's yield to maturity (or, in the case of Premium Series 2008 Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Series 2008 Bond, an initial purchaser is required to decrease such purchaser's adjusted basis in such Premium Series 2008 Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning Premium Series 2008 Bonds. Owners of Premium Series 2008 Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning Premium Series 2008 Bonds.

Prospective purchasers of the Series 2008 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of tax-exempt obligations may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2008 Bonds. Bond Counsel expresses no opinion regarding any such collateral consequences.

In the opinion of Bond Counsel, the interest on the Series 2008 Bonds is exempt under existing statutes from personal income taxes imposed by the State of New York and its political subdivisions (including The City of New York).

On November 5, 2008, the United States Supreme Court heard oral arguments with respect to its review of a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States

Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities, agencies and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities, agencies and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including the Series 2008 Bonds. The impact of this decision may also affect the market price for, or the marketability of, the Series 2008 Bonds.

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. The opinion of Bond Counsel is based on current legal authority. Future tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2008 Bonds under federal or state law and could affect the market price or marketability of the Series 2008 Bonds. Prospective purchasers of the Series 2008 Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation. Further no assurance can be given that a future court decision, or the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to regulation, ruling, or selection of the Series 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 of the Series 2008 Bonds.

PART 17 – STATE AND FHA 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 are not a debt of the State nor shall the State be liable thereon.

The Series 2008 Bonds do not constitute an obligation or indebtedness of, and the payment of the Series 2008 Bonds is not insured or guaranteed by, the United States of America or any agency or instrumentality thereof, including HUD and FHA.

PART 18 – COVENANT BY THE STATE

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

PART 19 – LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2008 Bonds by the Authority are subject to the approval of Winston & Strawn LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2008 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix E hereto. Certain legal matters will be passed upon for the Medical Center by its co-counsel, Dennett Law Offices, P.C., Great Neck, New York, and McLaughlin & Stern, LLP, New York, New York; for the Underwriters by their counsel, Harris Beach PLLC, New York, New York; and for the Mortgage Servicer by Krooth & Altman LLP, Washington, D.C.

There is not now pending any litigation restraining or enjoining the issuance 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 they are to be issued. There is no litigation pending which in any manner questions the right of the Authority to finance the Project in accordance with the provisions of the Act, the Resolution, the Series Resolution and the Loan Agreement.

PART 20 - RATINGS

The Series 2008 Bonds are expected to be rated "AAA" by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies and "Aa2" by Moody's Investors Service, Inc. Such credit ratings, reflect only the view of such credit rating agencies, and an explanation of the significance of such credit ratings may be obtained from the rating agency furnishing the same. There is no assurance that such credit ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such credit rating agencies, if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal of any such credit rating may have an adverse effect on the market price of the Series 2008 Bonds.

PART 21 - VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., a firm of independent public accountants, will deliver to the Authority its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Authority and its representatives. Included in the scope of its examinations will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash, the maturing principal amounts and the interest on the Defeasance Securities deposited with the trustee under the resolution pursuant to which the 1995 Series A Bonds were issued to pay the principal, interest and redemption price coming due on the 1995 Series A Bonds on and prior to their maturity or redemption dates as described in "PART 2 - PLAN OF REFUNDING" and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Series 2008 Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

PART 22 – UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2008 Bonds from the Authority at an aggregate purchase price of $133,558,044.70, representing the par amount of the Series 2008 Bonds, plus net original issue premium of $8,395,944.70, less the Underwriters' discount of $837,900.00, and to make a public offering of the Series 2008 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all 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 23– CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule l5c2-12"), the Medical Center has undertaken in a written agreement for the benefit of the Bondholders to provide to Digital Assurance Certification LLC ("DAC"), on behalf of the Authority as the Authority's disclosure dissemination agent, on or before 165 days after the end of each fiscal year of the Medical Center, commencing with the fiscal year ending December 31, 2007, for filing by DAC with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a "Repository") and, if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, operating data and financial information of the type hereinafter described which is included in "PART 10 – THE MEDICAL CENTER" of this Official Statement (the "Annual Information"), together with the Medical Center's annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if the audited financial statements are not then available, unaudited financial statements shall be provided and such audited financial statements shall be delivered to DAC for delivery to each Repository and the State Information Depository when they become available.

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

The Medical Center also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, the Authority and the Trustee will undertake to provide such notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Medical Center, the Trustee or the Authority, DAC will file the Notices with each such Repository or with the Municipal Securities Rulemaking Board (the "MSRB"), and with the State Information Depository, in a timely manner. With respect to the Series 2008 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent it has been provided such information pursuant to the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by the Medical Center or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Medical Center, the Holders of the Series 2008 Bonds or any other party. DAC has no responsibility for the Authority's, the Medical Center's or the Trustee's failure to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Medical Center, the Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Medical Center, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement. In the event that the obligations of DAC as the Authority's disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information will consist of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in "PART 10 – THE MEDICAL CENTER" herein relating to the following: (i) utilization statistics of the type set forth under the headings "Service Area, Other Area Hospitals and Utilization - Utilization"; (ii) operating data of the type set forth under the headings "Consolidated Statements of Operations" and "Management's Discussion and Analysis of Recent Financial Performance"; (iii) sources of patient service revenue of the type set forth under the heading "Sources of Patient Service Revenue"; and (iv) outstanding indebtedness, unless such information is included in the audited consolidated financial statements of the Medical Center, together with (2) such narrative explanation as may be necessary to avoid misunderstanding and assist the reader in understanding the presentation of financial and operating data concerning the Medical Center and in judging the financial and operating condition of the Medical Center.

The Notices include notices of any of the following events (the "Event Notices") 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 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; and (11) rating changes. In addition, DAC will undertake to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the Medical Center to provide the Annual Information and annual consolidated financial statements by the date required in the Medical Center's undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of DAC, the Medical Center and/or the Authority, and no person, including any Holder of the Series 2008 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the Medical Center may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2008 Bonds or by the Trustee on behalf of the Holders 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 Holders of the Series 2008 Bonds; provided, however, that the Trustee is not required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2008 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement does not constitute an Event of Default under the Resolution, the Loan Agreement or the Continuing Disclosure Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

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

PART 24 – MISCELLANEOUS

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

The agreements of the Authority with Holders of the Series 2008 Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2008 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2008 Bonds.

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

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

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

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

"Appendix A – Definitions," "Appendix C – Summary of Certain Provisions of the Resolution," "Appendix D- Summary of Certain Provisions of the Loan Agreement," and "Appendix E - Form of Approving Opinion of Bond Counsel" have been prepared by Winston & Strawn LLP, New York, New York, Bond Counsel to the Authority.

The consolidated financial statements of the Medical Center as of December 31, 2006, 2005 and 2004 and for the years then ended, included in Appendix B, have been audited by Ernst & Young LLP, independent auditors, as stated in their reports appearing thereon. The Medical Center has prepared the parts of the Official Statement describing the Medical Center, the Project and Risk Factors and Regulatory Changes Which May Affect the Medical

Center and it has reviewed the Estimated Sources and Uses of Funds, the Principal, Interest and Estimated Schedule of Sinking Fund Installments table and the information under "PART 2-PLAN OF REFUNDING" (except for the information under the undesignated paragraph immediately preceding the subcaption "Payment of the Refinanced Note and Series 2008 Bonds" and under the subcaptions "Payment of FHA Mortgage Insurance Benefits" and "Prepayment of Refinanced Note from Hazard Insurance Proceeds or Condemnation Awards"). The Medical Center shall certify as of the dates of sale and delivery of the Series 2008 Bonds that such parts do not contain any untrue statement of material fact and do not omit any material fact necessary to make the statements made therein, in light of the circumstances under which the statements are made, not misleading.

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

The Medical Center has agreed with the Authority to furnish, or cause to be furnished, no later than 45 days subsequent to the last day of each of the first three quarters in each fiscal year and no later than 90 days subsequent to the fourth quarter of each fiscal year to (i) the Authority, (ii) each Repository, and (iii) each Bondholder who has so requested, the following information: (a) the unaudited consolidated financial statements of the Medical Center, including the balance sheet as of the end of such quarter, the statement of operations for the fiscal year to date, and for the comparable prior year period, changes in net assets and cash flow; (b) utilization statistics for the fiscal year to date and for the comparable prior year period, including aggregate discharges per facility, patient days, average length of stay, average daily census, emergency room visits, ambulatory surgery visits; and (c) percentage of patient discharges by revenue source. In the event that the Medical Center satisfies its requirement to provide annual information in accordance with the Continuing Disclosure Agreement prior to 90 days subsequent to the fourth quarter of any fiscal year, the submission under the Continuing Disclosure Agreement will satisfy the requirement of the fourth quarter.

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

DORMITORY AUTHORITY OF
THE STATE OF NEW YORK

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

DEFINITIONS

The following definitions of certain terms are for the use of this Official Statement only. Capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Resolution.

Act means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law, as amended) as 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 Act, being Chapter 392 of Laws of New York 1973, as amended.

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

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

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

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

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

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

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

Authority Fee means a fee payable to the Authority consisting of (a) all the Authority's internal costs and overhead expenses attributable to the issuance of a Series of Bonds and the financing and construction of a Project, plus (b) a payment to be made upon the issuance of a Series of Bonds in an amount set forth in the Applicable Series Resolution, unless otherwise provided in the Applicable Series Resolution or the Bond Series Certificate.

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

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

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

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

Bond Insurance Policy shall mean the municipal bond insurance policy issued by the Applicable Bond Insurer with respect to an Applicable Series of Bonds.

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

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

Bond Year means, unless otherwise defined in the Applicable Series Resolution, a period of twelve (12) consecutive months beginning February 1 in any calendar year and ending on January 31 of the succeeding calendar year.

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

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

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

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

Capital Addition means, with respect to an Applicable Series of Bonds, an addition to a Project as defined in the Act but shall not include a Project, the acquisition or construction of which has been financed by the issuance of a prior Series of Bonds.

Cash Flow Statement means a cash flow analysis prepared by a Financial Consultant on a basis consistent with the Original Cash Flow Statements and approved by the Authority and the Applicable Bond Insurer and provided to the Applicable Trustee, which demonstrates that Trust Revenues available therefor will be sufficient in each succeeding Bond Year to pay principal of and interest on all Bonds Outstanding coming due in such Bond Year, all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, and any Mortgagee Advances, and which includes all fundamental assumptions used in reaching such conclusions, which assumptions shall include an assumption that the maximum amount to be drawn under a Applicable Surety Bond may not be increased or the time period for repayment of prior draws on such Applicable Surety Bond representing payments of principal and/or interest in respect of Bonds held by the Applicable Bond Insurer as a result of prior draws on an Applicable Surety Bond, may not be extended, when compared with the Original Cash Flow Statement on file with the Trustee.

Closing means the date on which an Applicable Series of Bonds is issued and delivered.

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

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

Collateral Account Requirement means, unless otherwise defined in the Applicable Series Resolution or Applicable Bond Series Certificate, with respect to a Series of Bonds, as of any particular date of calculation, the amount, if any, by which (a) the aggregate principal amount of all Bonds of such Applicable Series then Outstanding plus interest on such Bonds accrued to such date exceeds (b) the sum of (i) amounts on deposit in the Reserve Account, the Debt Service Account, the Redemption Account (not including amounts attributable to Bonds of such Series which are no longer deemed Outstanding) and the Investment Income Account (assuming for this purpose that no credit shall be given with regard to the outstanding face amount of any Letter of Credit on deposit therein), plus (ii) if the calculation is made (A) prior to Final Endorsement, the outstanding principal balance of the Note, i.e., the face amount of the Note as of the date of Initial Endorsement (reduced by the amount of any prepayment of the principal of the Note), less one percent (1%) of and thirty (30) days' interest on such outstanding principal balance (at an interest rate set forth in the Applicable Bond Series Certificate), or (B) after Final Endorsement, the outstanding principal balance of the Note less one percent (1%) of and thirty (30) days' interest on the outstanding principal balance of such Note (at an interest rate set forth in the Applicable Bond Series Certificate); unless such Requirement is otherwise defined in the Applicable Series Resolution or the Applicable Bond Series Certificate.

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

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

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

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

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

Cost or *Costs of Issuance* means, with respect to an Applicable Series of Bonds, the items of expense incurred in connection with the preparation, authorization, sale and issuance of such Series of Bonds, and the preparation and execution of the Loan Agreement and the FHA Documents, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Applicable Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safe-keeping of such Bonds, premiums, fees and charges for insurance on such Bonds, fees, costs and expenses of the Applicable Bond Insurer, including such fees, costs and expenses as the same relate to the Applicable Surety Bond(s), costs and expenses of Refunding Bonds or other bonds or notes of the Authority, fees and expenses related to the acquisition of an interest rate cap or other similar product to the extent approved by the Commissioner, and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

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

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

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

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

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

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

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

Defeasance Security means (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), and an obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) or (b) an Exempt Obligation (i) which is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America (other than obligations the payment of the principal of which is not fixed as to amount or time of payment) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America 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) which are rated by Moody's and Standard & Poor's in the highest rating category of each such rating service for such Exempt Obligation; <u>provided</u>, <u>however</u>, that such term shall not mean any interest in a unit investment trust or mutual fund; and, <u>provided</u> <u>further,</u> <u>however,</u> if an Applicable Bond Insurance Policy has been issued for an Applicable Series of Bonds, for such Applicable Series of Bonds, such term shall only include a direct obligation of the United States of America unless the Applicable Bond Insurer approves in writing one of the other securities listed above.

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

Environmental Laws or Regulations means and includes State and Federal regulatory programs currently in effect or that may be enacted in the future involving: the regulation, use, management, or disposal of Regulated Medical Wastes; air emissions; discharges to streams, ponds, ditches or other surface waters; discharges to ground waters; discharges to publicly-owned treatment works; solid and/or hazardous wastes; marking, maintenance and/or removal of electrical equipment containing polychlorinated biphenyls ("PCBs"); manufacture and/or construction (including renovation) involving asbestos materials or other materials that are deemed to have an adverse impact on human health or the environment; activities in or adjacent to fresh water or tidal wetlands, flood hazard areas, coastal zone management areas and/or historic preservations areas; registration, operation, testing and/or removal or replacement of storage tanks for petroleum products and/or hazardous substances; and emergency, planning and community right-to-know laws, including submission of hazardous substance inventory information to federal, state or local authorities.

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

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

Exempt Obligation means 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 (i) is excludable from gross income under Section 103 of the Code and (ii) is not an item of tax preference within the meaning of Section 57(a)(5) of the Code.

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

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

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

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

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

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

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

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

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

Government Obligation means (i) a direct obligation of the United States of America, (ii) an obligation the principal of and interest on which are guaranteed by the United States of America, and (iii) obligations (other than obligations subject to variation in principal payment) to which the full faith and credit of the United States of America are pledged.

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

Hazardous Substances means and includes Regulated Medical Wastes, petroleum and petroleum-based products, asbestos, PCBs, hazardous materials, hazardous or toxic substances, or hazardous wastes, as those terms are defined or may in the future be defined by the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §§9601, *et seq*.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. §§6901, *et seq*.), the Toxic Substances Control Act, as amended (15 U.S.C. §§2601, *et seq*.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. §§1801, *et seq*.), the Medical Wastes Tracking Program, as amended (42 U.S.C. §§6992, *et seq*.), Articles 15 and 27 of the New York Environmental Conservation Law, as amended, Article 14 of the New York State Navigation Law, New York Public Health Law, as amended §§1389 *et seq*., and the regulations promulgated thereunder, or other statutes and/or regulatory programs that may be enacted in the future relating to such Hazardous Substances.

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

Institution means Montefiore Medical Center, a New York not-for-profit corporation, for whose benefit the Authority shall have issued Bonds under the Resolution and with which the Authority shall have executed one or more Loan Agreements.

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

Interest Payment Date means, unless otherwise provided in the Applicable Series Resolution, February 1 or August 1.

Investment Agreement means, with respect to an Applicable Series of Bonds, (i) an agreement with a Qualified Financial Institution (including the entity acting as Applicable Trustee, if such Trustee constitutes a Qualified

Financial Institution) for the investment of moneys held by the Applicable Trustee pursuant to the Resolution and the Applicable Series Resolution, which Investment Agreement shall be approved in writing by the Applicable Bond Insurer (issuance of the Applicable Bond Insurance Policy shall constitute such approval of the Investment Agreement, if any, delivered on the date of issuance of a Series of Bonds), and (ii) a Floor-Ceiling Agreement.

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

Investment Income Account Requirement means, unless such Requirement is otherwise defined in the Applicable Series Resolution or the Applicable Bond Series Certificate with respect to an Applicable Series of Bonds, as determined on the date of delivery of such Bonds and on each Interest Payment Date thereafter to and including the Interest Payment Date next preceding commencement of amortization of the Note (the "Outside Date"), the aggregate of the difference for the period from the date of delivery of such Series of Bonds to the first Interest Payment Date and for each six (6) month period thereafter through the Outside Date, and the period from the Outside Date to the commencement of amortization of the Applicable Note between (A) the interest to accrue on the Bonds (less interest accrued at Closing) to the date of commencement of amortization of the Note, and (B) the sum of (1) the interest to accrue on the Note computed at the rate set forth in the Note on the aggregate amount advanced under the Note as Mortgage proceeds as of the date of determination, (2) the earnings to accrue on the Investment Agreement relating to the Mortgage Account as of the date of determination, and (3) the earnings to accrue on the Investment Agreement relating to the balance in the Reserve Account as of the date of determination.

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

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

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

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

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

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

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

Mortgage Loan shall mean the loan or loans made, funded or refunded by the Authority to the Institution from an Applicable Series of Bonds pursuant to the Resolution and the Applicable Series Resolution with respect to a

Project. Mortgage Loan shall also mean any subsequent increase to the initial Mortgage Loan for a Project for the purpose of financing the completion of or improvements or replacements or any capital additions to such Project.

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

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

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

Net Condemnation Proceeds shall have the meaning as defined in the Loan Agreement.

Net Insurance Proceeds shall have the meaning as defined in the Loan Agreement.

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

Non-Asset Bond Prepayment means the amount, if any, sufficient to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds such that, after giving effect to such redemption, the Non-Asset Bond Ratio is the same, as nearly as practicable, as such Non-Asset Bond Ratio prior to such redemption; provided that to the extent that the Institution has paid an amount corresponding to the Non-Asset Bond Prepayment pursuant to the Note such that asset-parity has been attained as demonstrated by a Cash Flow Statement, then the Non-Asset Bond Prepayment amount shall be zero.

Non-Asset Bond Ratio means the ratio that the aggregate principal amount of Bonds Outstanding of an Applicable Series (minus the amount on deposit in the Debt Service Reserve Fund) bears to the outstanding principal amount of the Note.

Note means, with respect to an Applicable Series of Bonds, the mortgage note, including a distinct portion thereof for which FHA has issued a separate Commitment (notwithstanding such portion may be consolidated with a prior Note), executed and delivered by the Institution concurrently with the delivery of such Bonds in the principal amount set forth in the Applicable Series Resolution, as it may from time to time be amended or supplemented.

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

Original Cash Flow Statement means the cash flow analysis which has been prepared by a Financial Consultant and delivered at Closing and which has been approved by the Authority and the Applicable Bond Insurer and provided to the Trustee.

Outstanding, when used in reference to Bonds of an Applicable Series, means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution, including Bonds of such Series owned or held by the Applicable Bond Insurer as a result of an advance under the Applicable Surety Bond or Applicable Bond Insurance Policy, except: (i) any such Bond cancelled by the Applicable Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with the

Resolution; and (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution.

Paying Agent means, with respect to an Applicable Series of Bonds, the Applicable Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions 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.

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

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

Qualified Financial Institution means (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and which is on the Federal Reserve Bank of New York's list of primary government securities dealers, (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, or an insurance company or association chartered or organized under the laws of any state of the United States of America, (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 or which is a subsidiary of a foreign insurance company, (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority and the Applicable Bond Insurer or (v) a corporation whose obligations including any investments purchased from such corporation for the account of an Applicable Trustee, are insured by the Applicable Bond Insurer; provided, that in the case of any entity described in clause (ii), (iii) or (iv) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement, insurance policy or surety bond issued by any such organization, have been assigned a credit rating by the Rating Service(s) rating the Bonds which is not lower than "A", without regard to plus or minus, or which bank, trust company, national banking association or securities dealer or affiliate or subsidiary thereof is approved by the Applicable Bond Insurer.

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

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

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

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

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

Regulated Medical Wastes means and includes those wastes generated in the diagnosis, treatment or immunization of human beings or animals, in research pertaining thereto, or in production and testing of any biologicals. Regulated Medical Wastes include, but are not limited to, cultures and stocks, human pathological wastes, human blood and blood products, sharps, animal wastes, infectious agents, as these terms are defined by the New York Public Health Law §1389-aa, as amended, and any other waste material containing infectious agents designated by the Commissioner as regulated wastes or those designated as such in the future. Regulated Medical Wastes shall also include those wastes designated by the Medical Wastes Tracking Program, as amended (42 U.S.C. §§6992, *et seq*.), and Article 27 of the New York Environmental Conservation Law, as amended.

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

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

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

Resolution means the "Montefiore Medical Center Inc. FHA-Insured Mortgage Hospital Revenue Bond Resolution" adopted by the members of the Authority on June 23, 1999, as the same may be amended, supplemented or otherwise modified pursuant to the terms of the Resolution.

Securities means, except as may be provided in the Applicable Series Resolution, (i) money, (ii) Government Obligations, (iii) Exempt Obligations, and (iv) investments permitted by the Resolution.

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

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

Series means all of the Bonds authenticated and delivered on original issuance and pursuant 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 such Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

Series 2008 Bonds means the Dormitory Authority of the State of New York Montefiore Medical Center FHA – Insured Mortgage Hospital Revenue Bonds, Series 2008, authorized to be issued pursuant to the Resolution and the Series 2008 Resolution.

Series 2008 Resolution means the Series Resolution adopted on November 28, 2007 with respect to the Project as the same may be amended, supplemented or otherwise modified pursuant to the terms of the Series 2008 Resolution.

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.

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

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

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

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

Special Mandatory Redemption means, with respect to an Applicable Series of Bonds, the mandatory redemption of Bonds undertaken in accordance with the Resolution from the moneys deposited in the Redemption Account upon completion of the Project in accordance with the Resolution.

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

State means the State of New York.

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

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

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

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

Threshold Amount shall have the meaning assigned to such term in the Loan Agreement.

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

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

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

APPENDIX B

Consolidated Financial Statements

Montefiore Medical Center

Years ended December 31, 2006 and 2005
with Report of Independent Auditors

Montefiore Medical Center

Consolidated Financial Statements

Years ended December 31, 2006 and 2005

Contents

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Report of Independent Auditors

The Board of Trustees
Montefiore Medical Center

We have audited the accompanying consolidated statements of financial position of Montefiore Medical Center (the "Medical Center") as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center at December 31, 2006 and 2005, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Medical Center adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2006.

Ernst & Young LLP

March 9, 2007

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31	
	2006	**2005**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 15,489**	$ 19,493
Marketable and other securities *(Note 3)*	**361,569**	314,322
Assets limited as to use—marketable securities *(Note 3)*	**20,076**	19,611
Receivables for patient care, less allowances for doubtful accounts (2006—$93,376; 2005—$95,313) *(Note 11)*	**126,193**	106,800
Other receivables	**19,815**	20,734
Trustee employee benefit plan marketable and other securities *(Note 3)*	**43,552**	37,824
Other current assets	**23,647**	19,029
Total current assets	**610,341**	537,813
Assets limited as to use:		
Marketable and other securities *(Note 3)*:		
Sinking funds *(Notes 6 and 9)*	**39,548**	46,190
Employee deferred compensation plan	**22,008**	22,080
Marketable and other securities externally designated	**118,612**	111,668
Designated for self insurance *(Note 9)*	**1,463**	4,253
	181,631	184,191
Pledges restricted to investment in property, buildings and equipment	–	156
Total non-current assets limited as to use	**181,631**	184,347
Marketable securities held as collateral *(Notes 3, 6 and 9)*	**49,119**	63,750
Property, buildings and equipment, at cost, net *(Notes 4, 5 and 6)*	**713,253**	666,902
Deferred financing costs and other non-current assets *(Note 9)*	**99,505**	90,787
Total assets	**$ 1,653,849**	$ 1,543,599
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 84,423**	$ 72,489
Other payables and accrued expenses	**120,165**	144,904
Accrued salaries, wages and related items	**145,900**	141,589
Current portion of long-term debt *(Notes 5 and 6)*	**31,017**	28,485
Total current liabilities	**381,505**	387,467
Long-term debt, less current portion *(Notes 5 and 6)*	**625,039**	584,817
Employee deferred compensation	**22,008**	22,080
Professional liabilities *(Note 9)*	**1,463**	4,253
Other non-current liabilities *(Notes 1, 2, 6 and 8)*	**281,038**	242,112
	929,548	853,262
Commitments and contingencies *(Note 9)*		
Net assets:		
Unrestricted	**245,464**	210,096
Temporarily restricted *(Note 7)*	**71,982**	67,824
Permanently restricted *(Note 7)*	**25,350**	24,950
Total net assets	**342,796**	302,870
Total liabilities and net assets	**$ 1,653,849**	$ 1,543,599

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Year ended December 31	
	2006	**2005**
	(In Thousands)	
Operating revenue		
Net patient service revenue *(Notes 1 and 2)*	**$ 1,914,312**	$ 1,767,347
Grants and contracts *(Note 1)*	**64,883**	69,915
Contributions	**6,109**	5,618
Other *(Note 12)*	**91,741**	70,143
Total operating revenue	**2,077,045**	1,913,023
Operating expenses		
Salaries and wages	**870,077**	805,637
Employee benefits *(Note 8)*	**235,264**	224,669
Supplies and other expenses	**807,116**	738,327
Depreciation and amortization *(Note 4)*	**84,345**	76,989
Interest	**35,638**	31,667
Loss on long-term debt refinancing (*Note 6*)	**–**	6,341
Total operating expenses	**2,032,440**	1,883,630
Income from operations	**44,605**	29,393
Change in net unrealized gains and (losses) on marketable and other securities	**4,207**	(381)
Net assets released from restrictions used for purchases of property, buildings and equipment	**36**	436
Change in net additional minimum pension liability *(Note 8)*	**(1,264)**	945
Effect of change in accounting for defined benefit pension and other postretirement plans *(Notes 1 and 8)*	**(12,216)**	–
Increase in unrestricted net assets	**$ 35,368**	$ 30,393

See accompanying notes

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Net assets at January 1, 2005	$ 179,703	$ 62,778	$ 24,950	$ 267,431
Increase in unrestricted net assets	30,393	–	–	30,393
Restricted gifts, bequests and similar items	–	6,254	–	6,254
Investment income	–	850	–	850
Net assets released from restrictions	–	(2,058)	–	(2,058)
	30,393	5,046	–	35,439
Net assets at December 31, 2005	210,096	67,824	24,950	302,870
Increase in unrestricted net assets	**35,368**	**–**	**–**	**35,368**
Restricted gifts, bequests and similar items	**–**	**7,371**	**400**	**7,771**
Investment income	**–**	**861**	**–**	**861**
Net assets released from restrictions	**–**	**(4,074)**	**–**	**(4,074)**
	35,368	**4,158**	**400**	**39,926**
Net assets at December 31, 2006	**$ 245,464**	**$ 71,982**	**$ 25,350**	**$ 342,796**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year ended December 31 2006	2005
	(In Thousands)	
Operating activities		
Increase in net assets:		
Unrestricted	**$ 35,368**	$ 30,393
Temporarily restricted	**4,158**	5,046
Permanently restricted	**400**	–
Increase in net assets	**39,926**	35,439
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**84,345**	76,989
Loss on long-term debt refinancing	**–**	6,341
Effect of change in accounting for defined benefit pension and other postretirement plans	**12,216**	–
Change in net additional minimum pension liability	**1,264**	(945)
Realized gains	**(12,208)**	(2,915)
Change in net unrealized (gains) and losses	**(4,207)**	381
Equity earnings from investment in limited liability company	**(3,002)**	(2,937)
Changes in operating assets and liabilities:		
Receivables for patient care	**(19,393)**	1,272
Net change in other receivables, other current assets, current liabilities (excluding current portion of long-term debt), employee deferred compensation, other non-current liabilities	**10,391**	81,750
Deferred financing costs and other non-current assets	**(7,658)**	(30,580)
Net cash provided by operating activities	**101,674**	164,795
Investing activities		
Acquisition of property, buildings and equipment, net	**(125,194)**	(170,154)
Increase in current marketable and other securities, net	**(36,560)**	(121,695)
Decrease in marketable securities held as collateral, net	**14,631**	4,298
Decrease in assets limited as to use-marketable and other securities, net	**2,095**	17,634
Decrease in pledges restricted to investment in property, buildings and equipment	**156**	4,093
Net cash used in investing activities	**(144,872)**	(265,824)
Financing activities		
Scheduled payments of long-term debt	**(28,555)**	(28,067)
Refinanced payments of long-term debt	**–**	(137,995)
Proceeds from long-term debt	**67,749**	267,025
Net cash provided by financing activities	**39,194**	100,963
Net decrease in cash and cash equivalents	**(4,004)**	(66)
Cash and cash equivalents at beginning of year	**19,493**	19,559
Cash and cash equivalents at end of year	**$ 15,489**	$ 19,493

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization: Montefiore Medical Center (the "Medical Center") and its controlled organizations comprise an integrated delivery system. The majority of the facilities are located in the Bronx, New York. It is incorporated under New York State Not-for-Profit Corporation law and provides healthcare and related services, primarily to residents of the Metropolitan New York area. The Medical Center is a not-for-profit membership organization whose sole member, effective January 26, 2006, is the Montefiore Health System, Inc. ("MHS") (see Note 9).

The Medical Center's significant accounting policies follow:

Basis of Financial Statement Presentation: The accompanying consolidated financial statements include the accounts of Montefiore Medical Center and its controlled tax exempt and taxable organizations: MMC Corporation ("MCORP"), CMO The Care Management Company, LLC (formerly known as Contract Management Organization, LLC) ("CMO"), MMC IPA Inc. ("MIPA"), MMC IPA No. 7 Inc. ("MIPA 7"), MMC IPA No. 8 Inc. ("MIPA 8"), University Behavioral Associates, Inc. ("UBA"), Montefiore Behavioral Care IPA No. 1, Inc. ("MBCIPA"), Gunhill MRI P.C. ("Gunhill"), MMC Residential Corp. No. 1, Inc. ("Housing I"), Montefiore Hospital Housing Section II, Inc. ("Housing II"), Mosholu Preservation Corporation ("MPC"), and Emerging Health Information Technology, LLC ("EHIT"). For purposes of financial statement presentation, they are collectively termed the "Medical Center" except as explicitly specified. All significant intercompany transactions have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of 20% but less than 50% are accounted for under the equity method of accounting.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by the donors to be maintained by the Medical Center in perpetuity. The Medical Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Other revenue for the years ended December 31, 2006 and 2005 includes approximately $4.0 million and $1.6 million, respectively, of net assets released from restrictions used for operations.

1. Organization and Significant Accounting Policies (continued)

Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Medical Center maintains cash on deposit with major banks and invests in highly rated (A1/P1) commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase. The Medical Center limits the amount of credit exposure to any one financial institution. At December 31, 2006 and 2005, the Medical Center had balances with financial institutions that exceeded federal depository insurance limits. Management believes that the credit risk associated with these deposits is minimal.

Receivables for Patient Care: Patient accounts receivable for which the Medical Center receives payment under reimbursement formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which is generally less than the established billing rates of the Medical Center. Fees for outpatient services not covered by payor reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third party payors which are directly related to receivables for patient care. Such advances aggregated approximately $28.1 million and $31.1 million at December 31, 2006 and 2005, respectively.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Inventories: Inventories, included in other current assets, are valued at the lower of cost (first-in, first-out method) or market.

Marketable and Other Securities: Marketable and other securities are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities and alternative investments including investments in limited partnerships. Alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Medical Center holds limited partnership interests, are

1. Organization and Significant Accounting Policies (continued)

stated at fair value as estimated in an unquoted market. Individual investment holdings of the Medical Center may, in turn, include investments in both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Medical Center's risk is limited to its carrying value. Certain investments are subject to notification periods to divest of approximately three months. The financial statements of the investees are audited annually by independent auditors. At December 31, 2006, the Medical Center had approximately $7.3 million of future commitments to invest in alternative investments. For financial statement purposes, the various securities held by the limited partnerships and other alternative investments are not allocated to their components. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. All marketable securities are considered available for sale.

Investment Gains, Losses and Income: Realized and unrealized gains and losses on marketable and other securities are recorded in the consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets. Realized gains and losses on sales of marketable and other securities are based on the average cost method.

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements or internal designations.

Assets Restricted to Investment in Property, Buildings and Equipment: Assets so classified consist of pledges and other assets whose use is restricted by donors for the acquisition of property, buildings and equipment.

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date received. Capital lease assets are recorded at the present

1. Organization and Significant Accounting Policies (continued)

value of the minimum lease payments at the inception of the leases. Annual provisions for depreciation or amortization are made based upon the straight-line method over the estimated useful lives of the assets. Capital lease assets are amortized over the lesser of the estimated useful life or lease term. The carrying amounts of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of the assets.

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided by the interest method extending over the terms of the related indebtedness.

Employee Deferred Compensation Plan: Pursuant to various deferred compensation plans in which certain Medical Center employees or former employees participate, the Medical Center deposits amounts with trustees on behalf of the participating employees. The Medical Center is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Medical Center under certain specified circumstances.

Deferred Revenue: Deferred revenue included with other non-current liabilities represents amounts the Medical Center has received for which all obligations have not yet been fulfilled. Accordingly, such amounts are included within deferred revenue until earned.

The Medical Center and MIPA 7 entered into an agreement, effective December 31, 2003, with a health plan that extended the previous risk and fee for service arrangements through December 31, 2007. As such, the amount received from the health plan ($18.5 million) was recorded as deferred revenue on the books of the Medical Center at December 31, 2003 and is being amortized under the straight-line method over 48 months in accordance with Emerging Issues Task Force (EITF) 99-19, *Reporting Revenue Gross as Principal versus Net as an Agent*. For the years ended December 31, 2006 and 2005, net patient service revenue includes approximately $4.6 million associated with this agreement for each year. In addition, at December 31, 2006 and 2005, approximately $4.6 million and $9.2 million, respectively, remained as deferred revenue, a component of other non-current liabilities, in the consolidated statements of financial position.

1. Organization and Significant Accounting Policies (continued)

Vacation Benefits: These benefits are accrued as earned, except for individuals employed under certain research grants and contracts.

Premium Revenue and Healthcare Service Cost Recognition: Under certain managed care contracts, the Medical Center receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Medical Center manages and, directly and through arrangements with other healthcare providers, delivers healthcare services to enrollees in accordance with the terms of the subscriber agreements. The Medical Center reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of healthcare services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. For the years ended December 31, 2006 and 2005, healthcare service costs included in supplies and other expenses were reduced by approximately $6.1 million and $4.5 million, respectively, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within the caption net patient service revenue in the accompanying consolidated statements of operations aggregated approximately $438.6 million and $412.8 million for the years ended December 31, 2006 and 2005, respectively.

Performance Indicator: The consolidated statements of operations include income from operations as the performance indicator. Items excluded from income from operations are change in net unrealized gains and (losses) on marketable and other securities, net assets released from restrictions used for purchases of property, buildings and equipment, change in net additional minimum pension liability and effect of change in accounting for defined benefit pension and other postretirement plans.

Research and Contract Revenue Recognition: The Medical Center is the recipient of various research awards from various governmental and commercial sources and has various contracts with governmental agencies. Revenue is recognized only to the extent of expenditures under the specific contracts or awards. The accompanying consolidated financial statements do not include amounts related to grants (or portions thereof) that have been awarded to the Medical Center for which expenditures have not been incurred. Such grant awards approximated $18.0 million at December 31, 2006.

1. Organization and Significant Accounting Policies (continued)

Tax Status: The Medical Center, a section 501(c)(3) organization, is exempt from income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except CMO, MIPA, MIPA 7, MIPA 8, UBA, MBCIPA, Gunhill and EHIT which are taxable entities.

Charity Care: The Medical Center, in keeping with its mission and philosophy to provide quality care and compassionate service, extends charity care to those patients who do not have the ability to meet their obligations. Charity care provided, including reductions for Medicaid and uninsured patients, amounted to approximately $144.9 million and $136.4 million for the years ended December 31, 2006 and 2005, respectively.

Program Services: The Medical Center provides healthcare and related services primarily within its geographic location. Expenses related to providing these services for the years ended December 31, 2006 and 2005 are as follows:

	2006	**2005**
	(In Thousands)	
Healthcare and related services	**$ 1,907,914**	$ 1,778,049
Program support and general services	**124,526**	105,581
	$ 2,032,440	$ 1,883,630

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those previously estimated. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material impact on the Medical Center's consolidated financial position.

Reclassification: For purposes of comparison certain reclassifications have been made to the accompanying 2005 consolidated financial statements to conform to the 2006 presentation.

1. Organization and Significant Accounting Policies (continued)

Change in Accounting: In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("Statement 158"). Statement 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "defined benefit plans") to recognize the funded status of their defined benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, the Medical Center adopted the recognition and disclosure provisions of Statement 158. The effect of adopting Statement 158 on the Medical Center's consolidated financial position at December 31, 2006 has been included in the accompanying consolidated financial statements. Statement 158 did not have an effect on the Medical Center's consolidated financial condition at December 31, 2005. See Note 8 for further discussion of the effect of adopting Statement 158 on the Medical Center's consolidated financial statements.

2. Net Patient Service Revenue

The Medical Center has agreements with third party payors that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts from patients, third party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that 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.

Non-Medicare Reimbursement: The New York Health Care Reform Act of 1996 (the "Act"), as periodically updated, governs non-Medicare payments to hospitals in New York State. The Act is subject to periodic renewal and currently is in effect through June 30, 2007. Under the Act, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Medicaid rate methodologies are subject to

2. Net Patient Service Revenue (continued)

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

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

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Medical Center. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year to which they occur. The estimated settlements recorded at December 31, 2006 and 2005 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing healthcare programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

2. Net Patient Service Revenue (continued)

There are various proposals at the Federal and State levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Medical Center. These changes would be prospective and impact financial periods subsequent to the year ended December 31, 2006.

3. Marketable and Other Securities

The composition of marketable and other securities at fair value follows:

	December 31	
	2006	**2005**
	(In Thousands)	
Marketable and other securities	**$ 361,569**	$ 314,322
Assets limited as to use marketable and other securities	**201,707**	203,802
Marketable securities held as collateral	**49,119**	63,750
Trustee employee benefit plan marketable and other securities	**43,552**	37,824
	$ 655,947	$ 619,698
Non-equity mutual funds	**$ 348,173**	$ 307,541
Equity mutual funds	**94,101**	81,122
Mortgage-backed securities	**34,535**	21,753
U.S. Treasury securities	**31,096**	49,402
U.S. government agency backed securities	**29,852**	39,834
Equity securities	**21,469**	27,663
Limited partnerships and other alternative investments	**38,032**	36,916
Deferred compensation plan mutual funds	**9,006**	11,207
Corporate debt	**48,283**	42,445
Other	**1,400**	1,815
	$ 655,947	$ 619,698

Current assets limited as to use marketable securities include amounts set aside to satisfy MIPA, MIPA 7 and MIPA 8 contractual requirements and the current portion of assets designated for self insurance (see Note 9).

3. Marketable and Other Securities (continued)

Investment income included in other revenue in the consolidated statements of operations for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
	(In Thousands)	
Interest and dividend income	**$ 20,098**	$ 13,644
Realized gains, net of realized losses	**12,208**	2,915
	$ 32,306	$ 16,559

At December 31, 2006 and 2005, marketable securities aggregating approximately $49.1 million and $63.8 million (at fair value), respectively, were pledged as collateral under various debt and other agreements and included in marketable securities held as collateral in the consolidated statements of financial position (see Note 6).

4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2006	2005
	(In Thousands)	
Land and land improvements	**$ 13,917**	$ 11,486
Buildings, fixed equipment and improvements	**986,336**	912,726
Movable equipment	**545,709**	491,682
	1,545,962	1,415,894
Less accumulated depreciation and amortization	**(919,106)**	(836,875)
	626,856	579,019
Construction-in-progress	**86,397**	87,883
	$ 713,253	$ 666,902

Property, buildings and equipment includes capital lease assets of approximately $163.5 million and $152.7 million at December 31, 2006 and 2005, respectively, with accumulated amortization of approximately $120.7 million and $104.6 million, respectively.

Substantially all property, buildings and equipment has been collateralized under various debt agreements (see Note 6).

5. Leases

Total rental expense charged to operations aggregated approximately $29.5 million and $30.5 million for the years ended December 31, 2006 and 2005, respectively.

Future minimum payments, by year and in the aggregate, under capital leases and non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2006, consisted of the following:

	Capital Leases	Operating Leases
	(In Thousands)	
2007	$ 16,603	$ 11,737
2008	15,679	11,138
2009	13,945	9,164
2010	11,385	9,085
2011	5,652	8,591
2012 and thereafter (a)	2,991	130,995
Total minimum lease payments	66,255	$ 180,710
Less amounts representing interest	7,246	
Total value of minimum lease payments (included in long-term debt—see Note 6)	$ 59,009	

(a) Future minimum lease payments under non-cancelable operating leases include payments due under a lease that extends through 2045 for the Einstein hospital campus.

The Medical Center borrowed approximately $10.0 million and $19.9 million during the years ended December 31, 2006 and 2005, respectively, under tax exempt leasing programs ("TELP") to finance equipment acquisitions. During the year ended December 31, 2006, approximately $3.5 million of capital lease agreements were entered into by two of the Medical Center's taxable subsidiaries to finance equipment acquisitions with interest rates ranging from 7.0% to 9.0%. The interest rates associated with the Medical Center's remaining capital lease agreements for equipment, including TELP borrowings, range from 3.0% to 3.9%. In addition, several capital leases recorded in 1993 for office space have payments which extend to 2013 and bear interest at 9.0%.

6. Long-term Debt

A summary of long-term debt follows:

	December 31 2006	2005
	(In Thousands)	
FHA Section 242 insured mortgage loan (a)	**$ 142,599**	$146,908
FHA Section 241 insured mortgage loan (b)	**126,518**	130,912
FHA Section 241 insured mortgage loan (c)	**93,156**	95,532
FHA Section 241 insured mortgage loan (d)	**15,159**	15,500
FHA Section 241 insured mortgage loan (e)	**136,052**	78,276
HDC residential revenue bonds payable (f)	**8,000**	8,100
Bank loans payable (g)	**6,260**	8,125
Housing II mortgages payable (h)	**19,629**	19,706
Housing I mortgage payable (i)	**1,738**	1,775
MCORP bonds payable (j)	**21,915**	21,915
NYC IDA bonds payable (j)	**15,557**	15,573
Other	**2,878**	3,394
Capital leases (see Note 5)	**59,009**	60,000
	648,470	605,716
Plus long-term mortgage premium (e)	**7,586**	7,586
Less current portion	**(31,017)**	(28,485)
	$ 625,039	$584,817

(a) The Medical Center has a mortgage agreement with the Dormitory Authority of the State of New York (the "Dormitory Authority") insured under the provisions of the Federal Housing Administration ("FHA") 242 Program. This insured mortgage is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets.

During 2005, the Medical Center refinanced the FHA 242 insured mortgage loan resulting in an increase to the amount of the then outstanding indebtedness, and an extension of the term from October 2014 to October 2026. Payments of principal and interest at 4.65% are due monthly through January 31, 2015, and thereafter at 4.57%. In connection with this refinancing, during the year ended December 31, 2005, the Medical Center recorded a loss on long-term debt refinancing of approximately $6.3 million (net of approximately $6.1 million of deferred revenue associated with the previous refinancing).

6. Long-term Debt (continued)

With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, prepayment may be made without penalty.

At December 31, 2006, there were no future funding requirements and the balance of approximately $22.1 million of the mortgage reserve fund met the minimum mortgage reserve fund requirement related to the FHA 242 Program insured mortgage loan.

(b) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program to finance a construction and renovation project. The interest rate on the mortgage is 6.17% per annum. Principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. Prepayments in excess of 15% of the original principal amount are subject to prepayment penalties of 1% through February 14, 2007. Commencing February 15, 2007, the prepayment penalty is eliminated.

In connection with the FHA 241 financing, the Medical Center has a surety bond that expires on August 15, 2014. The amount of the surety bond outstanding was approximately $1.6 million at December 31, 2006. The surety bond was secured by approximately $1.6 million and $1.4 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2006 and 2005. There were no borrowings under the surety bond during the years ended December 31, 2006 and 2005.

6. Long-term Debt (continued)

At December 31, 2006, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. During January 2006, the Medical Center obtained approval to withdraw approximately $10.8 million from the mortgage reserve fund (see Note 9). The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2007	$ 2,153	$11,555
2008	2,596	14,151
2009	1,096	15,247
2010	1,140	16,387
2011	1,187	17,574

(c) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance certain construction and renovation projects, including the Children's Hospital at Montefiore and to refinance certain debt.

The interest rate on the mortgage is 5.7% per annum. Principal and interest payments are due monthly through May 1, 2027, at which time any remaining principal and interest is due. The mortgage loan may not be prepaid prior to August 1, 2009, except in certain limited circumstances. Subsequent to August 1, 2009, except in certain circumstances, prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 1.5% from August 1, 2009 through July 31, 2010 to 1.0% from August 1, 2010 through July 31, 2011. Commencing August 1, 2011, the prepayment penalty is eliminated.

6. Long-term Debt (continued)

At December 31, 2006, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2007	$ 1,477	$ 8,279
2008	1,411	9,690
2009	1,469	11,159
2010	1,527	12,686
2011	1,591	14,277

(d) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction project.

The interest rate on the mortgage is 6.7% per annum. Principal and interest payments are due monthly through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to August 1, 2010. Subsequent to August 1, 2010, except in certain circumstances, prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 1.5% from August 1, 2010 through July 31, 2011 to 1.0% from August 1, 2011 through July 31, 2012. Commencing on August 1, 2012, the prepayment penalty is eliminated.

In connection with the FHA 241 financing, the Medical Center has two irrevocable bank letters of credit, which expire on August 29, 2007. The combined letters of credit aggregated approximately $1.2 million at December 31, 2006 and 2005, and were secured by approximately $1.6 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2006 and 2005. There were no amounts drawn down under the letters of credit during the years ended December 31, 2006 and 2005.

6. Long-term Debt (continued)

At December 31, 2006, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2007	$ 271	$ 1,517
2008	258	1,775
2009	269	2,044
2010	280	2,324
2011	291	2,615

(e) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to borrow up to approximately $172.2 million to finance a construction and renovation project. At December 31, 2006 and 2005, approximately $136.1 million and $78.3 million, respectively, was drawn down.

The interest rate is 7.0% per annum through March 31, 2007 and 5.37% per annum thereafter. Principal and interest payments are due monthly from May 1, 2007 through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, the loan may be prepaid without penalty.

In connection with the mortgage agreement, the Medical Center obtained three irrevocable bank letters of credit, two of which expire on December 14, 2007 and the other which expires on December 14, 2009. The letters of credit aggregated approximately $30.7 million and $31.4 million at December 31, 2006 and 2005, respectively, and were secured by approximately $34.1 million and $34.8 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2006 and 2005. During the years ended December 31, 2006 and 2005, approximately $700,000 and $3.8 million, respectively, were drawn down under the letters of credit.

6. Long-term Debt (continued)

In connection with this financing, the Medical Center recorded approximately $7.6 million of mortgage premium as a component of long term debt related to the termination of a forward interest rate swap agreement. The Medical Center will begin to amortize the mortgage premium and accrete the amount recorded over the life of the mortgage using the effective interest method when a substantial portion of the property, buildings and equipment are placed in service.

At December 31, 2006, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

		December 31
	Funding Requirement	**Minimum Balance**
	(In Thousands)	
2007	$ 657	$ 657
2008	1,780	2,437
2009	2,321	4,758
2010	2,570	7,328
2011	2,722	10,050

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for these FHA insured mortgage loans.

(f) The proceeds of New York City Housing Development Corporation ("HDC") revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (5.21% at December 31, 2006). Principal is payable annually through May 1, 2030, at increasing annual amounts ranging from approximately $200,000 to $600,000. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amount of approximately $8.1 million, which expires during June 2009.

6. Long-term Debt (continued)

No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2006 and 2005. The revenue bonds can be prepaid without penalty at the option of the Medical Center.

(g) At December 31, 2006 and 2005, the Medical Center had outstanding borrowings under loan agreements with two banks.

The Medical Center had one loan agreement under which approximately $2.6 million and $3.4 million were outstanding at December 31, 2006 and 2005, respectively. The amounts outstanding are secured by approximately $3.7 million and $5.0 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2006 and 2005, respectively. Interest payments are payable quarterly at a variable rate (5.87% at December 31, 2006). Principal payments of approximately $216,000 are payable quarterly through December 2009. The loan can be prepaid in whole or in part without penalty at the option of the Medical Center.

The Medical Center had another loan agreement under which approximately $3.7 million and $4.7 million were outstanding at December 31, 2006 and 2005, respectively. The amounts outstanding are secured by approximately $5.2 million and $6.5 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2006 and 2005, respectively. Interest payments are payable monthly at a variable rate (5.75% at December 31, 2006). Principal payments of approximately $83,000 are payable monthly, through August 2010. The loan can be prepaid in whole or in part without penalty at the option of the Medical Center under certain circumstances.

(h) Housing II has primary and subordinate mortgage agreements with HDC dated December 2005, which refinanced previous mortgage agreements with HDC. At December 31, 2006 and 2005, the primary mortgage amount outstanding was approximately $6.9 million and $7.0 million, respectively. The interest rate is 6.5%, and principal and interest payments are due monthly through January 1, 2035. After December 31, 2019, the primary mortgage may be prepaid without penalty if the subordinate mortgage is no longer outstanding. At December 31, 2006 and 2005, the subordinate mortgage amount was approximately $12.8 million and bears no interest. The subordinate mortgage is payable in full on April 30, 2035.

6. Long-term Debt (continued)

After December 29, 2019the subordinate mortgage may be prepaid without penalty. The effective interest rate of the combined obligation is 2.3% assuming the obligations are called in 2019. If the mortgages remain outstanding through 2035, the effective interest rate is 1.8%.

Substantially all of Housing II's property and equipment, rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2006 and 2005, Housing II maintained the reserve for replacement account in accordance with HDC requirements.

(i) Housing I has a mortgage loan agreement with a lender. The interest rate is 7.59%. Principal and interest payments are due monthly through July 2026. The mortgage loan may be prepaid upon 30 days' notice subject to payment of a prepayment penalty of at least 1%. The mortgage loan is secured by a mortgage on the building and underlying property.

(j) During 2005, MCORP acquired certain real estate financed with the proceeds of two financings: approximately $15.6 million of New York City Industrial Development Agency ("NYC IDA") revenue bonds, and approximately $21.9 million of MCORP taxable bonds. The MCORP bonds were also used to refinance an approximate $6.9 million bridge loan related to another real estate acquisition. Interest on the NYC IDA bonds, at an average coupon rate of 4.96%, is payable monthly through March 1, 2008, and payments of interest and principal are payable monthly April 1, 2008 through October 1, 2035. The bonds may not be prepaid prior to November 1, 2010, after which they may be prepaid without penalty. The bonds were sold at a premium of approximately $308,000, which was recorded as a component of the related long-term debt balance and is being amortized using the effective interest method over the term of the bonds. Interest on the MCORP bonds is payable monthly at a variable rate (5.50% at December 31, 2006). Principal is payable monthly commencing April 1, 2008. The bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay letters of credit from a bank in the amounts of approximately $15.7 million and $22.1 million. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire December 22, 2010. No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2006 and 2005.

6. Long-term Debt (continued)

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases and amortization of long-term mortgage premium, during the next five years, exclusive of sinking funds requirements, follows (in thousands):

2007	$ 31,017
2008	32,309
2009	32,553
2010	29,901
2011	25,104

Substantially all of the Medical Center's, property, buildings and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts.

At December 31, 2006, the Medical Center had lines of credit with two banks aggregating approximately $13.5 million. There were no amounts drawn down under these lines of credit.

Interest paid during the years ended December 31, 2006 and 2005 amounted to approximately $39.0 million and $34.5 million, respectively, including capitalized interest during the years ended December 31, 2006 and 2005 of approximately $3.5 million and $2.3 million, respectively.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2006	**2005**
	(In Thousands)	
Collateralizing bank financing, teaching and research	**$ 34,800**	$ 34,800
Construction and renovation projects	**2,166**	1,042
Healthcare related services	**30,369**	27,339
Research	**4,363**	4,283
Health education	**284**	360
	$ 71,982	$ 67,824

7. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable to support health care services.

During 2004, the Medical Center received notice that the Office of the Attorney General of the State of New York ("AG") approved a petition for the sale of the assets comprising the business and real property of The Nathan Miller Center for Nursing Care Inc. ("Nathan Miller"), a not for profit organization in the County of Westchester. Under the terms of the approved petition, the net proceeds from the sale were transferred to a foundation established to distribute the remaining Nathan Miller assets. The net proceeds (cash remaining after realization of all receivables and payment of all liabilities) were to be distributed for the support of services to the elderly, 90% to the Medical Center and 10% for services to the elderly in Westchester County, New York. The Medical Center recorded this transaction in accordance with FASB Statement No. 116, *Accounting for Contributions Made and Contributions Received* as an increase to temporarily restricted net assets. At December 31, 2004, approximately $8.0 million was recorded as an increase to other receivables and temporarily restricted net assets. During the year ended December 31, 2006, based on the results of the final accounting for Nathan Miller, the Medical Center recorded approximately $1.0 million as an additional increase to temporarily restricted net assets. During the years ended December 31, 2006 and 2005, approximately $2.8 million and $6.2 million, respectively, was received.

8. Benefit Plans

The Medical Center is a contributing employer to two union multi-employer pension plans. In addition, the Medical Center also maintains several tax deferred annuity plans under Section 403(b) of the Internal Revenue Code as well as two noncontributory defined benefit pension plans.

Contributions to union multi-employer pension plans and two of the tax deferred annuity plans are made in accordance with contractual agreements under which contributions are based on a percentage of salaries or a negotiated amount. Contributions to the remaining tax deferred annuity plans are generally based on percentages of salaries. Contributions to the noncontributory defined benefit plans are based on actuarial valuations. Benefits under the noncontributory defined benefit plans are based on years of service and salary levels. The Medical Center's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974.

8. Benefit Plans (continued)

Total expense for the various pension plans aggregated approximately $57.9 million and $56.2 million for the years ended December 31, 2006 and 2005, respectively. Cash payments relative to the various pension plans aggregated approximately $56.7 million and $53.8 million for the years ended December 31, 2006 and 2005, respectively.

The Medical Center sponsors two unfunded defined benefit postretirement welfare plans that cover certain full-time and part-time employees and eligible dependents. The Medical Center amended the plans to increase retiree contributions and modify its prescription drug program, effective January 1, 2004.

On December 31, 2006, the Medical Center adopted the recognition and disclosure provisions of Statement 158. Statement 158 required the Medical Center to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its defined benefit plans in the December 31, 2006 consolidated statement of financial position, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs remaining from the initial adoption of Statement 87 and 106, all of which were previously netted against the plan's funded status in the Medical Center's consolidated statements of financial position pursuant to the provisions of Statements 87 and 106. The amounts will be subsequently recognized as net periodic benefit cost pursuant to the Medical Center's historical policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in unrestricted net assets at adoption of Statement 158.

The incremental effects of adopting the provisions of Statement 158 on the Medical Center's consolidated statement of financial position at December 31, 2006 are presented in the following table as effect of adopting Statement 158. The adoption of Statement 158 had no effect on the Medical Center's consolidated statements of operations for any prior period and will not affect the Medical Center's operating results in future periods. The adoption of Statement 158 resulted in a $12.2 million decrease in unrestricted net assets outside the performance indicator in the Medical Center's consolidated statement of operations for the year ended December 31, 2006.

8. Benefit Plans (continued)

At December 31, 2006, prior to the adoption of Statement 158, the accumulated shortfall between the fair value of plan assets and accumulated benefit obligation increased, resulting in a change in the net additional minimum pension liability of approximately $1.3 million for the year ended December 31, 2006. At December 31, 2005, the accumulated shortfall declined, resulting in a change in the net additional minimum pension liability of approximately $945,000 for the year ended December 31, 2005.

The following tables provide a reconciliation of the changes in the defined benefit plans' benefit obligations and fair value of assets (where applicable) for the years ended December 31, 2006 and 2005 and a statement of the funded status of the defined benefit plans as of December 31, 2006 and 2005:

	Pension		Postretirement	
	2006	**2005**	**2006**	**2005**
	(In Thousands)			
Changes in benefit obligation				
Benefit obligation at January 1	**$ 28,674**	$ 18,185	**$ 58,459**	$ 53,401
Service cost	**1,255**	1,370	**3,139**	2,538
Interest cost	**1,626**	1,704	**3,259**	3,095
Actuarial (gain) loss	**(380)**	11,661	**724**	3,065
Benefit payments, net	**(968)**	(4,246)	**(3,552)**	(3,640)
Benefit obligation at December 31	**$ 30,207**	$ 28,674	**$ 62,029**	$ 58,459
Change in plan assets				
Fair value of plan assets at January 1, consisting of fixed income securities, corporate bonds, mutual funds and marketable equity securities	**$ 15,120**	$ 13,475	**$ –**	$ –
Actual return on plan assets	**218**	1,578	**–**	–
Employer contributions	**1,161**	4,313	**3,552**	3,640
Plan participants' contributions	**–**	–	**959**	1,034
Benefit payments	**(968)**	(4,246)	**(4,511)**	(4,674)
Fair value of plan assets at December 31	**$ 15,531**	$ 15,120	**$ –**	$ –
Funded status				
Unfunded status at December 31	**$ (14,676)**	$ (13,554)	**$ (62,029)**	$ (58,459)
Unrecognized prior service cost prior to adopting Statement 158	**2,011**	4,022	**(8,307)**	(9,798)
Unrecognized loss prior to adopting Statement 158	**3,215**	2,494	**18,123**	18,939
Accrued benefit cost	**(9,450)**	(7,038)	**(52,213)**	(49,318)
Additional minimum pension liability	**(2,826)**	(1,562)	–	–
Effect of adopting Statement 158	**(2,400)**	–	**(9,816)**	–
Net liability recognized in the consolidated statements of financial position	**$ (14,676)**	$ (8,600)	**$ (62,029)**	$ (49,318)

8. Benefit Plans (continued)

The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized as net periodic benefit cost during the year ended December 31, 2007 is approximately $(323,000) and $1.4 million, respectively.

The following table provides the components of the net periodic benefit cost for the defined benefit plans for the years ended December 31, 2006 and 2005:

	Pension		Postretirement	
	2006	**2005**	**2006**	**2005**
	(In Thousands)			
Service cost	**$ 1,255**	$ 1,370	**$ 3,139**	$ 2,538
Interest cost on projected benefit obligation	**1,626**	1,704	**3,259**	3,095
Expected return on plan assets	**(1,345)**	(1,234)	**–**	–
Amortization of prior service cost	**2,011**	4,253	**(1,491)**	(1,491)
Amortization of net loss	**27**	107	**1,540**	1,621
Net periodic benefit cost	**$ 3,574**	$ 6,200	**$ 6,447**	$ 5,763

	Pension		Postretirement	
	2006	**2005**	**2006**	**2005**
Weighted average assumptions used to determine benefit obligations as of December 31				
Discount rate	**5.75%-6.00%**	5.75%	**6.00%**	5.75%
Rate of compensation increase	**4.00%-5.00%**	4.00%-5.00%	**–**	–

	Pension		Postretirement	
	2006	**2005**	**2006**	**2005**
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31				
Discount rate	**5.75%**	5.75%-6.00%	**5.75%**	6.00%
Expected long term rate of return on plan assets	**8.50%**	8.50%	**–**	–
Rate of compensation increase	**4.00%-5.00%**	4.00%-5.00%	**–**	–

The accumulated benefit obligation for the defined benefit pension plans was approximately $26.3 million and $24.9 million at December 31, 2006 and 2005, respectively.

8. Benefit Plans (continued)

The overall expected long-term rate of return of the assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the plan's desired risk and return characteristics.

The Medical Center's independent consulting actuaries review the expected long-term rate periodically and based on the building block approach, update for changes in the market place.

Assumed health care cost trend rates at December 31 are as follows:

	2006	2005
Health care cost trend rate	**9.06%**	9.82%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.75%**	4.75%
Years that the rate reaches the ultimate trend rate	**2015-2016**	2015-2016

The measurement dates used to determine pension and postretirement benefit costs were September 30, 2006 and 2005, respectively.

The Medical Center's pension plan weighted-average asset allocations, by asset category, are as follows:

	September 30	
	2006	**2005**
Equity securities	**62%**	61%
Debt securities	**36**	37
Other	**2**	2
Total	**100%**	100%

The pension plan's assets are allocated as follows:

	Target Allocation	**Range**
U.S. stocks	39.0%	35.0% to 43.0%
Non-U.S. stocks	15.0	12.0% to 18.0%
Global stocks	6.0	3.0% to 9.0%
Bonds	40.0	36.0% to 44.0%

8. Benefit Plans (continued)

The objective for the non-U.S. stock component is to provide broad exposure to both developed and emerging markets, best represented by the Morgan Stanley Capital International All-Country World Ex-U.S. Index. The passive investment vehicle employed tracks the MSCI EAFE Index that excludes the emerging markets. A dedicated active emerging markets allocation will be maintained within the non-U.S. stock component to offset the lack of emerging markets exposure in the passive portfolio. The target allocation of the aggregate dedicated emerging market portfolio relative to the passive portfolio will be the emerging market weight within the Morgan Stanley Capital International All-Country World Ex-U.S. Index with a permissible range of plus or minus 4%.

Ordinary cash flows are used to maintain the allocation as close as practical to the normal allocation. If cash flows are insufficient to maintain the allocation with the permissible ranges as of any calendar quarter end, the plan shall transfer balances as necessary between the asset classes to bring the allocation back to the target.

Fund assets are to be diversified in order to minimize the impact of large losses in individual investments. Multiple investment managers may be retained to further that end.

During the year ending December 31, 2007, the Medical Center expects to contribute approximately $1.1 million and $3.3 million, to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2006 follows (in thousands):

	Pension	Postretirement
2007	$ 862	$ 3,300
2008	4,925	3,600
2009	6,862	3,900
2010	1,328	4,200
2011	1,413	4,400
2012-2016	12,717	26,100

8. Benefit Plans (continued)

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

	2006		2005	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement healthcare benefit cost	**$1,300**	**$ (1,000)**	$1,100	$ (900)
Effect on the healthcare component of the accumulated postretirement benefit obligation	**8,600**	**(7,500)**	7,900	(7,000)

9. Contingencies and Other

Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through December 31, 2006, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience, that adequate insurance is maintained and adequate provision for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material effect on the Medical Center's consolidated financial position.

Beginning in April 1977, primary coverage of professional and general liability incidents has been provided through participation in a pooled program with certain other health care facilities (principally hospitals) affiliated with the UJA Federation of Jewish Philanthropies of New York (the "FOJP Program"). This occurrence basis insurance coverage participation is with captive insurance companies and commercial insurance companies. As of December 31, 2006, the Medical Center retained ownership in three captive insurance companies affiliated with the FOJP Program ranging from 17% to 21%. In connection with the pooled

9. Contingencies and Other (continued)

insurance program, the Medical Center has recognized its allocated share of a portion of the program's accumulated surplus. Such amount (approximately $57.1 million and $51.1 million at December 31, 2006 and 2005, respectively) is included in deferred financing costs and other noncurrent assets in the accompanying consolidated statements of financial position.

The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998. Under the terms of the revised program, a portion of the Medical Center's coverage became self-retained. In conjunction with this program, the Medical Center, together with several other hospitals, invested in pooled investment unit trusts. Under such arrangements, the units were not subject to redemption for five years from the date of the initial investment other than for payment of malpractice claims and claim related expenses. At December 31, 2006 and 2005, the Medical Center had liabilities recorded of approximately $4.6 million and $8.3 million, respectively ($3.2 million and $4.0 million included in other payables and accrued expenses at December 31, 2006 and 2005, respectively), up to the maximum potential exposure under the program. The Medical Center has funded $4.6 million and $8.3 million for these liabilities at December 31, 2006 and 2005, respectively.

Effective January 1, 1999, the program was terminated prospectively. For the period beginning January 1, 1999, the Medical Center's malpractice insurance program reverted to a program similar to the arrangement that existed prior to January 1, 1998. The Medical Center no longer maintains a self-retained component for the period beginning January 1, 1999.

The Medical Center is at risk for actual interest earnings that do not meet assumed levels. At December 31, 2006 and 2005, the Medical Center had established liabilities of approximately $21.3 million and $15.0 million, respectively, in connection with these program related risks. The program provides for a deferred premium arrangement. At December 31, 2006, premiums of approximately $32.1 million (included in other payables and accrued expenses) are payable in 2007 and approximately $32.6 million (included in other non-current liabilities), after 2007.

9. Contingencies and Other (continued)

At December 31, 2006, the Medical Center had letters of credit from a bank aggregating approximately $2.0 million, which expire December 15, 2007, for the benefit of its captive insurance companies. In addition, the Medical Center had a letter of credit from a bank aggregating $14.3 million to secure an outstanding advance, which expired on December 29, 2006 when the advance was repaid. During the year ended December 31, 2006, no drawdowns were made under the letter of credit agreements. The remaining bank letters of credit were secured by approximately $2.9 million (at fair value) of marketable securities held as collateral in the consolidated statements of financial position at December 31, 2006.

At December 31, 2006 and 2005, approximately 65% and 64%, respectively, of the Medical Center's employees were covered by collective bargaining agreements. The Medical Center's collective bargaining agreements expire in January 2009 and September 2011.

In July 2005, the Medical Center, Catholic Health Care Network d/b/a Catholic Health Care System ("CHCS"), Our Lady of Mercy Medical Center ("OLM") and certain of OLM's affiliated organizations entered into a letter of intent setting forth the principal terms and conditions of a proposed affiliation, including the formation of a New York not-for-profit corporation to be the sole member of the Medical Center, OLM, OLM Ambulatory Care Center ("OLM Ambulatory") and OLM Parking Corporation ("OLM Parking"). On September 1, 2005, Bronx Community Foundation Corp. ("BCF"), a New York not-for-profit corporation, was incorporated to serve as the new member upon the completion of the proposed affiliation.

On January 5, 2006, BCF, Our Lady of Mercy Healthcare System, Inc. ("OLM System"), OLM, OLM Ambulatory, OLM Parking and CHCS signed a definitive agreement, pursuant to which, on the closing date, BCF would change its name to the Montefiore Health System, Inc. ("MHS"), become the sole corporate member of the Medical Center, replace CHCS as the corporate member of OLM and replace OLM System as the corporate member of OLM Ambulatory and OLM Parking. Following receipt of all necessary regulatory approvals, on January 26, 2006, the New York State Department of State approved amendments to the Certificates of Incorporation of the Medical Center, MHS, OLM, OLM Ambulatory and OLM Parking to establish Montefiore Health System, Inc. as the sole corporate member of the Medical Center, OLM, OLM Ambulatory and OLM Parking.

9. Contingencies and Other (continued)

On January 24, 2006, the Medical Center acquired OLM's 1995 mortgage loan, which loan had been held by the Dormitory Authority and insured under the provisions of the FHA 242 Program (the "1995 OLM Loan"). The Medical Center used approximately $10.8 million of proceeds from its sinking fund marketable securities in order to purchase the 1995 OLM loan. Prior to the acquisition of the 1995 OLM Loan by the Medical Center, the FHA mortgage insurance was terminated. The Medical Center amended and restated the 1995 OLM Loan (the "Amended Loan") to provide for interest at the rate of 5.0% per annum and monthly payments of approximately $126,000 commencing February 1, 2008, based on a 10-year amortization schedule. The Amended Loan provides for a balloon payment of approximately $6.8 million due on January 1, 2013. The Medical Center will be required to use its general operating funds in order to replenish its sinking fund marketable securities co-terminus with the repayment terms of the Amended Loan. As of December 31, 2006, based on an assessment of OLM's financial position, the Medical Center fully reserved the principal and interest due from OLM (see Note 13).

10. Fair Value of Financial Instruments

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

Cash and cash equivalents: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents approximates fair value.

Marketable and other securities: The fair values of marketable securities are based on quoted market prices. Investments in limited partnerships and other alternative investments are stated at estimated fair value as described in Note 1.

Long-term debt: Fair values of the Medical Center's long-term debt are based on the various current values for similar debt, using discounted cash flow analysis.

10. Fair Value of Financial Instruments (continued)

The following summarizes the carrying amount and fair value of the Medical Center's financial instruments at December 31:

	2006		2005	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(In Thousands)			
Assets				
Cash and cash equivalents	**$ 15,489**	**$ 15,489**	$ 19,493	$ 19,493
Marketable and other securities	**655,947**	**655,947**	619,698	619,698
Liabilities				
Long-term debt	**656,056**	**669,149**	613,302	637,450

11. Concentration of Credit Risk

At December 31, 2006 and 2005, excluding investments in bond mutual funds, approximately 31% and 36%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2006 and 2005, significant concentrations of receivables for patient care include approximately 12% and 15% from Medicare, 33% and 32% from Medicaid and 53% and 49% from commercial and managed care organizations, respectively, of which no individual organization equaled 10% or greater.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 40%, and the Medicaid and Medicaid managed care programs approximately 30% of the Medical Center's net patient service revenue for the years ended December 31, 2006 and 2005, respectively. No other specific payor exceeded 10% of net patient service revenue.

12. Other Operating Revenue

Other operating revenue included in the consolidated statements of operations for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
	(In Thousands)	
Investment income *(Note 3)*	**$ 32,306**	$16,559
Continuing Medical Education programs	**13,305**	9,228
Staff housing and other rental income	**8,653**	8,329
Information system services	**7,925**	9,058
Patient care quality incentive revenue	**6,481**	8,051
Net assets released from restrictions	**4,038**	1,622
Equity earnings from investment in a limited liability company	**3,002**	2,937
Cafeteria revenue	**2,993**	2,595
Parking revenue	**2,750**	2,713
All other	**10,288**	9,051
	$ 91,741	$70,143

13. Subsequent Events

On March 8, 2007, OLM and OLM Parking filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") seeking relief under Chapter 11 of the United States Bankruptcy Code. Simultaneous with the Chapter 11 filing, OLM and OLM Parking filed a motion (the "Sale Motion") with the Bankruptcy Court to approve an asset purchase agreement ("APA") entered into by OLM and OLM Parking, as sellers, and the Medical Center, as purchaser. Under the terms of the APA, the Medical Center would agree to acquire certain assets of OLM and OLM Parking and assume certain of their liabilities. Pursuant to the Sale Motion, OLM and OLM Parking also sought approval of bidding procedures for the submission of alternative bids and offer for their assets. The APA remains subject to the approval of the Bankruptcy Court and the submission of a higher or better offer. The closing of the APA is also contingent on the Medical Center obtaining all required approvals, including those of The U.S. Department and Housing and Urban Development and the Dormitory Authority.

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CONSOLIDATED FINANCIAL STATEMENTS

Montefiore Medical Center

Years ended December 31, 2005 and 2004
with Report of Independent Auditors

Montefiore Medical Center

Consolidated Financial Statements

Years ended December 31, 2005 and 2004

Contents

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Report of Independent Auditors

The Board of Trustees
Montefiore Medical Center

We have audited the accompanying consolidated statements of financial position of Montefiore Medical Center (the "Medical Center") as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center at December 31, 2005 and 2004, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, in 2004 the Medical Center changed its method of accounting for an investment in a limited liability company.

Ernst & Young LLP

March 2, 2006

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31 2005	December 31 2004
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 19,493**	$ 19,559
Marketable and other securities *(Note 3)*	**325,195**	204,361
Assets limited as to use—marketable securities	**19,611**	24,412
Receivables for patient care, less allowances for doubtful accounts (2005–$95,313; 2004—$80,360) *(Note 12)*	**106,800**	108,072
Other receivables	**20,734**	31,152
Trustee employee benefit plan marketable and other securities *(Note 3)*	**37,824**	34,430
Other current assets	**19,029**	20,536
Total current assets	**548,686**	442,522
Assets limited as to use:		
Marketable and other securities *(Note 3)*:		
Sinking funds *(Notes 7 and 14)*	**46,190**	59,292
Employee deferred compensation plan	**11,207**	20,367
Marketable and other securities externally designated	**111,668**	99,755
Designated for self insurance *(Note 10)*	**4,253**	6,737
	173,318	186,151
Pledges restricted to investment in property, buildings and equipment *(Note 4)*	**156**	4,249
Total non-current assets limited as to use	**173,474**	190,400
Marketable securities held as collateral *(Notes 3, 7, and 10)*	**63,750**	68,048
Property, buildings and equipment, at cost, net *(Notes 5, 6 and 7)*	**666,902**	572,214
Deferred financing costs and other non-current assets *(Note 10)*	**90,787**	58,793
Total assets	**$ 1,543,599**	$ 1,331,977
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 72,489**	$ 69,811
Other payables and accrued expenses	**144,904**	87,001
Accrued salaries, wages and related items	**143,713**	122,277
Current portion of long-term debt *(Note 7)*	**28,485**	29,434
Total current liabilities	**389,591**	308,523
Long-term debt, less current portion *(Note 7)*	**584,817**	476,564
Employee deferred compensation	**11,207**	20,367
Professional liabilities *(Note 10)*	**4,253**	9,737
Other non-current liabilities *(Notes 1, 2, 7 and 9)*	**250,861**	249,355
	851,138	756,023
Commitments and contingencies *(Note 10)*		
Net assets:		
Unrestricted	**210,096**	179,703
Temporarily restricted *(Note 8)*	**67,824**	62,778
Permanently restricted *(Note 8)*	**24,950**	24,950
Total net assets	**302,870**	267,431
Total liabilities and net assets	**$ 1,543,599**	$ 1,331977

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Year ended December 31	
	2005	**2004**
	(In Thousands)	
Operating revenue		
Net patient service revenue *(Notes 1 and 2)*	**$1,767,347**	$1,642,682
Grants and contracts *(Note 1)*	**69,915**	67,557
Contributions	**5,618**	5,798
Other *(Note 13)*	**70,143**	54,247
Total operating revenue	**1,913,023**	1,770,284
Operating expenses		
Salaries and wages	**805,637**	753,196
Employee benefits *(Note 9)*	**224,669**	195,973
Supplies and other expenses	**738,327**	686,204
Depreciation and amortization *(Note 5)*	**76,989**	75,473
Interest	**31,667**	30,791
Loss on long-term debt refinancing (*Note 7*)	**6,341**	–
Total operating expenses	**1,883,630**	1,741,637
Income from operations	**29,393**	28,647
Unrealized (losses) gains on marketable and other securities	**(381)**	8,678
Net assets released from restrictions used for purchases of property, buildings and equipment	**436**	94
Change in net additional minimum pension liability *(Note 9)*	**945**	1,085
Change in fair value of derivative *(Note 7)*	**–**	(7,586)
Cumulative effect of change in accounting for investment in limited liability company *(Note 1)*	**–**	(3,715)
Increase in unrestricted net assets	**$ 30,393**	$ 27,203

See accompanying notes

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Net assets at January 1, 2004	$ 152,500	$ 53,938	$ 24,538	$ 230,976
Increase in unrestricted net assets	27,203			27,203
Restricted gifts, bequests and similar items		9,277	412	9,689
Investment income		410		410
Net assets released from restrictions		(847)		(847)
	27,203	8,840	412	36,455
Net assets at December 31, 2004	179,703	62,778	24,950	267,431
Increase in unrestricted net assets	**30,393**			**30,393**
Restricted gifts, bequests and similar items		**6,254**		**6,254**
Investment income		**850**		**850**
Net assets released from restrictions		**(2,058)**		**(2,058)**
	30,393	**5,046**	**–**	**35,439**
Net assets at December 31, 2005	**$ 210,096**	**$ 67,824**	**$ 24,950**	**$ 302,870**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year ended December 31 2005	2004
	(In Thousands)	
Operating activities		
Increase in net assets:		
Unrestricted	**$ 30,393**	$ 27,203
Temporarily restricted	**5,046**	8,840
Permanently restricted	**–**	412
Increase in net assets	**35,439**	36,455
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**76,989**	75,473
Loss on long- term debt refinancing	**6,341**	–
Cumulative effect of change in accounting	**–**	3,715
Change in net additional minimum pension liability	**(945)**	(1,085)
Change in the fair value of derivative	**–**	7,586
Realized gains	**(2,915)**	(3,438)
Unrealized losses (gains)	**381**	(8,678)
Equity earnings from investment in limited liability company	**(2,937)**	(1,451)
Changes in operating assets and liabilities:		
Receivables for patient care	**1,272**	10,645
Net change in other receivables, other current assets, current liabilities (excluding current portion of long-term debt), employee deferred compensation, other non-current liabilities	**81,750**	47,007
Deferred financing costs and other non-current assets	**(30,580)**	(12,116)
Net cash provided by operating activities	**164,795**	154,113
Investing activities		
Acquisition of property, buildings and equipment, net	**(170,154)**	(70,112)
Increase in current marketable and other securities, net	**(121,695)**	(64,703)
Decrease (increase) in marketable securities held as collateral, net	**4,298**	(9,970)
Decrease (increase) in assets limited as to use-marketable and other securities, net	**17,634**	(17,948)
Decrease in pledges restricted to investment in property, buildings and equipment and other assets limited as to use	**4,093**	1,001
Net cash used in investing activities	**(265,824)**	(161,732)
Financing activities		
Scheduled payments of long-term debt	**(28,067)**	(28,373)
Refinanced payments of long-term debt	**(137,995)**	–
Proceeds from long-term debt	**267,025**	39,931
Net cash provided by financing activities	**100,963**	11,558
Net (decrease) increase in cash and cash equivalents	**(66)**	3,939
Cash and cash equivalents at beginning of year	**19,559**	15,620
Cash and cash equivalents at end of year	**$ 19,493**	$ 19,559

See accompanying notes.

Montefiore Medical Center

Notes to Consolidated Financial Statements

December 31, 2005

1. Organization and Significant Accounting Policies

Organization: Montefiore Medical Center and its controlled organizations comprise an integrated delivery system. The majority of the facilities are located in the Bronx, New York. It is incorporated under New York State not-for-profit Corporation law and provides healthcare and related services, primarily to residents of the Metropolitan New York area (see Note 14).

The Medical Center's significant accounting policies follow:

Basis of Financial Statement Presentation: The accompanying consolidated financial statements include the accounts of Montefiore Medical Center and its controlled tax exempt and taxable organizations: MMC Corporation ("MCORP"), CMO The Care Management Company, LLC (formerly known as Contract Management Organization, LLC) ("CMO"), MMC IPA Inc. ("MIPA"), MMC IPA No. 7 Inc. ("MIPA 7"), MMC IPA No. 8 Inc. ("MIPA 8"), University Behavioral Associates, Inc. ("UBA"), Montefiore Behavioral Care IPA No. 1, Inc. ("MBCIPA"), Gunhill MRI P.C. ("Gunhill"), MMC Residential Corp. No. 1, Inc. ("Housing I"), Montefiore Hospital Housing Section II, Inc. ("Housing II"), Mosholu Preservation Corporation ("MPC"), and Emerging Health Information Technology, LLC ("EHIT"). For purposes of financial statement presentation, they are collectively termed the "Medical Center" except as explicitly specified. All significant intercompany transactions have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of 20% but less than 50% are accounted for under the equity method of accounting. In addition, effective July 1, 2004, an investment in a LLC was accounted for under the equity method of accounting as a result of the adoption of the provisions of Emerging Issues Task Force Issue 03-16—"Accounting for Investments in Limited Liability Companies".

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

Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Medical Center maintains cash on deposit with major banks and invests in securities issued by either the

1. Organization and Significant Accounting Policies (continued)

United States Government or its agencies with a maturity of three months or less at the time of purchase. The Medical Center limits the amount of credit exposure to any one financial institution. At December 31, 2005 and 2004, the Medical Center had balances with financial institutions that exceeded federal depository insurance limits. Management believes that the credit risk associated with these deposits is minimal.

Receivables for Patient Care: Patient accounts receivable for which the Medical Center receives payment under reimbursement formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which is generally less than the established billing rates of the Medical Center. Fees for outpatient services not covered by payor reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third party payors which are directly related to receivables for patient care. Such advances aggregated approximately $31.1 million and $34.7 million at December 31, 2005 and 2004, respectively.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Inventories: Inventories, included in other current assets, are valued at the lower of cost (first-in, first-out method) or market.

Marketable and Other Securities: Marketable and other securities are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities and alternative investments including investments in limited partnerships. Alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Medical Center holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings of the Medical Center may, in turn, include investments in both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost,

1. Organization and Significant Accounting Policies (continued)

appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Medical Center's risk is limited to its carrying value. Amounts are subject to notification periods to divest ranging from 90 to 95 days. The financial statements of the investees are audited annually by independent auditors. At December 31, 2005, the Medical Center had approximately $2.9 million of future commitments to invest in alternative investments. For financial statement purposes, the various securities held by the limited partnerships and other alternative investments are not allocated to their components. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. All marketable securities are considered trading securities.

Investment Gains, Losses and Income: Realized and unrealized gains and losses on marketable and other securities are recorded in the consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets. Realized gains and losses on sales of marketable and other securities are based on the average cost method.

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements or internal designations.

Assets Restricted to Investment in Property, Buildings and Equipment: Assets so classified consist of pledges and other assets whose use is restricted by donors for the acquisition of property, buildings and equipment.

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date received. Capital lease assets are recorded at the present value of the minimum lease payments at the inception of the leases. Annual provisions for depreciation or amortization are made based upon the straight-line method over the estimated useful

1. Organization and Significant Accounting Policies (continued)

lives of the assets. Capital lease assets are amortized over the lesser of the estimated useful life or lease term. The carrying amounts of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of the assets.

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided by the interest method extending over the terms of the related indebtedness.

Employee Deferred Compensation Plan: Pursuant to various deferred compensation plans in which certain Medical Center employees or former employees participate, the Medical Center deposits amounts with trustees on behalf of the participating employees. The Medical Center is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Medical Center under certain specified circumstances.

Deferred Revenue: Deferred revenue included with other non-current liabilities represents amounts the Medical Center has received for which all obligations have not yet been fulfilled. Accordingly, such amounts are included within deferred revenue until earned.

The Medical Center and MIPA 7 entered into an agreement, effective December 31, 2003, with a health plan that extended the previous risk and fee for service arrangements through December 31, 2007. As such, the amount received from the health plan ($18.5 million) was recorded as deferred revenue on the books of the Medical Center at December 31, 2003 and is being amortized under the straight line method over 48 months in accordance with Emerging Issues Task Force (EITF) 99-19 *Reporting Revenue Gross as Principal versus Net as an Agent*. For the years ended December 31, 2005 and 2004, net patient service revenue includes approximately $4.6 million associated with this agreement for each year. In addition, at December 31, 2005 and 2004, approximately $9.2 million and $13.8 million, respectively, remained as deferred revenue, a component of other non-current liabilities, in the consolidated statements of financial position.

1. Organization and Significant Accounting Policies (continued)

Vacation Benefits: These benefits are accrued as earned, except for individuals employed under certain research grants and contracts.

Postretirement Benefits other than Pensions: These benefits are accrued as earned.

Premium Revenue and Healthcare Service Cost Recognition: Under certain managed care contracts, the Medical Center receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Medical Center manages and, directly and through arrangements with other healthcare providers, delivers healthcare services to enrollees in accordance with the terms of the subscriber agreements. The Medical Center reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of healthcare services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. For the years ended December 31, 2005 and 2004, healthcare service costs included in supplies and other expenses were reduced by approximately $4.5 million and $11.0 million, respectively, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within the caption net patient service revenue in the accompanying consolidated statements of operations aggregated approximately $412.8 million and $374.0 million for the years ended December 31, 2005 and 2004, respectively.

Performance Indicator: The consolidated statements of operations include income from operations as the performance indicator. Items excluded from income from operations are unrealized (losses) gains on marketable securities, net assets released from restrictions used for purchases of property, buildings and equipment, change in additional minimum pension liability, change in fair value of derivative and cumulative effect of change in accounting for investment in limited liability company.

1. Organization and Significant Accounting Policies (continued)

Research and Contract Revenue Recognition: The Medical Center is the recipient of various research awards from various governmental and commercial sources and has various contracts with governmental agencies. Revenue is recognized only to the extent of expenditures under the specific contracts or awards. The accompanying consolidated financial statements do not include amounts related to grants (or portions thereof) that have been awarded to the Medical Center for which expenditures have not been incurred. Such grant awards approximated $11.5 million at December 31, 2005.

Pledges: Unconditional promises to give are recognized at their fair value in the applicable net asset category when received and are recorded net of estimated uncollectible amounts and discount for present value of future payments. Conditional promises are recognized as revenue in the applicable net asset category when the conditions on which they depend have been substantially met.

Temporarily Restricted Contributions: The Medical Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Other revenue for the years ended December 31, 2005 and 2004 includes approximately $1.6 million and $753,000, respectively, of net assets released from restrictions used for operations.

Tax Status: The Medical Center, a section 501c(3) organization, is exempt from income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except CMO, MIPA, MIPA 7, MIPA 8, UBA, MBCIPA, Gunhill and EHIT which are taxable entities.

Charity Care: The Medical Center, in keeping with its mission and philosophy to extend quality care and compassionate service, extends charity care to those patients who do not have the ability to meet their obligations. Charity care provided, including reductions for Medicaid and uninsured patients, amounted to approximately $136.4 million and $131.4 million for the years ended December 31, 2005 and 2004, respectively.

1. Organization and Significant Accounting Policies (continued)

Program Services: The Medical Center provides healthcare and related services primarily within its geographic location. Expenses related to providing these services for the years ended December 31, 2005 and 2004 are as follows:

	2005	**2004**
	(In Thousands)	
Healthcare and related services	**$1,778,049**	$1,640,750
Program support and general services	**105,581**	100,887
	$1,883,630	$1,741,637

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those previously estimated. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material impact on the Medical Center's consolidated financial position.

Reclassification: Certain reclassifications to the 2004 amounts were made to conform to the 2005 presentation, including the reclassification of unrealized gains and losses.

Change in Accounting: On July 1, 2004, the Medical Center adopted the provisions of Emerging Issues Task Force Issue 03-16 – "Accounting for Investments in Limited Liability Companies". As a result, the accounting for an investment in a limited liability company changed from the cost method to the equity method of accounting. The cumulative effect of the accounting change was a decrease of unrestricted net assets of approximately $3.7 million.

2. Net Patient Service Revenue

The Medical Center has agreements with third party payors that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts from patients, third party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that 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.

Non-Medicare Reimbursement: The New York Health Care Reform Act of 1996 (the "Act"), as periodically updated, governs non-Medicare payments to hospitals in New York State. The Act is subject to periodic renewal and currently is in effect through June 30, 2007. Under the Act, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Medical Center is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' rates will continue to be made in future years.

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

2. Net Patient Service Revenue (continued)

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Medical Center. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year to which they occur. The estimated settlements recorded at December 31, 2005 and 2004 could differ from actual settlements based on the results of cost report audits. Management believes that amounts recorded in the consolidated financial statements will not be materially affected upon the final disposition of such retrospective adjustments. Future changes in the Medicare and Medicaid program regulations and funding could have an adverse impact on the Medical Center. These changes would be prospective and impact financial periods subsequent to the year ended December 31, 2005.

Laws and regulations governing healthcare programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

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

3. Marketable and Other Securities

The composition of marketable and other securities at fair value follows:

	December 31	
	2005	**2004**
	(In Thousands)	
Marketable and other securities	**$325,195**	$204,361
Assets limited as to use marketable and other securities	**192,929**	210,563
Marketable securities held as collateral	**63,750**	68,048
Trustee employee benefit plan marketable and other securities	**37,824**	34,430
	$619,698	$517,402
Non-equity mutual funds	**$307,541**	$222,272
Equity mutual funds	**81,122**	57,170
Mortgage-backed securities	**21,753**	16,082
U.S. Treasury securities	**49,402**	92,116
U. S. government agency backed securities	**39,834**	35,908
Equity securities	**27,663**	23,183
Limited partnerships and other alternative investments	**36,916**	23,098
Deferred compensation plan mutual funds	**11,207**	20,367
Corporate debt	**42,445**	26,089
Other	**1,815**	1,117
	$619,698	$517,402

At December 31, 2005 and 2004, current assets limited as to use marketable securities include amounts set aside to satisfy MIPA, MIPA 7 and MIPA 8 statutory requirements and the current portion of assets designated for self insurance (Note 10).

Investment income included in other revenue in the consolidated statements of operations for the years ended December 31, 2005 and 2004 consisted of the following:

	2005	**2004**
	(In Thousands)	
Interest and dividend income	**$ 13,644**	$ 7,511
Realized gains, net of realized losses	**2,915**	3,438
	$ 16,559	$ 10,949

3. Marketable and Other Securities (continued)

At December 31, 2005 and 2004, marketable securities aggregating approximately $63.8 million and $68.0 million (at fair value), respectively, were pledged as collateral under various debt and other agreements and included in marketable securities held as collateral in the consolidated statements of financial position (see Note 7).

4. Pledges Restricted to Investment in Property, Buildings and Equipment

Pledges (promises to give) are enforceable, but unsecured and principally derived from individuals, corporations and foundations. Multi-year pledges, are recorded at their net present value using a discount rate of 3%.

Outstanding pledges receivable at December 31, 2005 and 2004, at net present value, are due to be collected as follows:

	2005	**2004**
	(In Thousands)	
In less than one year	**$100**	$4,110
In one to five years	**56**	139
Total	**$156**	$4,249

5. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2005	**2004**
	(In Thousands)	
Land and land improvements	**$ 11,486**	$ 7,123
Buildings, fixed equipment and improvements	**912,726**	851,438
Movable equipment	**491,682**	435,252
	1,415,894	1,293,813
Less accumulated depreciation and amortization	**(836,875)**	(761,691)
	579,019	532,122
Construction-in-progress	**87,883**	40,092
	$ 666,902	$ 572,214

5. Property, Buildings and Equipment (continued)

Property, buildings and equipment includes capital lease assets of approximately $152.7 million and $132.5 million at December 31, 2005 and 2004, respectively, with accumulated amortization of approximately $104.6 million and $89.5 million, respectively.

During the year ended December 31, 2004, the Medical Center recorded an approximate $4.9 million loss on impairment, approximately $3.6 million in depreciation and amortization expenses and approximately $1.3 million in supplies and other expenses.

Substantially all property, buildings and equipment has been collateralized under various debt agreements (see Note 7).

6. Leases

Total rental expense charged to operations aggregated approximately $31.4 million and $30.8 million for the years ended December 31, 2005 and 2004, respectively.

Future minimum payments, by year and in the aggregate, under capital leases and non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2005, consisted of the following:

	Capital Leases	Operating Leases
	(In Thousands)	
2006	$16,902	$ 10,673
2007	14,809	9,431
2008	12,540	7,014
2009	10,809	4,972
2010	8,270	4,962
2011 and thereafter	4,618	117,150
Total minimum lease payments	67,948	$154,202
Less amounts representing interest	(7,948)	
Total value of minimum lease payments (included in long-term debt—see Note 7)	$60,000	

6. Leases (continued)

The Medical Center entered into new capital lease agreements of approximately $19.9 million and $22.5 million during the years ended December 31, 2005 and 2004, respectively. The interest rates associated with the Medical Center's capital lease agreements on equipment range from 3.0% to 4.3%. In addition, several capital leases recorded in 1993 for office space have payments which extend to 2013 and bear interest at 9.0%.

During 2004, the Medical Center and the parent of its teaching affiliate amended a lease agreement for the property and building comprising one of its hospital divisions. Under the new agreement, the term was extended and annual rental payments increased. The lease is being recorded as an operating lease under the criteria of Financial Accounting Standards Board Statement ("FASB") No. 13, *Accounting for Leases*. Under the terms of the lease, the amounts payable increase annually. For the years ended December 31, 2005 and 2004, the Medical Center recorded rent expense under the straight line basis in accordance with the provisions of FASB No. 13.

7. Long-term Debt

A summary of long-term debt follows:

	December 31	
	2005	**2004**
	(In Thousands)	
FHA Section 242 insured mortgage loan (a)	**$ 146,908**	$ 137,756
FHA Section 241 insured mortgage loan (b)	**130,912**	135,044
FHA Section 241 insured mortgage loan (c)	**95,532**	97,778
FHA Section 241 insured mortgage loan (d)	**15,500**	15,819
FHA Section 241 insured mortgage loan (e)	**78,276**	17,117
HDC residential revenue bonds payable (f)	**8,100**	8,200
Equipment promissory notes payable (g)	**728**	1,159
Bank loans payable (h)	**8,125**	10,206
Housing II mortgages payable (i)	**19,706**	19,784
Housing I mortgage payable (j)	**1,775**	1,808
MCORP bonds payable (k)	**21,915**	–
NYC IDA bonds payable (k)	**15,573**	–
Other	**2,666**	2,805
Capital leases (see Note 6)	**60,000**	50,936
	605,716	498,412
Plus long-term mortgage premium (e)	**7,586**	7,586
Less current portion	**(28,485)**	(29,434)
	$ 584,817	$ 476,564

7. Long-term Debt (continued)

(a) The Medical Center has a mortgage agreement with the Dormitory Authority of the State of New York (the “Dormitory Authority”) insured under the provisions of the Federal Housing Administration (“FHA”) 242 Program. This insured mortgage is secured by a first mortgage on substantially all of the Medical Center’s real property and unrestricted assets.

During 1997, the Medical Center obtained a modification of the mortgage note whereby the interest rate was reduced from 8% to 7.20%. In lieu of additional interest rate reductions, the Medical Center received the present value of the interest rate reductions aggregating approximately $19.0 million. At December 31, 2004, approximately $5.7 million was reflected as deferred revenue, a component of other non-current liabilities and approximately $1.2 million as other payables and accrued expenses.

During 2005, the Medical Center refinanced the FHA 242 insured mortgage loan resulting in an increase to the amount of the then outstanding indebtedness, and an extension of the term from October 2014 to October 2026. Payments of principal and interest at 4.65% are due monthly through January 31, 2015, and thereafter at 4.57%. In connection with this refinancing, the Medical Center recorded a loss on long-term debt refinancing of approximately $6.3 million (net of approximately $6.1 million of deferred revenue associated with the previous refinancing).

With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, prepayment may be made without penalty.

In connection with the mortgage refinancing, the required mortgage reserve fund balance was reduced by approximately $17.3 million. At December 31, 2005, there were no future funding requirements and the balance of approximately $22.1 million of the mortgage reserve fund met the minimum mortgage reserve fund requirement related to the FHA 242 Program insured mortgage loan.

7. Long-term Debt (continued)

(b) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program to finance a construction and renovation project. The interest rate on the mortgage is 6.17% per annum. Principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. Prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 2% in 2005 to 1% in 2007. Subsequent to 2009, there are no prepayment penalties.

In connection with the FHA 241 financing, the Medical Center obtained two surety bonds from an insurance company with expiration dates of February 15, 2006 and August 15, 2014. The aggregate amount of the surety bonds outstanding was approximately $1.7 million at December 31, 2005. The surety bonds were secured by approximately $1.4 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2005 and 2004. There were no borrowings under the surety bonds during the years ended December 31, 2005 and 2004.

At December 31, 2005, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. During January 2006, MMC obtained approval to withdraw approximately $10.8 million from the mortgage reserve fund (see Note 14). The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	**December 31 Minimum Balance**
	(In Thousands)	
2006	$2,276	$9,402
2007	2,153	11,555
2008	2,596	14,151
2009	1,096	15,247
2010	1,140	16,387

7. Long-term Debt (continued)

(c) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance certain construction and renovation projects, including the Children's Hospital at Montefiore and to refinance certain debt.

The interest rate on the mortgage was 5.3% per annum through September 30, 2004 and 5.7% per annum thereafter. Principal and interest payments are due monthly through May 1, 2027, at which time any remaining principal and interest is due. The mortgage loan may not be prepaid prior to August 1, 2009, except in certain limited circumstances. Subsequent to August 1, 2009, except in certain circumstances, prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 1.5% from August 1, 2009 through July 31, 2010 to 1.0% from August 1, 2010 through July 31, 2011. Commencing August 1, 2011, the prepayment penalty is eliminated.

In connection with the FHA 241 financing, the Medical Center obtained two irrevocable letters of credit from a bank both of which were terminated during the year ended December 31, 2004. There were no borrowings under these letters of credit during the year ended 2004.

At December 31, 2005, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2006	$1,591	$ 6,802
2007	1,477	8,279
2008	1,411	9,690
2009	1,469	11,159
2010	1,527	12,686

7. Long-term Debt (continued)

(d) During 2000, the Medical Center entered into a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction project.

The interest rate on the mortgage is 6.7% per annum. Principal and interest payments are due monthly through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to August 1, 2010. Subsequent to August 1, 2010, except in certain circumstances, prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 1.5% from August 1, 2010 through July 31, 2011 to 1.0% from August 1, 2011 through July 31, 2012. Commencing on August 1, 2012, the prepayment penalty is eliminated.

In connection with the FHA 241 financing, the Medical Center has two irrevocable bank letters of credit, which expire on August 29, 2006. The combined letters of credit aggregated approximately $1.2 million at December 31, 2005 and 2004, and were secured by approximately $1.6 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2005 and 2004.

At December 31, 2005, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2006	$291	$1,246
2007	271	1,517
2008	258	1,775
2009	269	2,044
2010	280	2,324

7. Long-term Debt (continued)

(e) During December 2004, the Medical Center entered into a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to borrow up to approximately $172.2 million to finance a construction and renovation project. At December 31, 2005 and 2004, approximately $78.3 million and $17.1 million, respectively, was drawn down.

The interest rate is 7.0% per annum through March 31, 2007 and 5.37% per annum thereafter. Principal and interest payments are due monthly from May 1, 2007 through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, the loan may be prepaid without penalty.

In connection with the mortgage agreement, the Medical Center obtained three irrevocable bank letters of credit, two of which expire on December 14, 2007 and the other which expires on December 12, 2008. The letters of credit aggregated approximately $31.4 million and $35.2 million at December 31, 2005 and 2004, respectively, and were secured by approximately $34.8 million and $39.1 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2005 and 2004.

In July 2004, the Medical Center entered into a forward interest rate swap agreement with a counterparty in the notional amount of approximately $172.2 million which was terminated in December 2004. The purpose of the swap was to lock in a desired interest rate in anticipation of the borrowing that occurred in December 2004. The swap agreement was a derivative instrument that qualified as a cash flow hedge transaction. In relation to the effective component of the hedging instrument, during the year ended December 31, 2004, the Medical Center recognized an approximate $7.6 million loss on the change in fair value which is included as a component of other changes in net assets. The ineffective portion of the hedge instrument was not significant. Upon termination of the swap agreement, the Medical Center recorded an approximate $7.6 million mortgage premium as a component of long term debt.

7. Long-term Debt (continued)

The Medical Center will begin to amortize the long term mortgage premium and accrete the amount recorded outside the performance indicator over the life of the mortgage using the effective interest method when a substantial portion of the property, buildings and equipment are placed in service.

At December 31, 2005, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2006	$ –	$ –
2007	657	657
2008	1,780	2,437
2009	2,321	4,758
2010	2,570	7,328

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for these FHA insured mortgage loans.

(f) The proceeds of New York City Housing Development Corporation ("HDC") revenue bonds, dated June 16, 1993, were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (4.88% at December 31, 2005). Principal is payable annually through May 1, 2030, at increasing annual amounts ranging from approximately $100,000 to $600,000. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amount of approximately $8.2 million, which expires during June 2008.

7. Long-term Debt (continued)

No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2005 and 2004. The revenue bonds can be prepaid without penalty at the option of the Medical Center.

(g) In 2002, the Medical Center entered into a promissory note agreement with a third party to purchase certain equipment. Under the terms of the note, interest is payable at 4.9%, with principal and interest payments approximating $40,000 per month payable through July 1, 2007.

(h) At December 31, 2005 and 2004, the Medical Center had outstanding borrowings under two loan agreements with banks.

The Medical Center had one loan agreement under which approximately $3.4 million and $4.5 million were outstanding at December 31, 2005 and 2004, respectively. The amounts outstanding are secured by approximately $5.0 million and $6.5 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2005 and 2004, respectively. Interest payments are payable quarterly at a variable rate (4.56% at December 31, 2005). Principal payments of approximately $216,000 are payable quarterly through December 2009. The loan can be prepaid in whole or in part without penalty at the option of the Medical Center.

The Medical Center had another loan agreement under which approximately $4.7 million and $5.7 million were outstanding at December 31, 2005 and 2004, respectively. The amounts outstanding are secured by approximately $6.5 million and $8.0 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2005 and 2004, respectively. Interest payments are payable monthly at a variable rate, (5.02% at December 31, 2005). Principal payments of approximately $83,000 are payable monthly, with the balance due in full in August 2007. The loan can be prepaid in whole or in part without penalty at the option of the Medical Center under certain circumstances.

7. Long-term Debt (continued)

(i) Housing II has primary and subordinate mortgage agreements with HDC dated December 2004, which refinanced previous mortgage agreements with HDC. At December 31, 2005 and 2004, the primary mortgage amount outstanding was approximately $6.9 million and $7.0 million, respectively. The interest rate is 6.5%, and principal and interest payments are due monthly through January 1, 2035. After December 31, 2019, the primary mortgage may be prepaid without penalty if the subordinate mortgage is no longer outstanding. At December 31, 2005 and 2004, the subordinate mortgage amount was approximately $12.8 million and bears no interest. The subordinate mortgage is payable in full on April 30, 2035. After December 29, 2019, the subordinate mortgage may be prepaid without penalty. The effective interest rate of the combined obligation is 2.3% assuming the obligations are called in 2019. If the mortgages remain outstanding through 2035, the effective interest rate is 1.8%.

Substantially all of the Housing II's property and equipment, rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2005 and 2004, Housing II maintained the reserve for replacement account in accordance with its HDC requirements.

(j) During June 2001, Housing I entered into a mortgage loan agreement with a lender. The interest rate is 7.59%. Principal and interest payments are due monthly through July 2026. The mortgage loan may be prepaid upon 30 days notice subject to payment of a prepayment penalty of at least 1%. The mortgage loan is secured by a mortgage on the building and underlying property.

(k) During 2005, MCORP acquired certain real estate financed with the proceeds of two financings: approximately $15.6 million of New York City Industrial Development Agency ("NYC IDA") revenue bonds, and approximately $21.9 million of MCORP taxable bonds. The MCORP bonds were also used to refinance an approximate $6.9 million bridge loan related to another real estate acquisition. Interest on the NYC IDA bonds, at an average coupon of 4.96%, is payable monthly through March 1, 2008, and payments of interest and principal are payable monthly April 1, 2008 through October 1, 2035. The bonds may not be prepaid prior to November 1, 2010, after which they may be prepaid without penalty. The bonds were sold at a premium of approximately $308,000, which was recorded as a component of the related long-term debt balance and will be

7. Long-term Debt (continued)

(l) amortized using the effective interest method over the term of the bonds. Interest on the MCORP bonds is payable monthly at a variable rate (5.48% at December 31, 2005). Principal is payable monthly commencing April 1, 2008. The bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay letters of credit from a bank in the amounts of approximately $15.7 million and $22.1 million. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire December 22, 2010. No unreimbursed draws were made under the direct pay letters of credit during the year ended December 31, 2005.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases, during the next five years, exclusive of sinking funds requirements, follows (in thousands):

2006	$28,485
2007	31,235
2008	26,969
2009	27,050
2010	24,562

Substantially all of the Medical Center's, property, buildings and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts.

At December 31, 2005, the Medical Center had lines of credit with two banks aggregating approximately $13.5 million under which no borrowings were outstanding at December 31, 2005.

Interest paid during the years ended December 31, 2005 and 2004 amounted to approximately $31.7 million and $30.8 million, respectively. During the year ended December 31, 2005 approximately $2.3 million of interest was capitalized. During the year ended December 31, 2004 no interest was capitalized.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2005	**2004**
	(In Thousands)	
Collateralizing bank financing, teaching and research	**$34,800**	$34,800
Construction and renovation projects	**1,042**	929
Healthcare related services	**27,339**	22,608
Research	**4,283**	4,063
Health education	**360**	378
	$67,824	$62,778

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable to support health care services.

During 2004, the Medical Center received notice that the Office of the Attorney General of the State of New York ("AG") approved a petition for the sale of the assets comprising the business and real property of The Nathan Miller Center for Nursing Care Inc. ("Nathan Miller"), a not for profit organization in the County of Westchester. Under the terms of the approved petition the net proceeds from the sale were transferred to a Foundation established to distribute the remaining Nathan Miller assets. The net proceeds (cash remaining after realization of all receivables and payment of all liabilities) are to be distributed for the support of health care services to the elderly, 90% to the Medical Center and 10% for health care services to the elderly in Westchester County, New York. The Medical Center recorded this transaction in accordance with FASB No. 116 *Accounting for Contributions Made and Received* as an increase to temporarily restricted net assets. At December 31, 2004, approximately $8.0 million was recorded as an increase to other receivables and temporarily restricted net assets. During the year ended December 31, 2005, approximately $6.2 million was received.

9. Benefit Plans

The Medical Center is a contributing employer to two union multi-employer pension plans. In addition, the Medical Center also maintains several tax deferred annuity plans under Section 403(b) of the Internal Revenue Code as well as noncontributory defined benefit pension plans.

Contributions to union multi-employer pension plans and two of the tax deferred annuity plans are made in accordance with contractual agreements under which contributions are based on a percentage of salaries or a negotiated amount. Contributions to the remaining tax deferred annuity plans are generally based on percentages of salaries. Contributions to the noncontributory defined benefit plans are based on actuarial valuations. Benefits under the noncontributory defined benefit plan are based on years of service and salary levels. The Medical Center's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974.

Total expense for the various pension plans aggregated approximately $56.2 million and $45.3 million for the years ended December 31, 2005 and 2004, respectively. Cash payments relative to the various pension plans aggregated approximately $53.8 million and $45.4 million for the years ended December 31, 2005 and 2004, respectively.

The Medical Center sponsors two unfunded defined benefit post-retirement welfare plans that cover certain full-time and part-time employees and eligible dependents. The Medical Center amended the plans to increase retiree contributions and modify its prescription drug program, effective January 1, 2004.

Additionally, in accordance with SFAS No. 87 Employers' Accounting for Pensions, the Medical Center recorded an additional minimum pension liability for the underfunding of the noncontributory defined benefit plans of approximately $5.2 million at December 31, 2002. The additional minimum liability represented the excess of the accumulated benefit obligation over the fair value of plan assets. At December 31, 2005 and 2004, the accumulated shortfall between the fair value of plan assets and accumulated benefit obligation declined, resulting in a change in the net additional minimum liability of approximately $945,000 and $1.1 million for the years ended December 31, 2005 and 2004, respectively.

9. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the defined benefit and post-retirement plans' benefit obligations and fair value of assets (where applicable) for the years ended December 31, 2005 and 2004 and a statement of the funded status of the plans as of December 31, 2005 and 2004:

	Pension		Post-retirement	
	2005	**2004**	**2005**	**2004**
	(In Thousands)			
Changes in benefit obligation				
Benefit obligation at January 1	**$ 18,185**	$ 17,864	**$ 53,401**	$ 60,593
Service cost	**1,370**	566	**2,538**	2,305
Interest cost	**1,704**	1,045	**3,095**	3,086
Actuarial loss (gain)	**11,661**	(540)	**3,065**	(9,116)
Benefit payments	**(4,246)**	(750)	**(3,640)**	(3,467)
Benefit obligation at December 31	**$ 28,674**	$ 18,185	**$ 58,459**	$ 53,401
Change in plan assets				
Fair value of plan assets at January 1, consisting of fixed income securities, corporate bonds, mutual funds and marketable equity securities	**$ 13,475**	$ 12,101	**$ –**	$ –
Actual return on plan assets	**1,578**	1,314	**–**	–
Employer contributions	**1,080**	1,080	**3,640**	3,467
Plan participants' contributions	**–**	–	**1,034**	651
Benefit payments	**(1,013)**	(750)	**(4,674)**	(4,118)
Fair value of plan assets at December 31	**$ 15,120**	$ 13,745	**$ –**	$ –
Funded status				
Unfunded status at December 31	**$ (13,554)**	$ (4,440)	**$ (58,459)**	$ (53,401)
Unrecognized prior service cost	**4,022**	230	**(9,798)**	(11,289)
Unrecognized loss	**2,494**	4,407	**18,939**	17,495
(Accrued)prepaid benefit cost	**(7,038)**	197	**(49,318)**	(47,195)
Additional minimum liability	**(1,562)**	(2,738)	**–**	–
Net liability recognized in the consolidated statements of financial position	**$ (8,600)**	$ (2,541)	**$ (49,318)**	$ (47,195)

9. Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the plans for the years ended December 31, 2005 and 2004:

	Pension		Post-retirement	
	2005	**2004**	**2005**	**2004**
	(In Thousands)			
Service cost	**$ 1,370**	$ 566	**$ 2,538**	$ 2,305
Interest cost on projected benefit obligation	**1,704**	1,045	**3,095**	3,086
Expected return on plan assets	**(1,234)**	(1,134)	**–**	–
Amortization of prior service cost	**4,253**	284	**(1,491)**	(1,491)
Amortization of net loss	**107**	193	**1,621**	1,631
Net periodic benefit cost	**$ 6,200**	$ 954	**$ 5,763**	$ 5,531

	Pension		Post-retirement	
	2005	**2004**	**2005**	**2004**
Weighted average assumptions used to determine benefit obligations as of December 31				
Discount rate	**5.75%**	6.00%	**5.75%**	6.00%
Rate of compensation increase	**4.00% - 5.00%**	5.00%	–	–

	Pension		Post-retirement	
	2005	**2004**	**2005**	**2004**
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31				
Discount rate	**5.75%-6.00%**	6.00%	**6.00%**	6.25%
Expected long term rate of return on plan assets	**8.50%**	8.50%	–	–
Rate of compensation increase	**4.00% - 5.00%**	5.00%	–	–

The accumulated benefit obligation for the defined benefit plans was approximately $24.9 million and $16.0 million at December 31, 2005 and 2004, respectively.

The overall expected long-term rate of return of the assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the plan's desired risk and return characteristics.

9. Benefit Plans (continued)

The Medical Center's independent consulting actuaries review the expected long-term rate periodically and based on the building block approach, update for changes in the market place.

Assumed health care cost trend rates at December 31 are as follows:

	2005	2004
Health care cost trend rate	**9.82%**	10.64%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.75%**	4.75%
Years that the rate reaches the ultimate trend rate	**2015-2016**	2015-2016

The measurement dates used to determine pension and post-retirement benefit costs were September 30, 2005 and 2004.

The Medical Center's pension plan weighted-average asset allocations by asset category are as follows:

	September 30	
	2005	**2004**
Equity securities	**61%**	59%
Debt securities	**37**	39
Other	**2**	2
Total	**100%**	100%

The pension plan's assets are allocated as follows:

	Target Allocation	Range
U.S. Stocks	39.0%	35.0% to 43.0%
Non-U.S. Stocks	15.0	12.0% to 18.0%
Global Stocks	6.0	3.0% to 9.0%
Bonds	40.0	36.0% to 44.0%

9. Benefit Plans (continued)

The objective for the non-U.S. stock component is to provide broad exposure to both developed and emerging markets, best represented by the Morgan Stanley Capital International All-Country World Ex-U.S. Index. The passive investment vehicle employed tracks the MSCI EAFE Index that excludes the emerging markets. A dedicated active emerging markets allocation will be maintained within the non-U.S. stock component to offset the lack of emerging markets exposure in the passive portfolio. The target allocation of the aggregate dedicated emerging market portfolio relative to the passive portfolio will be the emerging market weight within the Morgan Stanley Capital International All-Country World Ex-U.S. Index with a permissible range of plus or minus 4%.

Ordinary cash flows are used to maintain the allocation as close as practical to the normal allocation. If cash flows are insufficient to maintain the allocation with the permissible ranges as of any calendar quarter end, the plan shall transfer balances as necessary between the asset classes to bring the allocation back to the target.

Fund assets are to be diversified in order to minimize the impact of large losses in individual investments. Multiple investment managers may be retained to further that end.

During the year ending December 31, 2006, the Medical Center expects to contribute approximately $3.3 million and $3.6 million, to the pension plan and post-retirement benefits plans, respectively.

Expected benefit payments by year as of December 31, 2005 follows (in thousands):

	Pension	Post-retirement
2006	$ 888	$ 3,600
2007	953	3,800
2008	8,404	3,900
2009	3,956	4,100
2010	1,283	4,300
2011-2015	9,015	25,500

9. Benefit Plans (continued)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") became law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In accordance with FASB's Staff Position, FSP FAS 106-2, the Company is accounting for the effects of the Medicare Prescription Drug and Modernization Act of 2003 recognizing the impact of the Medicare prescription drug subsidy prospectively from July 1, 2004. The subsidy reduced the July 1, 2004 Accumulated Postretirement Benefit Obligation by approximately $4.6 million.

Assumed healthcare cost trend rates have a significant effect on the amounts reported. A 1% change in assumed healthcare cost trend rates would have the following effects relating to the post-retirement plan:

	2005		**2004**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement healthcare benefit cost	**$1,100**	**$ (900)**	$1,200	$(1,000)
Effect on the healthcare component of the accumulated postretirement benefit obligation	**7,900**	**(7,000)**	7,400	(6,500)

10. Contingencies and Other

Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through December 31, 2005, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience, that adequate insurance is maintained and adequate provision for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material effect on the Medical Center's consolidated financial position.

10. Contingencies and Other (continued)

Beginning in April 1977, primary coverage of professional and general liability incidents has been provided through participation in a pooled program with certain other health care facilities (principally hospitals) affiliated with the UJA Federation of Jewish Philanthropies of New York (the "FOJP Program"). This occurrence basis insurance coverage participation is with captive insurance companies and commercial insurance companies. As of December 31, 2005, the Medical Center retained ownership in three captive insurance companies affiliated with the FOJP Program ranging from 8.3% to 21%. In connection with the pooled insurance program, the Medical Center has recognized its allocated share of a portion of the program's accumulated surplus. Such amount (approximately $51.1 million and $29.2 million at December 31, 2005 and 2004, respectively) is included in deferred financing costs and other noncurrent assets in the accompanying consolidated statements of financial position.

The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998. Under the terms of the revised program, a portion of the Medical Center's coverage became self-retained. In conjunction with this program, the Medical Center, together with several other hospitals, invested in pooled investment unit trusts. Under such arrangements, the units were not subject to redemption for five years from the date of the initial investment other than for payment of malpractice claims and claim related expenses. At December 31, 2005 and 2004, the Medical Center had liabilities recorded of approximately $8.3 million and $13.7 million, respectively ($4.0 million included in other payables and accrued expenses each year), up to the maximum potential exposure under the program. The Medical Center has funded $8.3 million and $10.7 million for these liabilities at December 31, 2005 and 2004, respectively.

Effective January 1, 1999, the program was terminated prospectively. For the period beginning January 1, 1999, the Medical Center's malpractice insurance program reverted to a program similar to the arrangement that existed prior to January 1, 1998. The Medical Center no longer maintains a self-retained component for the period beginning January 1, 1999.

10. Contingencies and Other (continued)

However, the Medical Center is at risk for actual interest earnings that do not meet assumed levels. At December 31, 2005 and 2004, the Medical Center had established liabilities of approximately $15.5 million and $6.1 million, respectively, in connection with these program related risks. The program provides for a deferred premium arrangement. At December 31, 2005, premiums of approximately $26.9 million (included in other payables and accrued expenses) are payable in 2006 and approximately $25.6 million (included in other non-current liabilities), after 2006.

At December 31, 2005, the Medical Center had letters of credit from a bank aggregating approximately $2.0 million, which expire December 15, 2006, for the benefit of its captive insurance companies. In addition, the Medical Center had a letter of credit from a bank aggregating $13.8 million to secure an outstanding advance, which expires on December 31, 2006. During the year ended December 31, 2005, no drawdowns were made under the letter of credit agreements. These bank letters of credit were secured by approximately $14.3 million (at fair value) of marketable securities held as collateral in the consolidated statements of financial position at December 31, 2005.

At December 31, 2005 and 2004, approximately 64% and 67%, respectively, of the Medical Center's employees were covered by collective bargaining agreements.

One of the Medical Center's collective bargaining agreements expired on January 15, 2005. The Medical Center is currently in negotiations with the collective bargaining unit. Another collective bargaining agreement expires during 2008.

The Medical Center had agreed to allow an unrelated not-for-profit healthcare provider to defer payments for certain laboratory services in an amount not to exceed $3.0 million. At December 31, 2005 and 2004, approximately $248,000 and $1.7 million, respectively, were outstanding. The unrelated healthcare provider repaid the amounts outstanding in full during January 2006, and no longer has the right to defer payment for additional services.

11. Fair Value of Financial Instruments

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

Cash and cash equivalents: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents approximates fair value.

Marketable securities: The fair values of marketable securities are based on quoted market prices.

Long-term debt: Fair values of the Medical Center's long-term debt are based on the various current values for similar debt, using discounted cash flow analysis.

The following summarizes the carrying amount and fair value of the Medical Center's financial instruments at December 31:

	2005		2004	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(In Thousands)			
Assets				
Cash and cash equivalents	**$ 19,493**	**$ 19,493**	$ 19,559	$ 19,559
Marketable securities	**602,482**	**602,482**	500,072	500,072
Liabilities				
Long-term debt	**605,716**	**629,864**	498,412	509,994

12. Concentration of Credit Risk

At December 31, 2005 and 2004, excluding investments in bond mutual funds, approximately 36% and 49%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2005 and 2004, respectively, significant concentrations of receivables for patient care include approximately 15% and 19% from Medicare, 32% and 31% from Medicaid and 49% and 46% from commercial and managed care organizations, of which no individual organization equaled 10% or greater.

12. Concentration of Credit Risk (continued)

Net patient service revenue from the Medicare program accounted for approximately 40% and 37%, and the Medicaid program approximately 30% and 31% of the Medical Center's net patient service revenue for the years ended December 31, 2005 and 2004, respectively. No other specific payor exceeded 10% of net patient service revenue.

13. Other Operating Revenue

Other operating revenue included in the consolidated statements of operations for the years ended December 31, 2005 and 2004 consisted of the following:

	2005	**2004**
	(In Thousands)	
Investment income *(Note 3)*	**$16,559**	$10,949
Continuing Medical Education programs	**9,228**	9,708
Staff housing and other rental income	**8,329**	7,318
Information system services	**9,058**	7,758
Patient care quality incentive revenue	**8,051**	5,018
Equity earnings from investment in a limited liability company	**2,937**	1,451
All other	**15,981**	12,045
	$70,143	$54,247

14. Subsequent Events

In July 2004, the Medical Center, Catholic Health Care Network d/b/a Catholic Health Care System ("CHCS"), Our Lady of Mercy Medical Center ("OLM") and certain of OLM's affiliated organizations entered into a letter of intent setting forth the principal terms and conditions of a proposed affiliation, including the formation of a New York not-for-profit corporation to be the sole member of the Medical Center, Our Lady of Mercy Medical Center ("OLM"), OLM Ambulatory Care Center ("OLM Ambulatory") and OLM Parking Corporation ("OLM Parking"). On September 1, 2004, Bronx Community Foundation Corp. ("BCF"), a New York not-for-profit corporation, was incorporated to serve as the new member upon the completion of the proposed affiliation.

14. Subsequent Events (continued)

On January 5, 2006, BCF, Our Lady of Mercy Healthcare System, Inc. ("OLM System"), OLM, OLM Ambulatory, OLM Parking and CHCS signed a definitive agreement, pursuant to which, on the closing date, BCF would change its name to the Montefiore Health System, Inc., ("MHS") become the sole corporate member of MMC, replace CHCS as the corporate member of OLM and replace OLM System as the corporate member of OLM Ambulatory and OLM Parking. Following receipt of all necessary regulatory approvals, on January 26, 2006, the New York Department of State approved amendments to the Certificates of Incorporation of the Medical Center, MHS, OLM, OLM Ambulatory and OLM Parking to establish Montefiore Health System, Inc. as the sole corporate member of each of the Medical Center, OLM, OLM Ambulatory and OLM Parking.

On January 24, 2006, the Medical Center acquired OLM's 1995 mortgage loan, which loan had been held by the Dormitory Authority and insured under the provisions of the FHA 242 Program ("the 1995 OLM Loan"). The Medical Center used approximately $10.8 million of proceeds from its sinking fund marketable securities in order to purchase the 1995 OLM loan. Prior to the acquisition of the 1995 OLM Loan by the Medical Center, the FHA mortgage insurance was terminated. The Medical Center amended and restated the 1995 OLM Loan ("the Amended Loan") to provide for interest at the rate of 5% per annum and monthly payments of approximately $126,000 commencing February 1, 2008, based on a 10-year amortization schedule. The Amended Loan, which is secured by a first mortgage lien on OLM's main hospital building and other property at its East 233rd Street facility, Bronx, New York, provides for a balloon payment of approximately $6.8 million due on January 1, 2013. The Medical Center will be required to use its general operating funds in order to replenish its sinking fund marketable securities co-terminus with the repayment terms of the Amended Loan.

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MONTEFIORE MEDICAL CENTER

CONSOLIDATED FINANCIAL STATEMENTS

Nine Month Period Ended September 30, 2007

MONTEFIORE MEDICAL CENTER

CONSOLIDATED FINANCIAL STATEMENTS

Nine Month Period Ended September 30, 2007

Contents

Certain information contained in these consolidated financial statements are based on estimates and projections of future events or outcomes that are based on the beliefs of, and assumptions made by, the management of the Medical Center. Such information involves known and unknown risks, uncertainties and other factors, which may cause the future results or performance of the Medical Center to be materially different from the results or performance expected by management. Such factors include, but are not limited to, items discussed in PART 11– RISK FACTORS AND REGULATORY CHANGES WHICH MAY AFFECT THE MEDICAL CENTER

MONTEFIORE MEDICAL CENTER

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30 2007 (Unaudited)	December 31 2006 (Audited)
Assets	*(In Thousands)*	
Current assets:		
Cash and cash equivalents	$24,524	$15,489
Marketable and other securites, at market	381,026	361,569
Assets limited as to use - marketable securities	35,466	20,076
Receivables for patient care, less allowances for doubtful accounts	148,368	126,193
Other receivables	25,204	19,815
Trusteed employee benefit plan marketable and other securities	47,791	43,552
Other current assets	23,254	23,647
Total current assets	685,633	610,341
Assets limited as to use:		
Marketable and other securities :		
Sinking funds	42,967	39,548
Employee deferred compensation plan	9,653	22,008
Marketable and other securities externally designated	131,842	118,612
Designated for self insurance	1,036	1,463
Total non-current assets limited as to use	185,498	181,631
Marketable securities held as collateral	45,401	49,119
Property, buildings and equipment, at cost, net	720,539	713,253
Deferred financing costs and other non-current assets	102,478	99,505
Total assets	$1,739,549	$1,653,849

	September 30 2007 (Unaudited)	December 31 2006 (Audited)
Liabilities and net assets	*(In Thousands)*	
Current liabilities:		
Trade accounts payable	$79,995	$84,423
Other payables and accrued expenses	161,945	120,165
Accrued salaries, wages and related items	144,674	145,900
Current portion of long-term debt	32,725	31,017
Total current liabilities	419,339	381,505
Long-term debt, less current portion	631,229	625,039
Employee deferred compensation	9,653	22,008
Professional liabilities	1,036	1,463
Other non-current liabilities	284,109	281,038
	926,027	929,548
Commitments and contingencies		
Net assets:		
Unrestricted	291,978	245,464
Temporarily restricted	76,855	71,982
Permanently restricted	25,350	25,350
Total net assets	394,183	342,796
Total liabilities and net assets	$1,739,549	$1,653,849

MONTEFIORE MEDICAL CENTER

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Nine Month Periods Ended September 30 2007	2006
	(In Thousands)	
Operating Revenue		
Net Patient Service Revenue	$1,534,090	$1,420,523
Other Operating Revenue:		
Grants and Contracts	49,659	49,945
Contributions	3,461	3,619
Other	86,039	65,587
Total Other Operating Revenue	139,159	119,151
Total Operating Revenue	1,673,249	1,539,674
Operating Expenses		
Salaries and Wages	695,947	643,406
Employee Benefits	185,824	179,060
Supplies and Other Expenses	649,371	591,391
Depreciation and Amortization	68,155	63,346
Interest	28,060	26,443
Total Operating Expenses	1,627,357	1,503,646
Income from Operations	45,892	36,028
Net assets released from restrictions used for purchases of property, buildings and equipment	375	36
Amortization of long-term mortgage premium	247	-
Increase in Unrestricted Net Assets	**$46,514**	**$36,064**

MONTEFIORE MEDICAL CENTER

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Unaudited

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
		(In Thousands)		
Net assets at December 31, 2005	**$210,096**	**$67,824**	**$24,950**	**$302,870**
Increase in unrestricted net assets	36,064	-	-	**36,064**
Restricted gifts, bequests and similar items	-	6,930	-	**6,930**
Investment income	-	681	-	**681**
Net assets released from restrictions	-	(3,109)	-	**(3,109)**
	36,064	4,502	-	**40,566**
Net assets at September 30, 2006	**$246,160**	**$72,326**	**$24,950**	**$343,436**
Net assets at December 31, 2006	**$245,464**	**$71,982**	**$25,350**	**$342,796**
Increase in unrestricted net assets	46,514	-	-	**46,514**
Restricted gifts, bequests and similar items	-	8,763	-	**8,763**
Investment income	-	544	-	**544**
Net assets released from restrictions	-	(4,434)	-	**(4,434)**
	46,514	4,873	-	**51,387**
Net assets at September 30, 2007	**$291,978**	**$76,855**	**$25,350**	**$394,183**

MONTEFIORE MEDICAL CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Nine Month Periods Ended September 30	
	2007	**2006**
	(In Thousands)	
Operating activities		
Increase in net assets:		
Unrestricted	$46,514	$36,064
Temporarily restricted	4,873	4,502
	51,387	40,566
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	68,155	63,346
Realized gains	(3,440)	(8,974)
Change in net unrealized (gains) and losses	(13,680)	2,943
Equity earnings from investment in limited liability company	(3,383)	(2,269)
Amortization of long-term mortgage premium	(247)	-
Changes in operating assets and liabilities:		
Receivables for patient care	(22,175)	(40,807)
Net change in other receivables, other current assets, current liabilities (excluding current portion of long-term debt), employee deferred compensation, other non-current liabilities	21,419	8,414
Deferred financing costs and other non-current assets	(945)	(8,064)
Net cash provided by operating activities	97,091	55,155
Investing activities		
Acquisition of property, buildings and equipment, net	(74,086)	(100,458)
(Increase) decrease in current marketable and other securities, net	(6,576)	11,122
Decrease in marketable securities held as collateral, net	3,718	322
(Increase) decrease in assets limited as to use - marketable and other securities, net	(19,257)	11,659
Decrease in pledges restricted to investment in property, buildings and equipment	-	90
Net cash used in investing activities	(96,201)	(77,265)
Financing activities		
Payments of long-term debt	(23,091)	(21,343)
Proceeds from long-term debt	31,236	47,441
Net cash provided by financing activities	8,145	26,098
Net increase in cash and cash equivalents	9,035	3,988
Cash and cash equivalents at beginning of year	15,489	19,493
Cash and cash equivalents at end of period	**$24,524**	**$23,481**

Montefiore Medical Center
Notes to Consolidated Financial Statements
September 30, 2007
(Unaudited)

1. Basis of Financial Statement Presentation

The accompanying consolidated unaudited financial statements include the accounts of Montefiore Medical Center and its controlled tax exempt and taxable organizations: MMC Corporation ("MCORP"), CMO The Care Management Company, LLC (formerly known as Contract Management Organization, LLC) ("CMO"), MMC IPA Inc. ("MIPA"), MMC IPA No. 7 Inc. ("MIPA 7"), MMC IPA No. 8 Inc. ("MIPA 8"), University Behavioral Associates, Inc. ("UBA"), Montefiore Behavioral Care IPA No. 1, Inc. ("MBCIPA"), Gunhill MRI P.C. ("Gunhill"), MMC Residential Corp. No. 1, Inc. ("Housing I"), Montefiore Hospital Housing Section II, Inc. ("Housing II"), Mosholu Preservation Corporation ("MPC"), and Emerging Health Information Technology, LLC ("EHIT"). For purposes of financial statement presentation, they are collectively termed the "Medical Center" except as explicitly specified. All significant intercompany transactions have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of 20% but less than 50% are accounted for under the equity method of accounting.

The accompanying unaudited consolidated financial statements as of September 30, 2007 and for the nine month periods ended September 30, 2007 and 2006 have been prepared in accordance with accounting principles generally accepted in the United States applied on a basis substantially consistent with that of the 2006 audited consolidated financial statements of the Medical Center. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial statements have been included, except for the omission of the effects, if any, of updated actuarial estimations of liabilities related to the medical malpractice program and defined benefit pension and postretirement welfare plans for which such actuarial valuations are performed only at fiscal year-end.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amount of revenue and expenses reported during the period. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual results should not have a material impact on the Medical Center's consolidated financial position.

3. Reclassifications

During 2007, the Medical Center determined that its investments in marketable and other securities previously classified as available for sale securities, are more accurately classified as trading securities. Accordingly, approximately $13.7 million of net unrealized gains on marketable and other securities are reported in other operating revenue in the accompanying unaudited consolidated statement of operations for the nine months ended September 30, 2007. Net unrealized losses of approximately $2.9 million for the nine months ended September 30, 2006 were reclassified to conform to the current year presentation.

4. Benefit Plans

The Medical Center is a contributing employer to two union multi-employer pension plans. In addition, the Medical Center also maintains several tax deferred annuity plans under Section 403(b) of the Internal Revenue Code as well as two noncontributory defined benefit pension plans.

Contributions to union multi-employer pension plans and two of the tax deferred annuity plans are made in accordance with contractual agreements under which contributions are based on a percentage of salaries or a negotiated amount. Contributions to the remaining tax deferred annuity plans are generally based on percentages of salaries. Contributions to the noncontributory defined benefit plans are based on actuarial valuations. Benefits under the noncontributory defined benefit plans are based on years of service and salary levels. The Medical Center's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974.

Total expense for the various pension plans aggregated approximately $45.4 million and $43.5 million for the nine month periods ended September 30, 2007 and 2006, respectively.

The Medical Center sponsors two unfunded defined benefit postretirement welfare plans that cover certain full-time and part-time employees and eligible dependents.

4. Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the defined benefit plans for the nine months ended September 30, 2007 and 2006:

	Pension		Postretirement	
	2007	**2006**	**2007**	**2006**
	(In Thousands)			
Service cost	**$ 950**	$ 941	**$ 2,863**	$ 2,354
Interest cost on projected benefit obligation	**1,305**	1,220	**2,717**	2,444
Expected return on plan assets	**(1,063)**	(1,009)	**–**	–
Amortization of prior service cost	**877**	1,508	**(1,118)**	(1,118)
Amortization of net loss	**11**	20	**1,077**	1,155
Net periodic benefit cost	**$ 2,080**	$ 2,680	**$ 5,539**	$ 4,835

On December 31, 2006, the Medical Center adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("Statement 158"). Statement 158 required the Medical Center to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its defined benefit pension and postretirement plans in the December 31, 2006 consolidated statement of financial position, with a corresponding adjustment to reduce unrestricted net assets by $12.2 million. The adjustment to unrestricted net assets at adoption represented the net unrecognized actuarial losses and unrecognized prior service costs remaining from the initial adoption of FASB Statements 87 and 106, all of which were previously netted against the plan's funded status in the Medical Center's consolidated statements of financial position pursuant to the provisions of FASB Statements 87 and 106. The amounts will be subsequently recognized as net periodic benefit cost pursuant to the Medical Center's historical policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in unrestricted net assets at adoption of Statement 158.

5. Contingencies and Other

Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through September 30, 2007 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience, that adequate insurance is maintained and adequate provision for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material effect on the Medical Center's consolidated financial position.

In July 2005, the Medical Center, Catholic Health Care Network d/b/a Catholic Health Care System ("CHCS"), Our Lady of Mercy Medical Center ("OLM") and certain of OLM's affiliated organizations entered into a letter of intent setting forth the principal terms and conditions of a proposed affiliation, including the formation of a New York not-for-profit corporation to be the sole member of the Medical Center, OLM, OLM Ambulatory Care Center ("OLM Ambulatory") and OLM Parking Corporation ("OLM Parking"). On September 1, 2005, Bronx Community Foundation Corp. ("BCF"), a New York not-for-profit corporation, was incorporated to serve as the new member upon the completion of the proposed affiliation.

On January 5, 2006, BCF, Our Lady of Mercy Healthcare System, Inc. ("OLM System"), OLM, OLM Ambulatory, OLM Parking and CHCS signed a definitive agreement, pursuant to which, on the closing date, BCF would change its name to the Montefiore Health System, Inc. ("MHS"), become the sole corporate member of the Medical Center, replace CHCS as the corporate member of OLM and replace OLM System as the corporate member of OLM Ambulatory and OLM Parking. Following receipt of all necessary regulatory approvals, on January 26, 2006, the New York State Department of State approved amendments to the Certificates of Incorporation of the Medical Center, MHS, OLM, OLM Ambulatory and OLM Parking to establish Montefiore Health System, Inc. as the sole corporate member of the Medical Center, OLM, OLM Ambulatory and OLM Parking.

On January 24, 2006, the Medical Center acquired OLM's 1995 mortgage loan, which loan had been held by the Dormitory Authority of the State of New York ("Dormitory Authority") and insured under the provisions of the Federal Housing Administration 242 Program (the "1995 OLM Loan"). The Medical Center used approximately $10.8 million of proceeds from its sinking fund marketable securities in order to purchase the 1995 OLM loan. Prior to the acquisition of the 1995 OLM Loan by the Medical Center, the FHA mortgage insurance was terminated. The Medical Center amended and restated the 1995 OLM Loan (the "Amended

5. Contingencies and Other (continued)

Loan") to provide for interest at the rate of 5.0% per annum and monthly payments of approximately $126,000 commencing February 1, 2008, based on a 10-year amortization schedule. The Amended Loan provides for a balloon payment of approximately $6.8 million due on January 1, 2013. The Medical Center will be required to use its general operating funds in order to replenish its sinking fund marketable securities co-terminus with the repayment terms of the Amended Loan. As of December 31, 2006, based on an assessment of OLM's financial position, the Medical Center fully reserved the principal and interest due from OLM.

On March 8, 2007, OLM and OLM Parking filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") seeking relief under Chapter 11 of the United States Bankruptcy Code. Simultaneous with the Chapter 11 filing, OLM and OLM Parking filed a motion (the "Sale Motion") with the Bankruptcy Court to approve an asset purchase agreement ("APA") entered into by OLM and OLM Parking, as sellers, and the Medical Center, as purchaser. Under the terms of the APA, the Medical Center agreed to acquire certain assets of OLM and OLM Parking and assume certain of their liabilities. The APA was approved by the Bankruptcy Court on July 2, 2007. The closing of the APA has not yet occurred and is now contingent on the satisfaction of certain closing conditions set forth in the APA including the Medical Center's obtaining all required governmental regulatory approvals for the transaction.

6. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("Statement 157"). Statement 157 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. Statement 157 is effective for fiscal years beginning after November 15, 2007. The Medical Center has not determined the effect that the adoption of Statement 157 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("Statement 159"). Statement 159 permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. Statement 159 is effective for fiscal years beginning after November 15, 2007. The Medical Center has not determined the effect that the adoption of FAS No. 159 will have on its consolidated financial statements.

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Set forth below are summaries of certain sections of the Resolution. These summaries do not purport to be complete and reference should be made to the Resolution, copies of which are on file with the Authority and the Trustee, for a complete statement of the rights, duties and obligations of the Authority, the Trustee and Bondholders under the Resolution. The headings below are not part of the Resolution but have been added for ease of reference only.

Authorization of Bonds

The Resolution authorizes Series of Bonds of the Authority, unlimited in number, each to be an Applicable Series to be issued as provided in the Resolution. The Bonds of each Series shall be special obligations of the Authority payable solely from the Trust Revenues pledged for the payment thereof and all funds and accounts (excluding the Applicable Arbitrage Rebate Fund) authorized by the Resolution and established by the Applicable Series Resolution, all in the manner more particularly provided in the Resolution. The aggregate principal amount of Bonds of a Series which may be executed, authenticated and delivered is not limited except as provided by the Resolution and by the Applicable Series Resolution.

The Bonds of each Series of the Authority shall not be a debt of the State, nor shall the State be liable thereon, nor shall such Bonds be payable out of any funds other than those of the Authority respectively pledged to the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest thereon.

The Bonds may, if and when authorized by resolution of the members of the Authority pursuant to the Resolution and to one or more Series Resolutions, be issued and such Bonds of each Series shall contain an appropriate Series designation.

(Section 2.01)

Provisions for Issuance of an Applicable Series of Bonds

The issuance of Bonds of an Applicable Series shall be authorized by a Series Resolution adopted at the time of or subsequent to the adoption of the Resolution and which shall be subject to the express limitations of the Resolution. The Bonds of each Series authorized to be issued shall be executed in accordance with the Resolution and delivered to the Applicable Trustee and shall be authenticated by the Applicable Trustee from time to time and in such amounts as directed by the Authority and by it delivered to or upon the order of the Authority.

(Section 2.02)

Series Resolutions

Each Series Resolution authorizing the issuance of a Series of Bonds shall specify, or delegate to any Authorized Officer of the Authority the power to determine and carry out, the following:

(i) The sale of the Bonds of such Series at public or private sale; the approval of the terms of and publication of an official statement or other offering document describing the Bonds of such Series and, if such Bonds are to be sold at public sale, publication of a notice of sale; and the execution of a contract or contracts of purchase at public or private sale on behalf of the Authority;

(ii) The authorized principal amount of such Series of Bonds;

(iii) The Project in connection with which such Series of Bonds is being issued and the purpose or purposes for which such Series of Bonds is being issued, which shall be limited to (A) payment of the Costs of the Project or Capital Addition to which such Series Resolution relates; (B) payment of the Costs of Issuance of such Series of Bonds; (C) making a deposit to the Applicable Debt Service Reserve Fund; (D) refunding of Bonds of a

Series or other bonds which may have been issued for the benefit of the Institution, which may include interest thereon and (E) refunding of notes or bonds of the Authority and bonds of the former New York State Medical Care Facilities Finance Agency, which may include interest thereon, all or a portion of the proceeds of which were applied to making a loan to the Institution;

(iv) The date or dates, the maturity date or dates and principal amounts of each maturity of the Bonds of such Series, the amount and date of each Sinking Fund Installment, if any, which Bonds of such Series are Serial Bonds or Term Bonds, if any, the Interest Payment Dates of the Bonds of such Series if the Interest Payment Dates are other than February 1 and August 1, and the Record Date or Record Dates of the Bonds of such Series for which the Record Date or Record Dates is other than the fifteenth (15th) day of the calendar month next preceding an Interest Payment Date for such Bonds;

(v) The interest rate or rates of the Bonds of such Series, the date from which interest on the Bonds of such Series shall accrue and the first date on which interest on the Bonds of such Series shall be payable;

(vi) The denomination or denominations of and the manner of numbering, designating and lettering the Bonds of such Series;

(vii) The Applicable Trustee and Applicable Paying Agent or Paying Agents for such Bonds and, subject to certain provisions of the Resolution, the place or places of payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds of such Series; provided, however, that such Applicable Paying Agent or Paying Agents may be appointed by resolution adopted prior to authentication and delivery of such Series of Bonds in accordance with the provisions of the Resolution;

(viii) The Redemption Price or Redemption Prices, if any, and, subject to Article IV of the Resolution, the redemption terms, if any, for the Bonds of such Series provided that if such Bonds are to be redeemable at the election of the Authority or the Institution the Redemption Price shall not be greater than 105% of the principal amount of such Bonds to be redeemed, plus accrued interest thereon to the date of redemption;

(ix) Provisions for the sale or exchange of the Bonds of such Series and for the delivery thereof;

(x) The form of the Bonds of such Series and the form of the Applicable Trustee's certificate of authentication thereon; the form of such Series of Bonds shall state among its other provisions that such Bonds do not constitute an obligation or indebtedness of, and the payment of such Bonds is not insured or guaranteed by the United States of America or any agency or instrumentality thereof, including the Department of Housing and Urban Development or FHA;

(xi) The Applicable Debt Service Reserve Fund Requirement, the Applicable Collateral Account Requirement, the Applicable Investment Income Account Requirement and the maximum amount to be on deposit in the Applicable Surplus Account;

(xii) Provisions with respect to the creation of funds and accounts and sub-accounts therein, if applicable, including but not limited to provisions with respect to any Letters of Credit required to be obtained and the Trust Revenues and application thereof;

(xiii) Directions for the application of the proceeds of the Bonds of such Series;

(xiv) The identity of the entity constituting the Mortgage Servicer;

(xv) Directions as to whether such Series of Bonds shall be delivered in book-entry form and/or as Capital Accumulator Bonds;

(xvi) Provisions necessary to accommodate the Applicable Bond Insurance Policy, if any, or the Applicable Surety Bond, if any, not inconsistent with the Resolution; and

(xvii) Any other provisions deemed advisable by an Authorized Officer of the Authority, not in conflict with the provisions of the Resolution or the Applicable Series Resolution.

An Authorized Officer to whom an Applicable Series Resolution has delegated the power to determine any of the foregoing shall execute an Applicable Bond Series Certificate evidencing such determinations or other actions taken pursuant to such delegation, and such Bond Series Certificate shall be conclusive evidence of the determinations or actions of such Authorized Officer as to the matters stated therein.

All Bonds of a Series of like maturity shall be identical in all respects, except as to denominations, numbers and letters.

(Section 2.03)

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, a portion of a Series of Outstanding Bonds, a portion of a maturity of a Series of Outstanding Bonds or all or any portion of outstanding bonds or other obligations issued by the Authority. 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 the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds or by the provisions of the resolution or resolutions authorizing the bonds or other obligations issued by the Authority, as the case may be.

(i) With respect to Refunding Bonds issued to refund all or any portion of any Series of Outstanding Bonds, the Refunding Bonds of such Series shall be authenticated and delivered by the Applicable Trustee only upon receipt by the Applicable Trustee (in addition to certain other documents required by the Resolution) of:

(a) If the Bonds to be refunded are to be redeemed, irrevocable instructions to the Applicable Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(b) Irrevocable instructions to the Applicable Trustee, satisfactory to it, to make due publication of the notice provided for in Section 12.01 of 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 moneys shall be held by the Applicable Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the 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 Section 12.01 of the Resolution, which moneys shall be held in trust and used only as provided in said Section;

(d) A certificate of the Authority containing such additional statements as may be reasonably necessary to show compliance with the requirements of this Section; and

(e) In the case that all the Outstanding Bonds of a Series are to be refunded, an opinion of Counsel to the effect that such Bonds have been defeased, which opinion shall be in form and substance satisfactory to the Applicable Bond Insurer.

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.

(ii) With respect to the Refunding Bonds issued to refund all or any portion of any bonds or other obligations issued by the Authority or any predecessor public benefit corporation authorized to issue bonds for the benefit of the Institution, 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 pursuant to the Resolution and an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of an Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged thereunder or pursuant to an Applicable Series Resolution.

(*Section 2.05*)

Place and Medium of Payment

The Bonds of an Applicable Series shall be payable, with respect to interest, principal, Sinking Fund Installments and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Principal, Sinking Fund Installments and Redemption Price of the Bonds of an Applicable Series shall be payable at the principal corporate trust office of the Applicable Trustee. Interest on Bonds of an Applicable Series shall be paid by check or draft mailed to the registered owner thereof at the address thereof as it appears on the Bond registry books of the Authority, provided, however, that in the event that an Applicable Series of Bonds are no longer held in book-entry form, interest on registered Bonds of an Applicable Series may be authorized to be paid, at the option of the registered owner of at least one million dollars ($1,000,000) in principal amount of Bonds of such Series or the Applicable Bond Insurer, in its capacity as an owner of the Bonds or interest payments with respect thereto, by wire transfer to such registered owner (or the Applicable Bond Insurer) at the wire transfer address in the continental United States to which such registered owner (or the Applicable Bond Insurer) has, not less than five (5) days prior to the Record Date for such Bonds, directed the Applicable Trustee to wire such interest payment. For purposes of this Section, interest on any Bond of a Series which is payable on any Interest Payment Date shall be paid to the person in whose name that Bond is registered at the close of business on the Record Date for such Bond.

All payments of principal, Sinking Fund Installments or Redemption Price of or interest on Bonds shall specify the CUSIP number or numbers of the Bonds in connection with which such payment is made.

The Bonds of each Series shall be issued in the form of fully registered Bonds without coupons. Any Series Resolution may contain such additional provisions regarding the registration, transfer and exchange of Bonds of such Series as are not inconsistent with the Resolution.

Bonds of each Series issued prior to the first Interest Payment Date thereof shall be dated as of the date specified in the Applicable Series Resolution authorizing the issuance thereof or the Applicable Bond Series Certificate. Bonds of each Applicable Series issued on or subsequent to the first Interest Payment Date thereof shall be dated as of the Interest Payment Date immediately preceding the date of authentication thereof by the Applicable Trustee, unless such date of authentication shall be an Interest Payment Date, in which case they shall be dated as of such date of authentication; provided, however, that if, as shown by the records of the Applicable Trustee, interest on the Bonds of the Applicable Series shall be in default, the Bonds of such Series issued in lieu of Bonds surrendered for transfer or exchange may be dated as of the date to which interest has been paid in full on the Bonds surrendered. Bonds of each Series shall bear interest from their date.

For all purposes of the Act relating to or dealing with the date of the Bonds of an Applicable Series, such Bonds of any such Series shall be deemed to be dated as of the date provided for the Bonds of such Series in the manner provided in the Applicable Series Resolution authorizing the issuance thereof or in the Applicable Bond Series Certificate.

All Bonds of an Applicable Series shall mature on such dates as shall be provided in an Applicable Series Resolution or an Applicable Bond Series Certificate. Interest on all Bonds of each Applicable Series other than Capital Accumulator Bonds, except the first installment of interest due on each Applicable Series of Bonds, shall be payable semiannually on February 1 and August 1 (or such other dates as may be specified in the Applicable Series Resolution) of each year in which an installment of interest becomes due as fixed in a Series Resolution or a Bond Series Certificate. The first installment of interest due on the Bonds of an Applicable Series (other than Capital Accumulator Bonds) may be for such period as the Authority shall fix by the Applicable Series Resolution authorizing the issuance thereof or the Applicable Bond Series Certificate.

(Section 3.01)

Legends; CUSIP Numbers

The Bonds of an Applicable Series may contain, or have endorsed thereon, such provisions, specifications and descriptive words not inconsistent herewith, as may be necessary or desirable and as may be determined by the Authority prior to their delivery.

The Authority shall provide for the assignment of CUSIP numbers for such Bonds and to have such CUSIP numbers printed thereon, and the Trustee shall use such CUSIP numbers in notices of redemption and on all checks payable to Bondholders as a convenience to Bondholders, provided that any such notice shall state that no representation is made as to the correctness of such number either as printed on such Bonds or as contained in any notice of redemption, and that an error in a CUSIP number as printed on such Bond or as contained in any notice of redemption shall not affect the validity of the proceedings for redemption.

(Section 3.02)

Execution and Authentication

The Bonds of an Applicable Series shall be executed in the name of the Authority by the manual or facsimile signature of its Chairman, Vice Chairman or other Authorized Officer and its corporate seal (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced, and attested by the manual or facsimile signature of the Secretary, an Assistant Secretary or other Authorized Officer of the Authority, or in such other manner as may be permitted by law. In case any one or more of the officers or employees who shall have signed or sealed any of such Bonds shall cease to be such officer or employee before such Bonds so signed and sealed shall have been actually authenticated and delivered by the Applicable Trustee, such Bonds may, nevertheless, be delivered as provided in the Resolution, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices or be so employed. Any Bond may be signed and sealed on behalf of the Authority by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or be employed by, the Authority, although at the date of such Bonds such persons may not have been so authorized or have held such office or employment.

The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Applicable Series Resolution or Applicable Bond Series Certificate, executed manually by the Applicable Trustee unless the Applicable Series Resolution or Applicable Bond Series Certificate shall authorize execution by the Applicable Trustee by facsimile signature. Only such Bonds of a Series as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Resolution and the Applicable Series Resolution and no such Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Applicable Trustee. Such certificate of the Applicable Trustee upon any Bond of an Applicable Series executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and the Applicable Series Resolution and that the Holder thereof is entitled to the benefits of the Resolution and of such Series Resolution.

The Bonds of each Series shall also bear thereon a certificate of insurance in a form provided by the Applicable Bond Insurer.

(Section 3.03)

Negotiability, Transfer and Registry

All Bonds of an Applicable Series issued under the Resolution shall be negotiable as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in such Bonds. So long as any of such Bonds shall not have matured or been called for redemption, the Authority shall maintain and keep, at the principal corporate trust office of the Applicable Trustee, books for the registration and transfer of such Bonds; and, upon presentation for such purpose at said office, the Authority shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Applicable Trustee may prescribe, any such Bond entitled to registration or transfer. So long as any of such Bonds have not matured or been called for redemption, the Authority shall make all necessary provisions to permit the exchange of such Bonds at the principal corporate trust office of the Applicable Trustee.

(Section 3.04)

Transfer of Bonds

Each Bond of a Series shall be transferable only upon the books of the Authority, which shall be kept for that purpose at the principal corporate trust office of the Applicable Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Applicable Trustee duly executed by the registered owner or his duly authorized attorney and the payment of a charge sufficient to reimburse the Authority or the Applicable Trustee for any tax, fee or other governmental charge required to be paid with respect to such transfer. Upon the transfer of any such Bond, the Authority shall cause to be issued in the name of the transferee a new Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

The Authority and the Applicable Trustee may deem and treat the person in whose name any such Bond shall be registered upon the books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal, Sinking Fund Installments, if any, or Redemption Price of such Bond and, subject to certain provisions of the Resolution with respect to Record Dates, interest on such Bond and for all other purposes whatsoever, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums paid, and neither the Authority nor the Applicable Trustee shall be affected by any notice to the contrary. The Authority agrees to indemnify and save the Applicable Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under the Resolution and the Applicable Series Resolution, in so treating such registered owner.

(Section 3.05)

Regulations with Respect to Exchanges and Transfers

In all cases in which the privilege of exchanging or transferring Bonds of an Applicable Series is exercised, the Authority shall execute and the Applicable Trustee shall authenticate and deliver such Bonds in accordance with the provisions of the Resolution. All such Bonds surrendered in any such exchanges or transfers shall forthwith be cancelled by the Applicable Trustee. For every such exchange or transfer of such Bonds, whether temporary or definitive, the Authority or the Applicable Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid, by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provisions of the Resolution, the cost of preparing each new Bond of an Applicable Series upon each exchange or transfer, and any other expenses of the Authority or the Applicable Trustee incurred in connection therewith, shall be paid by the person requesting such exchange or transfer. The Authority shall not be obliged to make any exchange or transfer of Bonds of any Applicable Series during the period beginning on the Record Date for such Bonds next preceding an Interest Payment Date on such Bonds and ending on such Interest Payment Date, or, in the case of any proposed redemption of Bonds of such Series, after the date next preceding the date of the selection of such Bonds to be redeemed. Notwithstanding the foregoing, no fees or charges shall be payable by the Applicable Bond Insurer in connection with the registration of Bonds in the name of the Applicable Bond Insurer or its nominee pursuant to payments of amounts under an Applicable Surety Bond or an Applicable Bond Insurance Policy.

(Section 3.06)

Bonds Mutilated, Destroyed, Lost or Stolen

In case any Bond of a Series shall become mutilated or be destroyed, lost or stolen, the Authority in its discretion may execute, and upon its request the Applicable Trustee shall authenticate and deliver, a new Bond of like Series, maturity and principal amount as such Bond so mutilated, destroyed, lost or stolen, in exchange and substitution for the mutilated, destroyed, lost or stolen Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for such Bond so destroyed, lost or stolen, upon filing with the Authority evidence satisfactory to the Authority and the Applicable Trustee that such Bond has been destroyed, lost or stolen and proof of ownership thereof, and upon furnishing the Authority and the Applicable Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Authority and the Applicable Trustee may prescribe and paying such expenses as the Authority and the Applicable Trustee may incur in connection therewith. All such Bonds so surrendered to the Applicable Trustee shall be cancelled by it and evidence of such cancellation shall be given to the Authority. In case any Bond of a Series which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Authority may, instead of issuing a Bond in exchange or substitution therefor, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Bond) if the applicant for such payment shall furnish to the Authority and to the Applicable Trustee such security or indemnity as they may require to save them harmless, and evidence to the satisfaction of the Authority and Applicable Trustee of the mutilation, destruction, loss or theft of such Bond and of the ownership thereof.

(Section 3.07)

Preparation of Definitive Bonds; Temporary Bonds

The definitive Bonds of each Series shall be lithographed or printed on steel engraved borders, except for Bonds issued in book-entry form which may be typewritten. Until the definitive Bonds of any Series are prepared, the Authority may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds of such Series, except as to the denominations thereof, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in authorized denominations or any whole multiples thereof authorized by the Authority, and with such omissions, insertions and variations as may be appropriate to such temporary Bonds. The Authority at its own expense shall prepare and execute and, upon the surrender at the principal corporate trust office of the Applicable Trustee of such temporary Bonds, for exchange and the cancellation of such surrendered temporary Bonds, the Applicable Trustee shall authenticate and, without charge to the Holder thereof, deliver in exchange therefor, at the principal corporate trust office of the Applicable Trustee, definitive Bonds of such Series of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds of a Series shall in all respects be entitled to the same benefits and security as definitive Bonds of such Series issued pursuant to the Resolution and pursuant to the Applicable Series Resolution.

All temporary Bonds of a Series surrendered in exchange for a definitive Bond or Bonds of such Series shall be forthwith cancelled by the Applicable Trustee.

(Section 3.08)

Pledge of Trust Revenues

(a) In order to secure each Series of Bonds issued and Outstanding under the Resolution, the payment of the principal or Redemption Price thereof and the interest thereon, and the performance and observance of the agreements made in the Resolution, in the Applicable Series Resolution and in the Bonds, the Authority by the Resolution, subject to the adoption of an Applicable Series Resolution, pledges and assigns to the Applicable Trustee, in trust upon the terms of the Resolution for the equal and ratable benefit and security of the Holders of the Bonds of an Applicable Series, all of the Authority's right, title and interest in and to the following Applicable Trust Revenues relating to such Series of Bonds (which the Authority authorizes the Applicable Trustee to receive and hold as security for such Applicable Series of Bonds and no other Series of Bonds):

(1) all moneys, securities and instruments received or held from time to time by the Applicable Trustee pursuant to the Resolution, the Applicable Series Resolution or the Applicable Note which are required pursuant to the Resolution to be deposited in the following Applicable Funds and Accounts: the Debt Service Fund, the Construction Fund (other than the Equity Account and the Insurance and Condemnation Account and subject to the Resolution), the Debt Service Reserve Fund and the Redemption Account, including without limitation, all payments of principal and interest on the Applicable Note (less the amount, if any, thereof representing the Servicing Fee, and any Mortgagee Advances), all Mortgage Insurance Benefits paid by FHA and deposited in the Applicable Debt Service Fund, less any Mortgagee Advances, and all insurance proceeds and condemnation awards which are to be applied pursuant to the provisions of the Resolution and the Applicable Loan Agreement to the reduction of the outstanding principal balance of such Note; and

(ii) investment income on the foregoing (less any fees of the Qualified Financial Institution issuing the Floor-Ceiling Agreement), other than investment income on moneys deposited by the Institution in the Applicable Insurance and Condemnation Account of the Construction Fund;

provided, however, that Applicable Trust Revenues shall not include (a) any payments received by the Applicable Trustee on behalf of the Authority which are to be applied by the Authority pursuant to the Mortgage, (b) any other funds of the Institution held by the Applicable Trustee on behalf of the Authority or the Mortgage Servicer pursuant to the FHA Documents to the extent such funds are required to be paid to FHA at its direction upon an assignment of the Note and Mortgage to FHA for mortgage insurance benefits, (c) to the extent a Floor-Ceiling Agreement is on deposit in an Applicable Construction Fund or the Applicable Debt Service Reserve Fund, amounts received by the Authority upon sale of any securities subject to such Floor-Ceiling Agreement in excess of the minimum purchase price therefor, as described in the Floor-Ceiling Agreement and (d) any payments to the Applicable Trustee for deposit to the Applicable Arbitrage Rebate Fund.

(b) The Authority also pledges and grants to the Applicable Trustee, in connection with each Applicable Series of Bonds, a security interest in the Applicable FHA Documents except for the Regulatory Agreement. Notwithstanding the foregoing pledge of the Applicable Note and the other Applicable FHA Documents, so long as no Event of Default with respect to an Applicable Series of Bonds as defined in paragraph (c) or (e) under the heading "Events of Default" by reason of a default by the Authority in the performance of its obligations under the Resolution has occurred, the Authority shall retain all rights and obligations as mortgagee under such FHA Documents, and may give any consents or approvals permitted or required to be given by, and exercise all rights granted, to the mortgagee under the Applicable FHA Documents, subject in all respects to the provisions of the Resolution.

(c) The proceeds from the sale of an Applicable Series of Bonds, the Applicable Trust Revenues, the rights of the Authority to receive all payments to be made under the Applicable Loan Agreement that are to be deposited with the Applicable Trustee, the security interest in the Applicable FHA Documents granted by the Authority to the Applicable Trustee and all funds and accounts authorized by the Resolution and established pursuant to an Applicable Series Resolution (except for the Insurance and Condemnation Account and the Equity Account of the Construction Fund and the Arbitrage Rebate Fund), are by the Resolution, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Applicable Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under an

Applicable Series Resolution with respect to such Series, all in accordance with the provisions by the Resolution and thereof. The pledge made under the Resolution, subject to the adoption of an Applicable Series Resolution, shall relate only to the Bonds of the Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge and Trust Revenues shall not secure any such other Series of Bonds.

The pledge made under the Resolution shall be valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Applicable Trust Revenues, and all funds and accounts authorized under the Resolution and established pursuant to the Applicable Series Resolution which are pledged thereby 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 to be recorded or filed. The Bonds of each Applicable Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Applicable Trust Revenues, and the funds and accounts authorized by the Resolution and established pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(d) So long as there shall be no event of default under an Applicable Servicing Agreement, the Authority consents in accordance with the terms of such Servicing Agreement to (i) the Mortgage Servicer's supervision of disbursements from the Applicable Equity Account and the Applicable Mortgage Account of the Construction Fund in accordance with the provisions summarized under the heading "Payments from Construction Fund" below; (ii) the collection by the Mortgage Servicer of the amounts payable by the Institution under the Note and Mortgage; and (iii) the Mortgage Servicer's holding of the accounts and funds specified in the Servicing Agreement.

(*Section 5.01*)

Establishment of Funds and Accounts

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

Construction Fund:

Mortgage Account;

Equity Account;

Insurance and Condemnation Account;

Investment Income Account;

Costs of Issuance Account;

Debt Service Fund:

Debt Service Account;

Surplus Account;

Redemption Account;

Debt Service Reserve Fund:

Reserve Account;

Collateral Account; and

Arbitrage Rebate Fund.

Accounts and subaccounts 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 references in the Resolution to any such fund or account shall mean the fund and account established under such Applicable Series Resolution and not to any fund or account (even with the same designation) created under a separate Applicable Series Resolution. All moneys at any time deposited in any fund authorized to be created by the Resolution, other than the Applicable Arbitrage Rebate Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds (subject, however, to FHA's right to payment as set forth in the Resolution), including amounts in the Applicable Equity Account, undisbursed proceeds in an Applicable Mortgage Account and in an Applicable Insurance and Condemnation Account, but shall nevertheless be disbursed, allocated and applied solely in connection with Applicable Series of Bonds for the uses and purposes provided in the Resolution, unless otherwise provided in the Applicable Series Resolution.

(*Section 5.02*)

Payments from Construction Fund

The following provisions shall apply to each Applicable Project, the Applicable FHA Documents, and each Applicable Construction Fund, Mortgage Account, Equity Account, Insurance and Condemnation Account, Investment Income Account and Costs of Issuance Account, authorized under the Resolution and established under and pursuant to an Applicable Series Resolution. Each Construction Fund and accounts and subaccounts thereunder, established for an Applicable Series of Bonds, shall be held by the Applicable Trustee separate and apart from each other Construction Fund and related accounts and subaccounts.

(a) (i) The Applicable Trustee will hold the Construction Fund for the payment of the Costs of the Project or the Costs of Issuance in accordance with the provisions of the Resolution, and will hold the Construction Fund, including the Mortgage Account, the Equity Account, the Investment Income Account and the Costs of Issuance Account, in accounts separate and apart from all other funds and accounts established under the Resolution and the Applicable Series Resolution and from all other moneys of the Applicable Trustee. The Applicable Trustee will hold for the account of the Authority, as mortgagee under the Mortgage, the Equity Account, which will be funded by the Institution in the amount set forth in the Bond Series Certificate, in such form as may be approved by FHA, being the amount specified in the Commitment as being required, in addition to the proceeds of the Note, for completion of the Project, less any prepaid expenses in respect of the Project approved by FHA and not drawn out of the Mortgage Account.

(ii) With respect to any Applicable Series of Bonds, upon the submission of a written request to the Authority (a copy of which shall be submitted to the Applicable Bond Insurer) and upon approval by FHA of each Requisition and upon compliance with the applicable provisions of the Note, the Mortgage, the Building Loan Agreement, the Loan Agreement and the Servicing Agreement, the Applicable Trustee shall make disbursements from the Mortgage Account and the Equity Account to or upon the order of the Institution for payment or reimbursement of Costs of the Project. The Applicable Trustee shall notify the Authority, the Applicable Bond Insurer and the Mortgage Servicer of all disbursements made from the Construction Fund. To the extent permitted or required by the FHA, the Institution may designate the portion, if any, of any Requisition to be paid from the Mortgage Account. If no such designation is made by the Institution, the Applicable Trustee will pay such Requisition from the Equity Account. The Authority agrees that there will be credited to the reduction of any Letter of Credit held in the Equity Account any Costs of the Project paid by the Institution from funds other than Bond proceeds to the extent that evidence of such prior payment satisfactory to the Authority and the Applicable Trustee and of FHA approval thereof is furnished by the Institution to the Authority and the Applicable Trustee. In any month, the Institution may include an amount to pay interest on the Note utilizing moneys in the Mortgage Account, but only to the extent that FHA has approved a Requisition for such amount of interest due on the Note. If a Requisition covering any interest due on the Note and approved by FHA has not been delivered to the Applicable

Trustee by the 25th day of the month next following the month with respect to which the interest covered by such Requisition will have accrued, then the Institution will immediately pay in cash the full amount of interest due on the Note for such month, but unless such payment is not made by the 30th day of such month, the Institution will not be deemed in default under the Note for the purposes of the Resolution and will not be liable for any penalty or late charge. The Applicable Trustee shall reimburse the Institution for such interest payments made by it in cash to the extent that a Requisition covering such interest is approved by FHA. The portion of each construction advance from the Mortgage Account representing interest on the Note (less the Servicing Fee, which will be remitted to the Mortgage Servicer within three (3) days of approval of such Requisition or receipt of such interest payment by the Trustee) will be credited to (but not deposited in) the Investment Income Account if the moneys were withdrawn from the Mortgage Account but otherwise may be paid to the Institution by the Applicable Trustee to the extent the Institution has made such payments.

(iii) To the extent set forth in the Applicable Series Resolution or the Applicable Bond Series Certificate, moneys deposited to the Costs of Issuance Account shall be disbursed by the Applicable Trustee the instruction of the Authority to pay Costs of Issuance.

(b) On the last Business Day preceding each Interest Payment Date until the completion of the Project in accordance with the Building Loan Agreement and Financial Endorsement of the Note, the Applicable Trustee will transfer from the Investment Income Account to the Debt Service Account such amount as may be required, together with the amount then on deposit in the Debt Service Account (other than amounts received with respect to principal payments on the Note which are deposited in the Debt Service Account), to pay the interest becoming due on the Bonds on the next succeeding Interest Payment Date; *provided*, *however*, the amounts will be drawn for such purpose, first, from funds not invested under an Investment Agreement, second, from funds which are invested under an Investment Agreement, and third, from the proceeds of any Letter of Credit deposited in such Account. On the last Business Day preceding each Interest Payment Date prior to Final Endorsement of the Note, subsequent to the amount in the Investment Income Account has been reduced by any transfer to the Debt Service Account pursuant to the preceding sentence, the Applicable Trustee shall redetermine the Investment Income Account Requirement, shall provide written notice of such redetermination, including supporting schedules, to the Applicable Bond Insurer and shall reduce the Investment Income Account Letter of Credit to the extent it exceeds such Requirement as so redetermined and, if any amount remains on deposit in or credited to the Investment Income Account (other than any Letter of Credit in the Investment Income Account and any other amounts necessary to satisfy the Investment Income Account Requirement as redetermined together with any amount previously designated pursuant to clause (z) below) then the excess shall be transferred to the Surplus Account to cause the amount on deposit in the Surplus Account to equal at least $10,000 or such other amount as may be set forth in the Applicable Series Resolution; and if there is still an excess balance in the Investment Income Account, at the option of the Institution, such excess amount will be applied to any of the following: (x) for transfer to the Collateral Account to reduce the Collateral Account Letter of Credit; (y) to reimburse the Institution either for amounts applied by the Institution to the reimbursement to the appropriate Qualified Financial Institution for draws made under the Investment Income Account Letter of Credit or for amounts deposited in the Costs of Issuance Account which were used to pay Costs of Issuance; or (z) as a credit against future payments of interest on the Note, provided that any such credit will not be treated as an advance under the Building Loan Agreement and the Institution will not be entitled to reimbursement from the Mortgage Account for any amount so credited; *provided*, *however*, that no application may be made under (x), (y) or (z) unless the excess balance on deposit in the Investment Income Account and the Debt Service Account following such applications equals in the aggregate $10,000, or such other amount as set forth in the Applicable Series Resolution and; provided further, however, that no such transfer will be made if the Institution is in default under the FHA Documents.

(c) If a default under the Note and Mortgage occurs as a result of which the Note and Mortgage are to be assigned to FHA pursuant to the Resolution, the Applicable Trustee will, concurrently with the Authority's giving of notice to FHA of such default and its intention to make such assignment, liquidate any Letter of Credit held in or for the account of the Investment Income Account, transfer from the Investment Income Account: (i) to the Debt Service Account such amount as may be required, together with the amount then on deposit in the Debt Service Account, to pay interest on the Bonds on each February 1 and August 1 prior to receipt of all FHA mortgage insurance benefits; and (ii) upon receipt of all FHA mortgage insurance benefits, to the Redemption Account any balance remaining in the Investment Income Account, such amount subject to the Resolution, to be applied to the Extraordinary Mandatory Redemption of Bonds.

(d) If insurance or condemnation proceeds are received with respect to the Project and are deposited in the Construction Fund, such proceeds will be disbursed in the manner set out in the Loan Agreement.

(e) In the event Net Insurance Proceeds or Net Condemnation Proceeds are required to be applied to prepayment or reduction of the Note in accordance with the Loan Agreement, such amounts will be transferred to the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds pursuant to the Resolution.

(f) In the event that any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair, reconstruction or replacement of the Mortgaged Property, in accordance with applicable FHA Documents and pursuant to the Loan Agreement, and such amounts are greater than the Threshold Amount, such amounts will be disbursed by the Applicable Trustee, upon receipt of the approval of FHA, if required, and the following shall apply:

(1) a request signed by an Authorized Officer of the Institution and approved in writing by the Authority (a copy of which shall be provided to the Applicable Bond Insurer) stating (a) the name and address of the person to whom the payment is to be made (which may be the Institution if it is to be reimbursed for advances made by it which are properly chargeable against the Construction Fund), (b) the amount to be paid, (c) that the payment constitutes a proper charge against the Construction Fund and the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance, (d) that the obligation was properly incurred and is for costs of repair, replacement or reconstruction of the Mortgaged Property, (e) that the amount requested is due and unpaid (to the extent not a reimbursement), (f) that there is no event of default then existing under the Applicable FHA Documents or the Applicable Loan Agreement, (g) that the amount requested has not been the subject of any previously paid request and (h) that, with respect to items covered in the request, the signer has no knowledge of any vendors', mechanics', or other liens, conditional liens, conditional sales contracts, chattel mortgages, leases of personalty, title retention agreements or security interest which should be satisfied or discharged before the payments as requested therein are made or which will not be discharged by such payment;

(2) in the case of payments under the Construction Contract, in addition to the request referred to in clause (1) above, a certificate of the Architect certifying (a) his approval of the request, (b) that the obligation was properly incurred, (c) that the amount requested is due and unpaid to the contractors, (d) that, insofar as the payment is to be made for work, materials, supplies or equipment, the work has been performed and the materials, supplies or equipment have been installed in the Mortgaged Property or have been delivered either at the Mortgaged Property or at a proper place for fabrication and covered by adequate insurance and (e) that all work, materials, supplies and equipment for which payment is to be made are, in the signer's opinion, in accordance with any applicable plans and specifications; and

(3) if following completion of the repair, replacement, rebuilding, restoration or rearrangement, any Net Insurance Proceeds or Net Condemnation Proceeds remain on deposit in the Insurance and Condemnation Account, such Net Insurance Proceeds or Net Condemnation Proceeds will, subject to any applicable FHA requirements and full payment of any amounts owing the Applicable Bond Insurer with respect to payments made under the Applicable Surety Bond or Applicable Bond Insurance Policy and reimbursement of its capital costs or any current Authority or Applicable Trustee fees or expenses with respect to such Applicable Series of Bonds, be paid to the Institution.

(g) In the event (i) any Net Insurance Proceeds or Net Condemnation Proceeds are to be applied to the repair reconstruction or replacement of the Mortgaged Property, and such amounts are equal to or less than the Threshold Amount, or (ii) such amounts constitute Net Condemnation Proceeds and the requirements of the Loan Agreement are complied with, notwithstanding the provisions of paragraph (f) above, such amounts will be disbursed by the Applicable Trustee at the written direction of the Authority and with the approval of FHA, if required, to the Applicable Bond Insurer to the extent any amounts owing the Applicable Bond Insurer with respect to payments made under the Applicable Surety Bond or Applicable Bond Insurance Policy or any advances made under the Applicable Servicing Agreement or the Authority or the Applicable Trustee to the extent of any unpaid fees and expenses, with any balance thereafter applied to or upon the order of the Institution.

(h) When required by the provisions described under the heading “Remedies under Mortgage and FHA Mortgage Insurance” herein below, the Applicable Trustee will transfer amounts in the Construction Fund to the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of the Applicable Series of Bonds.

(i) The Applicable Trustee shall draw the full amount of any Letter of Credit deposited to the credit of the Investment Income Account of the Construction Fund (i) at least thirty (30) days prior to its expiration date and (ii) within sixty (60) days of a downgrade of the Qualified Financial Institution providing such Letter of Credit to a rating less than "A" by either Standard & Poor's or Moody's, unless, in the case of (i), such Letter of Credit has been renewed or, in the case of (i) or (ii), the Investment Income Account Requirement on such expiration date would be zero, or the Institution has deposited Available Moneys or a substitute Letter of Credit in the Investment Income Account in an amount equal to the Investment Income Account Requirement.

(j) Copies of all requests, Requisitions and correspondence relating to the withdrawal of funds from the Construction Fund shall be provided by the Applicable Trustee to the Applicable Bond Insurer upon request of the Applicable Bond Insurer.

(Section 5.04)

Procedure Upon Completion of Project

(a) Upon the completion of the Project in accordance with the Building Loan Agreement and Final Endorsement, the Authority will cause the Institution to furnish to the Applicable Trustee and the Mortgage Servicer the certificate of the Institution provided for in the Loan Agreement. The Applicable Trustee will thereupon apply any moneys remaining in the Construction Fund and the Collateral Account of the Debt Service Reserve Fund, as applicable, as follows, and in the following order of priority:

FIRST: from the Mortgage Account an amount equal to the excess, if any, of the insured principal amount of the Note, as approved by FHA at Final Endorsement, over the aggregate of all amounts theretofore disbursed from the Mortgage Account, will be applied to the payment of such Costs of the Project as are approved by FHA as the final advance under the Building Loan Agreement;

SECOND: any balance remaining in the Mortgage Account will be transferred to the Redemption Account and applied to the Special Mandatory Redemption of Bonds;

THIRD: from the Investment Income Account, there will be transferred to the Debt Service Account the amount, if any, determined by the Applicable Trustee to be needed, together with (i) amounts then on deposit in the Debt Service Account and payments of principal and interest scheduled to be received on the Note through the next succeeding date which is 30 days prior to the next Interest Payment Date, (ii) interest earnings to be transferred from the Debt Service Reserve Fund to the Debt Service Account in accordance with the Resolution and (iii) amounts on deposit in the Collateral Account in excess of the Collateral Account Requirement, (A) to pay the interest on the Applicable Series of Bonds becoming due on the earlier of the next succeeding February 1 and August 1 and (B) to redeem by Sinking Fund Redemption on the earlier of the next succeeding February 1 and August 1 an amount of such Series of Bonds which would reduce the Bonds Outstanding to the sum of the principal amount of the Note at Final Endorsement plus the principal amount on deposit in the Reserve Account (prior to giving effect to any redemption made in connection with the reduction of the amount of the Note);

FOURTH: from the Investment Income Account, there will be (i) transferred to the Institution or to the issuer of any Letter of Credit, an amount not to exceed the amount drawn on the Letter of Credit (and fees with respect thereto) on deposit in the Investment Income Account plus any interest thereon, or (ii) applied as a credit for payment of the Note, amounts in the Investment Income Account, all as provided in the written direction of the Authority;

FIFTH: any cash balance (but not the Letter of Credit) remaining in the Collateral Account in excess of the Collateral Account Requirement will be transferred to the Redemption Account and applied to the Special Mandatory Redemption of Bonds;

SIXTH: in the event that the Institution is obligated to reduce or make a prepayment on the Note in connection with the Project cost certification process, the Applicable Trustee will apply toward such reduction or prepayment any balance remaining in the Construction Fund (in cash, investments or letters of credit), drawing first from the Investment Income Account and second from the Equity Account, and will deposit the amount so applied as a reduction or prepayment on the Note in the Redemption Account, for application to the Special Mandatory Redemption of Bonds;

SEVENTH: any amount remaining in the Equity Account after payment of all fees and expenses of the Authority, will be paid to the Institution; and

EIGHTH: any amounts remaining in the Investment Income Account (excluding the Letter of Credit) will be transferred to the Redemption Account and applied to the Special Mandatory Redemption of Bonds.

(b) In the event that the amount applied to the reduction or prepayment of the Note is less than that portion of the Note the Institution is obligated to prepay or reduce in connection with the Project cost certification process, the Authority will take all action required by FHA to cause the Institution to pay to the Authority the amount of such deficiency pursuant to the Loan Agreement. Any such prepayments on the reductions of the Note received by the Authority, whether or not received prior to Final Endorsement, will be deposited in the Redemption Account and applied to the Special Mandatory Redemption of Bonds.

(*Section 5.05*)

Arbitrage Rebate Fund

The Applicable Trustee will deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of the Resolution, will transfer, in accordance with the directions of the Authority, moneys on deposit in any other funds held by the Applicable Trustee under the Applicable Series Resolution at such times and in such amounts as set forth in such directions; provided that, moneys will not be transferred from the Applicable Debt Service Reserve Fund unless such Debt Service Reserve Fund Requirement will be met after such transfer.

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

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

(*Section 5.06*)

Collection of Trust Revenues

The following provisions shall apply to the collection and application of Trust Revenues in connection with each Applicable Series of Bonds, the Applicable FHA Documents, each Applicable Mortgage Servicer and each Applicable Trustee.

(a) So long as the Mortgage Servicer is not in default under the Servicing Agreement, the Mortgage Servicer will collect all amounts payable by the Institution under the Note and the Mortgage and after deduction of the Servicing Fee (to the extent payable under the Note), the Mortgage Servicer will transfer all payments of principal and interest on the Note and other amounts paid under the Note to the Applicable Trustee and apply all amounts collected under the Mortgage in accordance with the Mortgage. Such amounts, when received by the Mortgage Servicer, will be credited as paid under the Note or the Mortgage, as the case may be. If the Authority terminates the Servicing Agreement, the Authority (as mortgagee under the Mortgage) will collect or cause to be collected all amounts payable under the Note and the Mortgage and will apply such moneys in the same manner and the Authority will otherwise comply with the obligations of the Mortgage Servicer set forth in the Servicing Agreement.

(b) All payments on the Note (less any Servicing Fee payable thereunder, if any, or Mortgagee Advances) will be paid to the Applicable Trustee and, together with all other Trust Revenues received by the Applicable Trustee (including any amounts paid by the Institution pursuant to the Loan Agreement), will be applied as follows for the periods indicated:

(1) During the period commencing with the date of delivery of the Applicable Series of Bonds and ending on the last day preceding Final Endorsement of the Note (except as provided in paragraphs (3) and (4) below):

(A) Income received on the investment of moneys in (i) any account of the Construction Fund (except the Equity Account) or Debt Service Reserve Fund (except the portion, if any, of the Collateral Account representing the Institution's contribution to such account) will upon receipt be deposited in the Investment Income Account and (ii) any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to the provisions of the Resolution set forth under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below) will upon receipt be deposited in the Surplus Account;

(B) Income received on the investment of moneys in the Equity Account of the Construction Fund and on the portion, if any, of the Collateral Account representing the Institution's contribution to such account will, after payment of all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, be retained in the Equity Account;

(C) Disbursements from the Mortgage Account of the Construction Fund for payment of interest on the Note, as reflected on each Requisition (after deducting and paying any applicable Servicing Fee) pursuant to the Resolution, shall be credited or deposited in the Investment Income Account or upon written direction of the Authority applied as a credit against subsequent payments due on the Applicable Note;

(D) Payments on the Note, to the extent not made pursuant to the preceding paragraph (C) above and any amounts attributable to payments of principal on the Note, will be deposited in the Debt Service Account; and

(E) Payments received from the Institution under the Loan Agreement will be deposited in the Debt Service Account.

(2) Commencing on the date of Final Endorsement of the Note and thereafter so long as any Bonds remain Outstanding:

(A) Payments on the Note (after deducting and paying any applicable Servicing Fee incorporated therein), income received on the investment of moneys in the Debt Service Reserve Fund (except the portion, if any, of the Collateral Account representing the Institution's contribution to such account) and payments received from the Institution pursuant to the Loan Agreement, will be deposited in the Debt Service Account;

(B) Income received on the investment of moneys in the portion, if any, of the Collateral Account representing the Institution's contribution to such account will, after payment of all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, be remitted to the Authority at least semi-annually upon the written direction of the Authority and applied pursuant to the Loan Agreement; and

(C) Income received on the investment of moneys in any account of the Debt Service Fund (unless the Note and Mortgage have been assigned to FHA pursuant to the provisions set forth under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below) will upon receipt be deposited in the Surplus Account;

(3) Trust Revenues attributable to hazard insurance or condemnation proceeds which are to be applied to reduction of the outstanding principal balance of the Note in accordance with applicable FHA Documents and pursuant to the Loan Agreement will be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds as provided in the Loan Agreement and in the provisions set forth under the heading "Redemption Account" below;

(4) Prepayments of principal on the Note will be deposited in the Redemption Account; and

(5) FHA Mortgage Insurance Benefits will be applied as described under the heading "Application of FHA Mortgage Insurance Benefits" below.

(*Section 6.01*)

Debt Service Fund

The following provisions shall apply to each Applicable Debt Service Fund and accounts thereunder:

(a) Subject to the provisions described below under the headings "Remedies Under Mortgage and FHA Mortgage Insurance" and "Application of FHA Mortgage Insurance Benefits," on the last Business Day preceding an Interest Payment Date for Outstanding Bonds, the Applicable Trustee will apply the moneys then on deposit, subject to the last paragraph under this heading, in the Debt Service Account as follows:

FIRST, to the payment of interest due on the Bonds Outstanding on the next succeeding Interest Payment Date by transfer of the amount so due to the Paying Agent (to be applied first to the payment of interest owed owners of the Bonds other than the Applicable Bond Insurer, then to interest owed to the Applicable Bond Insurer);

SECOND, to the payment of the maturing Principal Amount of the Bonds, if any, by transfer of the amount so due to the Paying Agent to pay first the maturing Principal Amount due the owners of Bonds other than the Applicable Bond Insurer and then to pay the Principal Amount of any Bonds owned or deemed owned by the Applicable Bond Insurer; *provided*, *however*, that in the event the Mortgage and Note have been assigned to FHA, the Paying Agent shall pay first, the Principal Amount of any Bonds owned or deemed owned by the Applicable Bond Insurer then the maturing Principal Amount due the owners of Bonds other than the Applicable Bond Insurer;

THIRD, if the Note and Mortgage have been assigned to FHA as described hereinbelow under the heading "Remedies under Mortgage and FHA Mortgage Insurance" to the payment (in semiannual installments) of the Applicable Trustee's Annual Fee and then to the Authority for the payment of its fees and expenses pursuant to a certificate of an Authorized Officer of the Authority; and

FOURTH, unless otherwise provided in the Applicable Series Resolution or Applicable Bond Series Certificate, to the extent of any remaining moneys, for transfer to the Redemption Account to be applied to the Sinking Fund Redemption of Bonds as provided in paragraph (b) or (e) under the heading "Redemption Account" as set forth below.

Any balance remaining in the Debt Service Account will be retained therein for application as aforesaid on the last Business Day preceding the next succeeding Interest Payment Date.

(b) Unless the Note and Mortgage have been assigned to FHA as described hereinbelow under the heading “Remedies under Mortgage and FHA Mortgage Insurance,” all income from the investment of moneys in any account of the Debt Service Fund will upon receipt be deposited in the Surplus Account or upon the written direction of the Authority applied as a credit against subsequent payments due on the Applicable Note. On the last Business Day preceding each Interest Payment Date for Bonds, any moneys on deposit in the Surplus Account will be applied first to the payment (in semiannual installments) of the Applicable Trustee’s Annual Fee and then, to the extent of money available, to all fees and expenses of the Authority pursuant to a certificate of an Authorized Officer of the Authority. Unless the Note and Mortgage have been assigned to FHA as described hereinbelow under the heading “Remedies Under Mortgage and FHA Mortgage Insurance” in which event the provisions of the last sentence of this paragraph will apply, the foregoing fees and expenses of the Authority will not be paid from any other fund or account held pursuant to the Resolution, other than the Surplus Account. If on the last Business Day preceding any such Interest Payment Date the amount in the Surplus Account remaining after the payments described in the preceding sentence exceeds the sum of $10,000 or such other amount as may be set forth in the Applicable Series Resolution or as the Authority will specify (but in no event less than the Authority’s estimated fees and expenses for the forthcoming six (6) months and one-half (1/2) of the Applicable Trustee’s Annual Fee (together with any amounts theretofore unpaid from any previous period), such excess will be transferred to the Debt Service Account for application in accordance with paragraph (a) under this heading. Notwithstanding the foregoing, in the event the Note and Mortgage are assigned to FHA, any amount in the Surplus Account will be used: first, to pay hazard insurance premiums, mortgage insurance premiums or other FHA charges, which amounts may become due prior to the date of such assignment, unless payment of such amounts is waived by FHA with notice to the Applicable Bond Insurer; second, to reimburse any Mortgagee Advances; third, to pay the Applicable Trustee’s Annual Fee; fourth, to pay the Authority’s Annual Administrative Fee; and fifth, to pay any fees and expenses, including legal fees, incurred by the Authority, the Applicable Trustee, the Mortgage Servicer, the Applicable Bond Insurer or the Financial Consultant in connection with the assignment of the Note and Mortgage and the claim for FHA mortgage insurance benefits.

(c) In lieu of redeeming Bonds through Sinking Fund Installments as described in paragraph (b) under the heading “Redemption Account,” at the direction of the Authority, the Applicable Trustee will apply moneys from time to time on deposit in the Debt Service Account or the Redemption Account to the purchase of an equal principal amount of Applicable Series of Bonds (of the maturity and in amounts then expected to be subject to Sinking Fund Installments) at prices not higher than the principal amount to be redeemed plus accrued interest, provided that firm commitments to sell Bonds are received at least five (5) days before the notice of redemption would otherwise be required to be given. In the event of purchases at purchase prices less than the principal amount to be redeemed plus accrued interest, the difference between the amount in the Debt Service Account representing the principal amount of the Bonds purchased and the purchase price (exclusive of accrued interest) will be retained in the Debt Service Account for application pursuant to subdivision (a) under this heading. Prior to any such purchase, the Applicable Trustee will give notice to the Authority of the terms of the proposed purchase, and the Authority will give written directions to the Applicable Trustee to purchase such Bonds for such terms.

(d) For purposes of provisions described under this heading, any payment of principal and interest on the Note due the first day of February or August will be treated as received after such Interest Payment Date and will be applied as provided in paragraph (a) of this heading on the day prior to the next succeeding Interest Payment Date.

(*Section 6.02*)

Debt Service Reserve Fund

The following provisions shall apply to each Applicable Debt Service Reserve Fund and accounts thereunder:

(a) If a payment default occurs under the Note or the Mortgage, on each succeeding Interest Payment Date, unless and until such default is waived as described in paragraph (a) under the heading “Remedies under

Mortgage and FHA Mortgage Insurance," the Applicable Trustee will draw upon any Letter of Credit held for the account of the Collateral Account and make transfers from the Debt Service Reserve Fund (first from the Collateral Account and second from the Reserve Account) to the Debt Service Account on the second Business Day preceding each Interest Payment Date in an amount sufficient, together with moneys then on deposit in the Debt Service Account, to pay interest on the Bonds Outstanding and the Principal Amount of Bonds maturing (if any).

(b) If the Institution fails to make all payments which become due under the Note or Mortgage by each date 30 days in advance of an Interest Payment Date, (i) the Applicable Trustee will immediately give notice to the issuer of the Investment Agreement that the Applicable Trustee intends to withdraw funds under such Investment Agreement and, if the Floor-Ceiling Agreement is then the Investment Agreement in place, the Applicable Trustee will immediately give notice to the bank thereunder of the sale of securities in an amount sufficient, together with moneys then on deposit in the Debt Service Account (including amounts transferred from the Collateral Account pursuant to subparagraph (a) under this heading and the Investment Income Account pursuant to the provisions described under paragraph (c) under the heading "Payments from Construction Fund" above), to pay the interest becoming due on the Bonds on the next succeeding Interest Payment Date and the Principal Amount of Bonds maturing, if any, on such date; and (ii) unless the Institution makes such payment under the Note or Mortgage by the last Business Day preceding the next Interest Payment Date and cures, in accordance with paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance," any other defaults under the FHA Documents (in which event the Applicable Trustee will immediately cancel the withdrawal of funds under such Investment Agreement), then the Applicable Trustee will immediately withdraw funds from the Reserve Account in such amount and deposit the same in the Debt Service Account.

(c) In accordance with the provisions described under the heading "Application of FHA Mortgage Insurance Benefits," the extent such provisions direct that amounts on deposit in the Debt Service Reserve Fund be applied to the Extraordinary Mandatory Redemption of Bonds, any investments deposited to the credit of the Reserve Account and the Collateral Account of the Debt Service Reserve Fund will be liquidated and the amounts thus obtained will be deposited in the Redemption Account and applied to the Extraordinary Mandatory Redemption of Bonds, pursuant to the paragraph (d) under the heading "Redemption Account" above.

(d) The Applicable Trustee shall draw the full amount of any Letter of Credit deposited to the credit of the Collateral Account (i) immediately upon receipt of notice from the applicable Qualified Financial Institution following an event of default under the reimbursement agreement, (ii) within sixty (60) days of a downgrade of the Qualified Financial Institution providing such Letter of Credit to a rating less than "A" by either Standard & Poor's or Moody's or (iii) at least thirty (30) days prior to its expiration date, unless such Letter of Credit has been renewed or the Collateral Account Requirement on such expiration date would be zero, or the Institution has deposited Available Moneys or a substitute Letter of Credit in the Collateral Account in an amount equal to the Collateral Account Requirement.

(e) Except as provided in paragraph (d) above, the Applicable Trustee will not draw on any Letter of Credit in the Debt Service Reserve Fund and will not transfer any such moneys to any other fund under the Resolution until the Authority has given, or caused there to be given, notice to FHA of a default under the Note and Mortgage pursuant to the provisions described under the heading "Remedies under Mortgage and FHA Mortgage Insurance."

(f) In the event there exists a deficiency in the Debt Service Account, after the transfers provided for in paragraphs (a) and (b) under this heading (including transfers from the Collateral Account pursuant to paragraph (a) under this heading and the Investment Income Account pursuant to paragraph (c) under the heading "Payments from Construction Fund"), the Trustee shall, to the extent necessary, draw on the Applicable Surety Bond, to provide moneys sufficient to pay interest and maturing principal due on the Applicable Series of Bonds. Amounts advanced by the Applicable Bond Insurer pursuant to the Applicable Bond Insurance Policy and Applicable Surety Bond shall be reimbursed as provided in the Resolution.

(*Section 6.03*)

Redemption Account

The following provisions shall apply to each Applicable Redemption Account:

(a) The Applicable Trustee will cause any optional prepayments and premium on the Note and Mortgage made from any source (other than prepayments described in paragraph (c) of this heading), together with any Non-Asset Bond Prepayment made in connection with an Optional Redemption of Bonds, deposited in the Redemption Account pursuant to the provisions of subdivision (b)(4) under the heading "Collection of Trust Revenues" to be applied to the optional redemption of Bonds at the times and Redemption Prices set forth in the Bond Series Certificate relating to the Bonds to be redeemed and otherwise in accordance with the Resolution (including the requirements relating to compliance with a Cash Flow Statement), or to the purchase of Bonds by the Applicable Trustee at prices not in excess of the optional redemption price applicable on the next succeeding optional redemption date plus accrued interest; provided that firm commitments to sell Bonds are received at least five (5) days before the notice of redemption would otherwise be required to be given.

(b) Subject to subdivision (e) under this heading, the Applicable Trustee will cause any moneys transferred to the Redemption Account from the Debt Service Fund to be applied to the Sinking Fund Redemption of Bonds, on the next succeeding Interest Payment Date, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, in accordance with the Resolution and the Applicable Series Resolution.

(c) The Applicable Trustee will also transfer from the Insurance and Condemnation Account of the Construction Fund to the credit of the Redemption Account amounts derived from Net Insurance Proceeds and Net Condemnation Proceeds which are applied to the prepayment of the Note and Mortgage as provided in the Loan Agreement, together with any Non-Asset Bond Prepayment made in connection with such prepayment. Subject to subdivision (e) under this heading, the Applicable Trustee will cause all such amounts to be applied to the Extraordinary Mandatory Redemption of Bonds, at the earliest practicable redemption date, in accordance with the Resolution and the Applicable Series Resolution.

(d) Subject to the provisions set forth in paragraph (e) of this heading, the Applicable Trustee will cause amounts deposited in the Redemption Account derived from: (1) the Debt Service Reserve Fund pursuant to the Resolution; (2) the Investment Income Account pursuant to the Resolution; (3) the Construction Fund pursuant to the Resolution; (iv) the funds available for Extraordinary Mandatory Redemption pursuant to the Resolution; and (v) amounts received upon payment of FHA mortgage insurance benefits pursuant to the Resolution, to be applied to the Extraordinary Mandatory Redemption of Bonds, at the earliest practicable redemption date, in accordance with the Resolution.

(e) In the event moneys are deposited in the Redemption Account as described in paragraphs (b), (c) or (d) under this heading and the Applicable Bond Insurer has advanced moneys pursuant to the Applicable Surety Bond or made payments under the Applicable Bond Insurance Policy, prior to the application of such moneys to the Sinking Fund Redemption or Extraordinary Mandatory Redemption of Bonds of the Applicable Series for any such advances, moneys on deposit in the Redemption Account shall be applied to reimburse the Applicable Bond Insurer for any and all payments made by the Applicable Bond Insurer under the Applicable Surety Bond and the Applicable Bond Insurance Policy and to pay interest on any Bonds held or deemed held by the Applicable Bond Insurer, all in accordance with the provisions within paragraph (f) of "Application of FHA Mortgage Insurance Benefits" below.

(*Section 6.04*)

Procedure When Funds are Sufficient to Pay all Bonds

The following procedures shall apply with regard to each Applicable Series of Bonds:

If at any time following the date of Final Endorsement the amounts held by the Applicable Trustee in the funds established pursuant to the Resolution (except for the Equity Account, the Collateral Account, the Insurance and Condemnation Account and the Arbitrage Rebate Fund) are sufficient to pay the principal or Redemption Price of, and interest on all Bonds Outstanding on the next succeeding Interest Payment Date therefor, together with any amounts due the Authority and the Applicable Trustee, the Applicable Trustee will notify the Authority, the Applicable Bond Insurer, the Mortgage Servicer and the Institution to that effect and thereafter the Applicable Trustee will apply, subject to any applicable FHA requirements, the amounts in such funds first to the payment of such principal or Redemption Price and interest, and second, to the payment of any amounts due to itself and the Authority, and, unless the Note and Mortgage have been assigned to FHA, the Authority will credit such payments to prepayment of the Note and the Mortgage, in accordance with the prepayment provisions of the Note and Mortgage, and the redemption provisions of the Bonds.

(*Section 6.05*)

Deposit and Investment of Funds

The following provisions shall apply to the deposits and investment of funds held in connection with each Applicable Series of Bonds:

(a) All moneys received by the Applicable Trustee for deposit in any fund or account established under the Resolution shall, except as provided in the Resolution, be deposited with the Applicable Trustee until expended or invested as provided in this heading.

(b) Any moneys received by the Applicable Trustee on behalf of the Authority as mortgagee under the Mortgage which are required to be deposited in escrow accounts or other accounts under the Mortgage will be invested subject to applicable FHA regulations.

(c) (1) Moneys held by the Applicable Trustee in any fund or account described above under the heading "Authorization for Establishment of Funds and Accounts," will, as nearly as may be practicable, be invested by the Applicable Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction will specify the amount thereof to be so invested and the Authority in issuing such direction will take into consideration the dates and times when such moneys will be required for the purposes of the Resolution), in (i) Government Obligations and deposits fully insured by the Federal Deposit Insurance Corporation, or (ii) Exempt Obligations, which at the time such Exempt Obligations are purchased, are rated, without regard to qualification of such rating by symbols such as "+" or "–," or numerical notation, in the rating category no lower than the rating category equal to the rating on such Applicable Series of Bonds by each Rating Service rating the Applicable Series of Bonds; provided that each such investment will 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.

(2) In lieu of the investments of moneys in obligations described in the preceding sub-paragraph, the Applicable Trustee will, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest moneys in any Construction Fund and the Redemption Account in (i) interest-bearing time deposits, certificates of deposit or other similar investment arrangements, (ii) Exempt Obligations, which, at the time such investment is made, are rated, without regard to qualification of such rating by symbols such as "+" or "–," or numerical notation, "A" or better by each Rating Service rating the Bonds or, (iii) Investment Agreements; provided that each such investment will 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, and all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement shall be continuously and fully insured by Federal Deposit Insurance Corporation, but such obligations shall either (i) be rated no lower than the lowest rating on Outstanding Bonds of the Applicable Series then assigned by such Rating Service or (ii) be approved by the Applicable Bond Insurer.

(d) Notwithstanding any other provision under this heading, at the direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, (i) the Applicable Trustee may invest moneys in the Mortgage Account of the Construction Fund pursuant to an Investment Agreement expiring not earlier than the expected date of Final Endorsement, (ii) the Applicable Trustee may invest money in the Debt Service Account pursuant to an Investment Agreement approved by the Authority which provides that money so invested will be available for use as necessary on the appropriate Interest Payment Dates, and (iii) the Applicable Trustee will invest moneys in the Reserve Account of the Debt Service Reserve Fund pursuant to an Investment Agreement approved by the Authority, subject to the following requirements:

(x) Any Investment Agreement for the Reserve Account must provide for payment of interest at a fixed rate during the entire term of the Investment Agreement;

(y) Moneys invested pursuant to such Investment Agreement must be subject to withdrawal in whole or in part at any time without any penalty, premium or charge whatsoever upon not more than seven (7) days notice from the Applicable Trustee; and

(z) Any such Investment Agreement will be for a term expiring not earlier than the final maturity date of the Applicable Bonds or the Applicable Note.

The Applicable Trustee will be protected in relying on the Authority's approval of and directions with respect to any Investment Agreement, including the nature, at maturity, rate and amount of such Investment Agreement. To the extent permitted by any existing Investment Agreement, the Applicable Trustee may, with the consent of the Authority and prior written notice to the Applicable Bond Insurer, enter into successor Investment Agreements which comply with the requirements for such agreements as set forth in the Resolution.

(e) In the absence of investment directions from the Authority, the Applicable Trustee will continuously invest and reinvest moneys deposited in the various funds and accounts established under the Resolution in Government Obligations or Securities with maturity dates as set forth in subdivision (c) (1) under this heading in order to minimize instances of uninvested funds, *provided*, *however*, that monies in the Debt Service Fund shall be invested so as to mature not later than the Interest Payment Dates for which such moneys will be required to pay debt service.

(f) Income received upon any deposit or investment under the Resolution and any profit or loss resulting from the sale of any investment in any fund or account will upon receipt be deposited and credited, or charged, to the fund or account in question, except as otherwise provided in "Collection of Trust Revenues." In the event the moneys are invested pursuant to an Investment Agreement, the Authority may provide that any fees payable pursuant to the terms of the Investment Agreement may be deducted from the amount of investment income payable to the Authority or the Applicable Trustee.

(g) Neither the Authority nor the Applicable Trustee will have any liability arising out of or in connection with the making of any investment authorized by the provisions of the Resolution, in the manner provided in the Resolution, for any depreciation in value of any investment or for any loss, direct or indirect, resulting from any such investment.

(h) Moneys held in any fund or account with respect to an Applicable Series of Bonds authorized under the Resolution may be pooled for purposes of investment only, and such moneys may be invested as one account; provided that the Applicable Trustee will keep records of the amount of principal and accrued investment income (on a pro rata basis) of each fund or account which is pooled for investment purposes pursuant to this paragraph. Moneys in the Mortgage Account in the Construction Fund to be transferred to the Investment Income Account to pay interest on the Note (less the Servicing Fee) pursuant to the Resolution will remain invested under the Investment Agreement referred to in subdivision (d) under this heading unless such moneys are required to be used to pay interest on the Bonds as described below. Transfers from the Investment Income Account to the Debt Service Account to pay interest on the Bonds pursuant to subdivision (b) under the heading "Payments from Construction Fund" will be made semiannually thirty (30) days in advance of each Interest Payment Date. Accrued interest, if any, payable on the initial investment of the Reserve Account may be paid from the Debt Service Account or the Mortgage Account provided the amount so paid is redeposited in the appropriate account upon receipt of the first income on such investments. The Applicable Trustee may use any method which it determines to be reasonable to compute the investment income on the transferred amount from the date of the deemed transfer to the date of actual transfer.

(*Section 6.06*)

Valuation of Funds

The Applicable Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority or the Applicable Bond Insurer, and (iii) upon the request of the Institution, but not more frequently than once a calendar month, will compute the value of the assets of each fund and account authorized to be established under the Resolution and established by each Applicable Series Resolution. Additionally, the Applicable Trustee will (i) calculate the Debt Service Reserve Fund Requirement and the Collateral Account Requirement at the end of each calendar month and (ii) at Final Endorsement, compute the value of the assets of the Debt Service Reserve Fund, after taking into account any deposits to, and payments and transfers from, any fund or account to be made under the Resolution or the Applicable Series Resolution. The Applicable Trustee will provide a written computation to the Authority, the Applicable Bond Insurer and the Institution of the amount of the Debt Service Reserve Fund Requirement and the Collateral Account Requirement (after giving effect to any redemption made pursuant to the provisions under the heading "Completion of the Project") following each such computation; and the Applicable Trustee will, to the extent of any decrease in the Collateral Account Requirement (a) reduce any Letter of Credit deposited to the credit of the Collateral Account by the amount of the decrease in the Collateral Account Requirement and (b) to the extent any such decrease exceeds the Collateral Account Requirement and in the event of a deficiency, transfer such excess to the Debt Service Reserve Fund, and (z) there is no default under the Applicable Mortgage or Note, any moneys originally deposited by the Institution in the Collateral Account, to the extent available. In addition, in the case of a deficiency in the Collateral Account Requirement or the Debt Service Reserve Fund Requirement, the Applicable Trustee will promptly notify the Institution of the amount of such deficiency. In computing the assets of any fund, accrued interest on the investments in any account will be deemed to be an asset of the account, if any, to which such interest would be payable under the circumstances then prevailing as provided in subdivisions (f) and (h) under the above heading "Deposit and Investment of Funds" provided accrued interest on an Investment Agreement is not deemed to be surplus. Such investments will be valued at the lower of cost or the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, except for any amounts invested pursuant to an Investment Agreement, which will be valued at cost. Promptly after each such computation, the Applicable Trustee will give notice thereof to the Institution and the Authority.

The Authority, in its discretion, may direct the Applicable Trustee to, and the Applicable Trustee will, sell, present for redemption or exchange any Securities held pursuant to the Resolution by the Applicable Trustee and the proceeds thereof may be reinvested as provided under this heading. Except as otherwise provided under the Resolution, the Applicable Trustee will sell at the best price obtainable, or present for redemption or exchange, any Securities held by it under the Resolution whenever it is necessary in order to provide moneys to meet any payment or transfer from the fund or account for which such Securities are held. The Applicable Trustee will advise the Authority and the Institution (with a copy to the Applicable Bond Insurer) in writing, on or before the fifteenth day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all Securities held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such Securities comply with the provisions of the Resolution. The details of such Securities will include the par value, if any, the cost and the current market value of such Securities as of the end of the preceding month. The Applicable Trustee will also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(*Section 6.07*)

Payment of Principal and Interest

The Authority will pay or cause to be paid from the Applicable Trust Revenues, to the extent provided in the Resolution and in the Applicable Series Resolution, the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on every Bond of each Applicable Series on the date and at the places and in the manner provided in such Bonds according to the true intent and meaning thereof.

(*Section 7.01*)

Extension of Payment of Bonds

Other than with respect to Bonds held by or on behalf of the Applicable Bond Insurer pursuant to payment under an Applicable Surety Bond or Applicable Bond Insurance Policy, the Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds of an Applicable Series or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and, other than with respect to Bonds held by or on behalf of the Applicable Bond Insurer pursuant to payment under an Applicable Surety Bond or Applicable Bond Insurance Policy, in case the maturity of any of such Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled in case of any default under the Resolution, to the benefit of the Resolution or of any Applicable Series Resolution or to any payment out of any assets of the Authority or the funds (except funds held in trust for the payment of particular Bonds of an Applicable Series or claims for interest pursuant to the Resolution and to any Applicable Series Resolution) held by the Applicable Trustee, except subject to the prior payment of the principal of all Outstanding Bonds of such Applicable Series the maturity of which has not been extended and of such portion of the interest on such Bonds as are not represented by such claims for interest. Nothing in the Resolution will be deemed to limit the right of the Authority to issue Refunding Bonds as permitted by the Resolution and by the Act and such issuance shall not be deemed to constitute an extension of the maturity of the Bonds of an Applicable Series refunded.

(*Section 7.02*)

Powers as to Bonds of an Applicable Series and Pledge

The Authority is duly authorized under the Act and all applicable laws to create and issue the Bonds of each Applicable Series, to adopt the Resolution and each Applicable Series Resolution and to pledge and assign the proceeds from the sale of such Bonds, and the Applicable Trust Revenues that are to be deposited with the Applicable Trustee and all funds and accounts authorized by the Resolution which are pledged by the Resolution, and the rights of the Authority to receive payments to be made under the Applicable Loan Agreement in the manner and to the extent provided in the Resolution and in the Applicable Series Resolution. The Authority further covenants that the proceeds from the sale of each Applicable Series of Bonds, the Applicable Trust Revenues, the rights of the Authority to receive payments to be made under the Applicable Loan Agreement that are to be deposited with the Applicable Trustee and all funds and accounts authorized by the Resolution and established pursuant to the Applicable Series Resolution are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge created by the Resolution and the Applicable Series Resolution, and that all corporate action on the part of the Authority to that end has been duly and validly taken. The Authority further represents that the Bonds of each Applicable Series and the provisions of the Resolution and of each Applicable Series Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution and of each Applicable Series Resolution. The Authority further covenants that it will at all times, to the extent permitted by law, defend, preserve and protect the pledge of the proceeds of the Applicable Series of the Bonds, of the Applicable Trust Revenues, the rights of the Authority to receive payments to be made under the Applicable Loan Agreement that are to be deposited with the Applicable Trustee, and all funds and accounts established pursuant to the Resolution which are pledged pursuant to the Resolution and by the Applicable Series Resolution and all of the rights of the Holders of the Applicable Series of Bonds under the Resolution and the Applicable Series Resolution against all claims and demands of all persons whomsoever.

(*Section 7.03*)

Further Assurance

The Authority, at any and all times, will, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and the Applicable Trust Revenues pledged or assigned pursuant to the Resolution and pursuant to the Applicable Series Resolution, or intended so to be, or which the Authority may become bound to pledge or assign.

(*Section 7.04*)

Accounts and Audits

The Authority will keep proper books of records and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Applicable Trustee, in which complete and correct entries will be made of its transactions relating to each Applicable Series of Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, will be subject to the inspection of the Institution, the Mortgage Servicer, the Applicable Trustee, the Applicable Bond Insurer or of any Holder of a Bond of an Applicable Series or such Holder's representative duly authorized in writing. The Authority will cause such books and accounts to be audited annually after the end of its fiscal year by a nationally recognized independent public accountant selected by the Authority. Annually within thirty (30) days after receipt by the Authority of the report of such audit, a signed copy of such report will be furnished to the Mortgage Servicer, the Applicable Trustee, the Applicable Bond Insurer and the Institution. Such report will include at least: a statement of all funds and accounts (including investments thereof) held by the Applicable Trustee and the Authority pursuant to the provisions of the Resolution and each Applicable Series Resolution; a statement of the Applicable Trust Revenues collected in connection with the Resolution and the Applicable Series Resolution; a statement that the balance in the Applicable Debt Service Reserve Fund meets the requirements of the Resolution and the Applicable Series Resolution; and a statement that, in making such audit, no knowledge of any default in the fulfillment of any of the terms, covenants or provisions of the Resolution and of each Applicable Series Resolution was obtained, or if knowledge of any such default was obtained, a statement thereof.

(*Section 7.05*)

Creation of Liens

The Authority will not create or cause to be created any lien or charge prior or equal to that of the Bonds of an Applicable Series on the proceeds from the sale of such Bonds, the Applicable Trust Revenues pledged for such Applicable Series of Bonds, the rights of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Applicable Trustee, the Applicable FHA Documents, (except as allowed by the provisions of the Resolution) or the funds authorized by the Resolution and established pursuant to the Applicable Series Resolution; *provided*, *however*, that nothing contained in the Resolution shall prevent the Authority from issuing bonds, notes or other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created pursuant to the Resolution.

(*Section 7.06*)

Enforcement of Duties and Obligations of the Institution

The Authority will not be required to take notice of any breach or default by an Institution except when given written notice thereof by the Holders of at least ten percent (10%) in aggregate principal amount of the Outstanding Bonds of an Applicable Series, by the Applicable Bond Insurer, by the Applicable Trustee or by a Mortgage Servicer. The Authority will not be required to take any remedial action, other than the giving of notice, unless reasonable indemnity is furnished for any expense or liability to be incurred therein. Upon receipt of written notice, direction or instruction and indemnity as provided above, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified as aforesaid, the Authority shall promptly pursue the remedy provided by the Resolution and the Applicable Series Resolution or any of such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Holders of Bonds of the Applicable Series, and in its actions under this sentence the Authority shall act for the protection of such Bondholders with the same promptness and prudence as would be expected of a prudent man in the conduct of his own affairs. Nothing in this paragraph shall affect the obligations of the Applicable Trustee or a Mortgage Servicer under the Applicable FHA Documents, under the Resolution or the Applicable Servicing Agreement.

(*Section 7.07*)

Offices for Payment and Registration of Bonds

The Authority will at all times maintain an office or agency in the State where Bonds of an Applicable Series may be presented for payment. The Authority may, pursuant to an Applicable Supplemental Resolution or Series Resolution or pursuant to a resolution adopted in accordance with the Resolution, designate an additional Applicable Paying Agent or Paying Agents where Bonds of an Applicable Series authorized thereby or referred to therein may be presented for payment. The Authority will at all times maintain an office or agency in the State where Bonds of an Applicable Series may be presented for registration, transfer or exchange and the Applicable Trustee is appointed as its agent to maintain such office or agency for the registration, transfer or exchange of such Bonds. The provisions under this heading will be subject to the provisions of the Resolution.

(*Section 7.09*)

Purchase of Bonds

The Authority covenants that it has not entered and will not enter into any arrangement, formal or informal, pursuant to which the Institution (or any related person, as defined in Section 144(a)(3) or 145(b)(3) of the Code), will purchase any of the Bonds of an Applicable Series in an amount related to the amount loaned by the Authority to such Institution under the Applicable Loan Agreement.

(*Section 7.12*)

Enforcement of FHA Documents and Servicing Agreement; Amendments to Note and Mortgage

With respect to each Applicable Series of Bonds:

(a) the Authority will enforce, and will cause the Mortgage Servicer to enforce, the full and punctual performance by the Institution of all covenants, agreements and obligations on the part of the Institution to be performed under the FHA Documents, including, without limitation, the Note, the Mortgage, the Regulatory Agreement and the Security Agreement. The Authority will enforce the full and punctual performance by the Mortgage Servicer of all covenants, agreements and obligations on the part of the Mortgage Servicer to be performed under the Servicing Agreement;

(b) the Authority may consent to any amendment to the FHA Documents, including an amendment to the interest rate on the Note at Final Endorsement (or a reduction in principal payments in connection with a prepayment of the Note upon satisfaction of the requirements therefor as set forth in the Resolution and in the Loan Agreement or in connection with the issuance of Refunding Bonds), *provided*, *however*, that no such amendment may be made which would extend or delay the commencement of amortization payments due under the Note or otherwise materially and adversely affect the security for the Bonds or adversely affect the timely receipt of interest and principal payments thereon without the consent of the Holders of 100% of the aggregate principal amount of the Bonds Outstanding and the Applicable Bond Insurer or increase the maximum amount necessary to be drawn under the Applicable Surety Bond or adversely affect the timing of the payment of principal and interest in respect of Bonds acquired by the Applicable Bond Insurer pursuant to draws under the Applicable Surety Bond when compared to the Original Cash Flow Statement without the consent of the Applicable Bond Insurer (the Authority shall cause a Financial Consultant to prepare a projected default Cash Flow Statement which shall be provided to and approved by the Applicable Bond Insurer which takes into account the proposed amendment);

(c) The Authority, as mortgagee under the Mortgage, may consent to the Institution's incurring indebtedness in addition to the Note, secured by a lien on the Mortgaged Property on a parity with or subordinate to (but not superior to) the lien of the Mortgage, provided the Authority, the Applicable Bond Insurer and the Applicable Trustee shall first have received:

(i) if the purpose for which such additional debt is being incurred is to pay or to complete the payment of the costs of a Capital Addition, a certificate of the Institution stating (1) the estimated cost of completion of such Capital Addition, (2) that the proceeds of such additional debt, together with any funds to be provided by the

Institution, will be sufficient to pay such costs and (3) that no Event of Default under the Resolution or under the FHA Documents or the Loan Agreement has occurred and is continuing;

(ii) if such additional debt is to be insured by FHA and secured by the Mortgage, an increase in the FHA mortgage insurance to cover any such increase in the principal amount of the indebtedness secured by the Mortgage; and if such additional debt is to be insured by FHA and secured pursuant to the provisions of a security instrument other than the Mortgage, such security instrument shall be eligible for insurance by FHA under the provisions of the National Housing Act, as amended, and executed or certified counterparts of the evidence of indebtedness given by the Institution in respect of such additional debt, and any amendments to the Note and Mortgage such that the revised payments of principal and interest to be made by the Institution will be increased by at least an amount sufficient to pay when due the principal of and interest on such additional debt;

(iii) the consent of FHA to such additional debt and the security therefor, as required by the Regulatory Agreement;

(iv) if permitted by FHA, an executed counterpart of an amendment to the Mortgage or any supplemental mortgage providing that a default under such additional debt will constitute an event of default under the Mortgage;

(v) executed counterparts of any other instruments given or agreements made by the Institution for the security of such additional debt, which will , if requested by either the Authority or the Applicable Bond Insurer, provide that any default thereunder will constitute a default under the Mortgage, together with an opinion of Counsel to the Institution that (a) any amendments to the Note and Mortgage and all such other amendments, instruments or agreements are duly authorized, executed and delivered by the Institution and are legal, valid and binding obligations, enforceable in accordance with their terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights generally and (b) any consents or approvals of any governmental authorities required in connection with the issuance and related transactions have been obtained; and

(vi) such other documents, assurances and provisions, which Bond Counsel, the Authority, the Applicable Bond Insurer or the Applicable Trustee may reasonably require to protect the interests of the Bondholders and to provide for the allocation of assets between the Bondholders and the holders of any additional indebtedness upon an event of default under the Mortgage;

(d) in connection with the incurring of additional indebtedness secured by the Mortgage or any supplemental mortgage pursuant to paragraph (c) above or an amendment to the interest rate on the Note pursuant to paragraph (b) above, the Applicable Trustee will give or cause to be given to the Applicable Bond Insurer and each Rating Service, (i) at least thirty (30) days' prior written notice of the proposed incurrence of such additional indebtedness or amendment to the interest rate on the Note and (ii) a Cash Flow Statement reflecting such incurrence of additional indebtedness or amendment to the interest rate on the Note; and

(e) the Authority will not consent to the release of any cash or letters of credit held pursuant to the FHA Documents for the benefit of the Mortgagor without the consent of the FHA or the Applicable Bond Insurer or as otherwise permitted.

(*Section 7.14*)

Tax Exemption; Rebates

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Applicable Series, the interest on which is intended to be tax-exempt, the Authority will comply with the provisions of the Code applicable to the Bonds of each such Applicable Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each such Applicable Series of Bonds, 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. In furtherance of the foregoing, the Authority will comply with the letter of instructions as to compliance with the Code with respect to each such Series of Bonds, to be delivered by Bond Counsel at the time the Bonds of such Applicable Series are issued, as such letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority will not take any action or fail to take any action which would cause the Bonds of an Applicable Series intended to be tax-exempt to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

Notwithstanding any other provision in the Resolution to the contrary, the Authority's failure to comply with the provisions of the Code applicable to the Bonds of an Applicable Series will not entitle the Holder of Bonds of any other Applicable Series, or the Applicable Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders pursuant to the Resolution based upon the Authority's failure to comply with the provisions under this heading or of the Code.

(*Section 7.15*)

Events of Default

Each of the following constitutes an "Event of Default" under the Resolution and the Applicable Series Resolution:

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

(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) The Authority files a petition under Chapter 9 of the Federal Bankruptcy Code; or

(d) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of the covenants contained under the heading "Tax Exemption; Rebates" above and, as a result thereof, the interest on the Bonds of such Series, which was intended to be excludable from gross income under Section 103 of the Code shall no longer be so excludable; or

(e) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Applicable Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series or the Applicable Bond Insurer; provided, that if such default is of such nature that it can be corrected within a reasonable time (as agreed to by the Applicable Trustee), but not within such 30 day period, the same shall not constitute an Event of Default so long as the Applicable Trustee determines that the Authority has commenced prompt corrective action and is diligently pursuing the same.

An Event of Default under the Resolution with respect to an Applicable Series of Bonds shall not in and of itself be or constitute an Event of Default with respect to any other Applicable Series of Bonds.

An Event of Default shall not have been deemed to occur pursuant to subdivision (a) and (b) under this heading solely as a result of payments made to Bondholders as a result of draws under the Applicable Surety Bond.

(*Section 8.02*)

Acceleration and Annulment Thereof

(a) If (i) an Event of Default with respect to an Applicable Series of Bonds shall occur, (ii) there shall be no failure to pay under the Applicable Surety Bond or the Applicable Bond Insurance Policy, and (iii) there shall be no acceleration of the Applicable Series of Bonds, then the Trustee shall continue to apply all Trust Revenues received in accordance with the Resolution.

(b) If any Event of Default as described in paragraph (a) or (b) under the heading "Events of Default" occurs, the Applicable Trustee may, with the written consent of the Applicable Bond Insurer and upon request of the Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series and shall, at the written direction of the Applicable Bond Insurer, by notice in writing to the Authority, declare the Principal Amount of all Bonds Outstanding of the Applicable Series and all payments to be made by the Institution therefor (but, except as described hereinbelow under the heading "Remedies under Mortgage and FHA Mortgage Insurance") and accrued interest on the foregoing, to be immediately due and payable, whereupon the same will become due and payable immediately without any further notice or action, anything in the Resolution, the Applicable Series Resolution, the Loan Agreement or in such Bonds to the contrary notwithstanding.

(c) If, after any declaration of acceleration of the Principal Amount of an Applicable Series of Bonds, all arrears of interest upon such Bonds are paid, and all other outstanding Events of Default (other than the nonpayment of principal and interest due and payable solely by reason of such declaration) shall have been cured or provision deemed adequate by the Applicable Trustee shall have been made therefor, and all required payments by the Institution under the Loan Agreement have been made and the Authority and the Institution also perform all other things in respect to which they or any of them may have been in default under the Resolution or under the FHA Documents, all in accordance with the second paragraph of subdivision (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below, and provision is made for payment of reasonable charges of the Applicable Bond Insurer, the Applicable Trustee and the Mortgage Servicer, including reasonable attorney's fees, and if all claims under the FHA mortgage insurance have been withdrawn without payment, subject to the provisions described in the second paragraph of subdivision (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance" below, then, and in every such case, the Applicable Trustee, by notice to the Authority, may with the consent of the Applicable Bond Insurer, annul such declaration and its consequences. Any such annulment shall be binding upon the Applicable Trustee and upon all holders of an Applicable Series of Bonds, but no such annulment will extend to or affect any subsequent default or impair any right or remedy consequent thereon.

(*Section 8.03*)

Remedies under Mortgage and FHA Mortgage Insurance

The following remedies apply in connection with each Applicable Series of Bonds issued under the Resolution, the Applicable Mortgage and the Institution; *provided*, *however*, a default in connection with one Applicable Series of Bonds shall not in and of itself be or constitute a default in respect of any other Series of Bonds

(a) If the Institution fails to make any payment in full required under the Note or Mortgage and such failure continues for a period of thirty (30) days (the "Grace Period"), or if following a default by such Institution in the performance of any covenant in the Regulatory Agreement or the Mortgage, including, but not limited to, a default under the Mortgage or Regulatory Agreement caused by a cross-default provision therein or in a mortgage or regulatory agreement of the Institution securing a separate Applicable Series of Bonds, but only to the extent required or consented to by FHA, FHA shall have requested and the Authority, after consultation with the Applicable Bond Insurer (with respect to a covenant default), shall have declared an acceleration of the unpaid principal balance of the Note, the Authority will immediately (not later than one Business Day after the end of the Grace Period or acceleration, as the case may be) give, or cause the Mortgage Servicer to give, written notice to FHA (both the FHA Area Office and FHA Central Office), the Applicable Trustee, the Applicable Bond Insurer and the Rating Service(s) of (i) the occurrence of the default, (ii) the acts or omissions giving rise to the default, (iii) the time period, if any, available to cure such default, (iv) a schedule of remaining Interest Payment Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds, (v) a schedule of the funds available to make payments as they become due on the Bonds, (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds, (vii) the Authority's election to assign the Note and the Mortgage to FHA, and (viii) the Authority's intention and election to file a claim for Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement or the FHA Cash Lock Agreement, as and, if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice the Authority or the Mortgage Servicer shall request (a) required forms and instructions relating to an assignment of the Mortgage and (b) an endorsement of the Mortgagee's title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions the Authority will submit legal documentation for review to the Office of General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit (by no later than thirty days after the date of recordation of the assignment to FHA) in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, and the FHA Debenture Agreement, if applicable, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority's election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice in the manner provided in paragraph (i) under this heading to all Bondholders of the Applicable Series and the Applicable Bond Insurer of the occurrence of the default by the Institution and the Authority's intent to file such claim with FHA. The Applicable Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to all such Bondholders and the Applicable Bond Insurer, and such certificate will be conclusive evidence that such notice was given to all such Bondholders and the Applicable Bond Insurer in the manner required under the Resolution. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Outstanding Bonds of the Applicable Series and with the written consent of the Applicable Bond Insurer within twenty (20) days of the date notice of the Authority's election to assign the Note and Mortgage to FHA was sent to FHA, the Authority will, except as hereinbelow provided, take all actions necessary to assign the Note and the Mortgage to FHA and to recover such claim under the FHA mortgage insurance; provided that, the Authority shall use its best efforts to complete the assignment of the Note and Mortgage no later than the last Business Day preceding the 30th day following the giving of notice to FHA; provided further, however, that in the event such assignment will be completed later than the last Business Day preceding the 30th day following the giving of notice to FHA, notice thereof will be given by the Authority to each Rating Service and the Applicable Bond Insurer.

If, prior to the date the Note and Mortgage are assigned to FHA (pursuant to this subdivision or subdivision (b) below) the Institution (x) pays all amounts due under the Note, Mortgage and Loan Agreement and cures any other defaults thereunder (and reimburses the Applicable Bond Insurer for all expenses of, and amounts due to, the Applicable Bond Insurer as a result of the effectuation of the cure described in this paragraph) and (y) delivers to the Applicable Trustee funds which are not less than the principal amount, if any, which has been withdrawn as provided in the Resolution from the Collateral Account and the Reserve Account, or delivers to the Applicable Trustee investment obligations meeting the requirements of the Resolution and in a form and amount which are satisfactory to the Authority and the Applicable Trustee, then notwithstanding the provisions of this subdivision and subdivision (b) below, the Authority shall withdraw its notice of assignment to FHA (and give notice of such withdrawal to the Applicable Trustee who shall give notice of such withdrawal to all Holders of Bonds of the Applicable Series and to the Applicable Bond Insurer of such withdrawal in the manner provided in paragraph (i) under this heading); provided, the Authority, the Applicable Bond Insurer and the Applicable Trustee have first received (i) written confirmation from FHA that the withdrawal of the Authority's claim will not adversely affect the FHA insurance of the Note, or be construed as a waiver or reduction thereof, (ii) agreement from a Qualified Financial Institution providing an Investment Agreement that such moneys can be reinvested at the same rate or rates as shall have been applicable prior to such withdrawal or other comparable arrangements satisfactory to the Authority, the Applicable Bond Insurer and the Rating Agencies shall have been provided, (iii) Cash Flow Statements shall have been provided evidencing that the failure to assign the Note and Mortgage to FHA as provided under this heading will not adversely affect the sufficiency of Trust Revenues for the payment of debt service on the Applicable Series of Bonds, which certificate with supporting calculations shall be furnished by a Financial Consultant, (iv) the amount on deposit in the Debt Service Reserve Fund and the Collateral Account is not less than the Debt Service Reserve Fund Requirement and the Collateral Account Requirement respectively, and (v) an unqualified opinion of nationally recognized bankruptcy Counsel satisfactory to the Applicable Trustee and the Applicable Bond Insurer to the effect that amounts paid by the Institution pursuant to clauses (x) and (y) above will not constitute an avoidable preference or be subject to the automatic stay provisions of Section 547(b) or 362(a), respectively, of the Federal Bankruptcy Act in the event that a case in bankruptcy is commenced by or against the

Institution. The Applicable Trustee shall promptly certify to the Authority that it has mailed or caused to be mailed notice of such withdrawal to all Holders of Bonds of the Applicable Series and to the Applicable Bond Insurer, and such certificate shall be conclusive evidence that such notice was given in the manner required under the Resolution.

(b) If a non-monetary default by the Institution under the terms of the Mortgage has occurred (including a default as a result of cross-default provision included therein), the Authority will, within (i) thirty (30) days after the occurrence of such default or (ii) such other grace period as will be established under applicable FHA regulations, give notice of such default to FHA (both the FHA Area Office and FHA Central Office), the Applicable Bond Insurer and the Rating Service(s) and on the basis of its determination as to which course of action will be in the best interest of the Bondholders, either:

(1) declare, or cause the Mortgage Servicer to declare, an acceleration of the unpaid principal balance of the Note by notice in writing to the Institution. Immediately upon such declaration the Authority will give, or cause the Mortgage Servicer to give, within one Business Day after the end of the applicable grace period, written notice to FHA (both the FHA Area Office and the FHA Central Office), the Applicable Trustee, the Applicable Bond Insurer and the Rating Service(s) of (i) the occurrence of such default, (ii) the acts or omissions giving rise to the default, (iii) the time period, if any, available to cure such default, (iv) a schedule of remaining Interest Payment Dates on the Bonds and a schedule of debt service payments due on such Series of Bonds, (v) a schedule of the funds available to make payments as they come due on the Bonds, (vi) the fact that the Mortgage was given to secure an issue of tax-exempt bonds,(vii) the Authority's election to assign the Note and the Mortgage to FHA and (viii) the Authority's intention and election to file a claim for the Mortgage Insurance Benefits in accordance with FHA regulations and the FHA Debenture Agreement, if applicable. In filing such notice, the Authority or the Mortgage Servicer will request priority processing of the Mortgage Insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice, the Authority or the Mortgage Servicer will request (a) required forms and instructions relating to the assignment of the Mortgage and (b) an endorsement of the Mortgagee's title insurance policy showing the current status of any liens affecting the Mortgaged Property. Within five Business Days of the receipt of such forms and instructions, the Authority will submit or cause to be submitted the legal documentation for review by the Office of General Counsel of FHA. The Authority will commence and proceed with diligence to complete and submit or cause to be completed and submitted (by no later than thirty days after the date of recordation of the assignment to FHA unless an extension of such time period is approved in writing by FHA), in consultation with the Mortgage Servicer, fiscal documentation and any additional legal documentation as may be required to file a claim for such Mortgage Insurance Benefits in accordance with FHA regulations, following consultation with the Office of Finance and Accounting of FHA. Upon receipt of the notice given by the Authority to FHA of the Authority's election to assign the Note and Mortgage to FHA, the Applicable Trustee will mail notice as provided in paragraph (i) under this heading to all Bondholders of such Applicable Series and the Applicable Bond Insurer of the occurrence of such default and of the Authority's intent to file such claim and promptly certify to the Authority that it has mailed such notice to the Applicable Bond Insurer and all such Bondholders, which certificate will be conclusive evidence that such notice was given in the manner required by the Resolution. Unless directed in writing to the contrary by the Holders of one hundred percent (100%) in aggregate principal amount of the Bonds Outstanding and with the written consent of the Applicable Bond Insurer within twenty (20) days of the date such notice was given to FHA and mailed to the Applicable Bond Insurer and the Bondholders or unless such default has been cured as provided in the second paragraph of subdivision (a) under this heading, the Authority will take all actions necessary to assign the Note and Mortgage to FHA and recover such claim on the FHA mortgage insurance; or

(2) give, or cause the Mortgage Servicer to give, written notice to FHA of the occurrence of such default and enter into an agreement with the Institution, approved by FHA, extending the time for curing such default; provided that the Authority will not execute any such agreement unless the Authority has notified the Applicable Bond Insurer and the Rating Service(s) then rating the Applicable Series of Bonds that the time for curing such default is being extended.

(c) Until the Note and Mortgage have been assigned to FHA pursuant to subdivision (a) or (b) under this heading, the Applicable Trustee will pay upon written request of the Authority and the Mortgage Servicer, from amounts in the Surplus Account, any hazard insurance premiums or mortgage insurance premiums which may become due prior to the date of assignment, unless payment of such mortgage insurance premiums is waived by FHA. In the event there shall be insufficient amounts in the Surplus Account to make such premium payments, the

Applicable Bond Insurer, at its sole option may make such premium payments with the consent of the Authority and such payments shall constitute an advance by the Applicable Bond Insurer.

(d) The Authority will or will cause the Mortgage Servicer to proceed with due diligence to obtain payment of the FHA Mortgage Insurance on the earliest practicable date.

(e) In the event an FHA Debenture Agreement is in effect with respect to an Applicable Series of Bonds, payment of mortgage insurance shall be requested (subject to the provisions of the penultimate sentence of this paragraph) in FHA debentures and not in cash. In making a claim on the FHA Mortgage Insurance, the Authority shall cause a Financial Consultant to prepare a Cash Flow Statement, copies of which shall be sent to the Rating Services, the Applicable Bond Insurer and the Applicable Trustee, showing the amount of FHA debentures as are necessary to provide a cash flow sufficient without reinvestment to make timely payment of the interest on the Applicable Series of Bonds when due, and the Principal Amount of the Applicable Series of Bonds in accordance with the applicable Cash Flow Statement. Such Cash Flow Statement may include draws under the Applicable Surety Bond and shall show that subsequent to the receipt of such FHA debentures, the amount to be drawn under the Applicable Surety Bond with respect to each Interest Payment Date for the Bonds of such Series shall not exceed the amount to be drawn under the Applicable Surety Bond on the related Original Cash Flow Statement reflecting a projected default on the Mortgage on the date such default occurred and that the Bonds held by the Applicable Bond Insurer as a result of projected draws on the Applicable Surety Bond on each Interest Payment Date would remain outstanding no longer than as set forth in the Original Cash Flow Statement; *provided*, *however*, that if FHA has indicated to the Authority that FHA will pay mortgage insurance benefits in an amount in excess of that amount necessary to pay interest when due and principal amount when due on the Applicable Series of Bonds, including repayment of draws under the Applicable Surety Bond, the Authority shall cause to be prepared or verified by a Financial Consultant a Cash Flow Statement, copies of which shall be sent to the Applicable Trustee, the Applicable Bond Insurer and each Rating Service, showing the amount of FHA debentures that will be required to provide a cash flow sufficient (without reinvestment) to make timely payment of the interest on the Applicable Series of Bonds when due and the Principal Amount of the Applicable Series of Bonds, including repayment of draws under the Applicable Surety Bond, no later than the latest respective due dates therefor, together with the amount necessary (i) to pay the fees and expenses of the Authority and the Trustee, (ii) to pay any unpaid Servicing Fee, and (iii) to reimburse any Mortgagee Advances and, in such event, the Authority shall request such amount of debentures as is shown to be necessary for such purposes in such Cash Flow Statement, although the Authority may accept a lesser amount of debentures if tendered by FHA, so long as the amount tendered is not less than the amount necessary as shown in a Cash Flow Statement to make timely payment of interest on the Applicable Series of Bonds when due and that the Bonds held by the Applicable Bond Insurer as a result of projected draws on the Applicable Surety Bond on each Interest Payment Date would remain outstanding no longer than as set forth on the Original Cash Flow Statement. Notwithstanding any other provision of the Resolution or any applicable FHA Debenture Agreement, the Authority may accept cash or the proceeds of a redemption of FHA debentures, if the amount to be derived thereby will be sufficient, together with all other available funds, to provide for the immediate Extraordinary Mandatory Redemption of all of the Applicable Series of Bonds. The Authority agrees to return to FHA any excess FHA debentures received in accordance with the provisions of an applicable FHA Debenture Agreement.

(f) In the event an FHA Cash Lock Agreement is in effect with respect to an Applicable Series of Bonds, payment of FHA Mortgage Insurance Benefits shall be requested in cash and not in FHA debentures. Unless otherwise provided for in the Applicable Commitment, in making a claim on the FHA mortgage insurance, the Authority shall limit any claim for FHA Mortgage Insurance Benefits to the amount of cash necessary to redeem any Outstanding Bonds as soon as practicable upon receipt of the FHA Mortgage Insurance Benefits plus accrued interest and redemption expenses, provided that in no event shall the amount of FHA Mortgage Insurance Benefits exceed the amount of cash payable under 24 CFR Section 207.259. The Authority agrees to return to FHA any excess cash not utilized in connection with such Extraordinary Mandatory Redemption.

(g) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, the Applicable Trustee will, upon receipt of notice from the Authority that it has received a direction from FHA pursuant to 24 C.F.R. Section 207.258(b)(5) or any other applicable regulation, pay to FHA any amounts which are required to be paid to FHA which remain on deposit in the Construction Fund and give written notice of such payment to the Applicable Bond Insurer. If by the date the assignment of the Note and Mortgage to FHA is completed, FHA has not directed the Authority to pay over the undisbursed balance in the Construction Fund, the

Authority will direct the Applicable Trustee (with a copy of such direction to the Applicable Bond Insurer) to transfer, within two (2) Business Days, such amounts to the Redemption Account and apply the same to the Extraordinary Mandatory Redemption of Bonds, provided the Authority has first given written notice to FHA that the Authority intends to apply the undisbursed balance in the Construction Fund to such redemption and the Authority has received written confirmation from FHA that it will not require payment of the undisbursed balance of the Construction Fund pursuant to 24 C.F.R. Section 207.258(b)(5) (or any successor regulation thereto).

(h) In the event the Note and Mortgage are assigned to FHA upon a claim under the FHA mortgage insurance, if at any time prior to final payment of all mortgage insurance benefits, the Authority determines that there will not be sufficient moneys available in the Debt Service Fund and the Debt Service Reserve Fund for payment of the Principal Amount of and interest on the Applicable Series of Bonds becoming due on the next Interest Payment Date, the Authority will, not later than 30 days prior to such Interest Payment Date, give written notice to FHA of such deficiency and request immediate payment in cash of all mortgage insurance benefits in an amount necessary to avoid an Event of Default under the Resolution.

(i) Upon payment of a claim for FHA Mortgage Insurance, the Authority will assign and transfer such FHA Mortgage Insurance Benefits to the Applicable Trustee immediately upon the receipt thereof. In the event such benefits are received in the form of FHA debentures, the Applicable Trustee will deposit such debentures upon receipt to the credit of the Applicable Debt Service Account and will apply all cash flow received with respect to such debentures as described hereinbelow under the heading “Application of FHA Mortgage Insurance Benefits”. In the event such benefits are received in the form of cash, the Applicable Trustee shall deposit such cash in the Applicable Debt Service Account and apply such moneys as described hereinbelow under the heading “Application of FHA Mortgage Insurance Benefits”. The Applicable Trustee will mail or cause to be mailed notice as provided in subdivision (i) under this heading to the Holders of all Bonds Outstanding of the Applicable Series and to the Applicable Bond Insurer that the Applicable Trustee has received such FHA debentures or cash or a combination thereof. The Applicable Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to such Bondholders and to the Applicable Bond Insurer, and such certificate will be conclusive evidence that such notice was given in the manner required pursuant to the Resolution.

(j) As used under this heading, “notice” to the Bondholders or the Applicable Bond Insurer will mean notice by mail, postage prepaid, to the Holders of the Bonds of a Series at their last addresses appearing on the registration books of the Authority maintained at the principal office of the Applicable Trustee and to the Applicable Bond Insurer at the address provided in the Applicable Series Resolution; however, if directed by an Authorized Officer of the Authority, the Applicable Trustee will also publish or cause to be published such notice in an Authorized Newspaper within ten (10) days from receipt of such FHA Mortgage Insurance Benefits.

(*Section 8.04*)

Application of FHA Mortgage Insurance Benefits

The following provisions apply in connection with any receipt of FHA Mortgage Insurance Benefits in connection with an Applicable Series of Bonds.

(a) Upon receipt of the final payment of mortgage insurance benefits from FHA, the Applicable Trustee will calculate the “Funds Available for Extraordinary Mandatory Redemption,” being the sum of (i) all mortgage insurance proceeds paid in cash, including accrued interest paid in FHA debentures (“Cash Proceeds”); (ii) all uninvested moneys held in all funds and accounts (other than the Mortgage Account and the Equity Account of the Construction Fund and the Arbitrage Rebate Fund) established under the Applicable Series Resolution including any unused portion of any Letter of Credit held in such funds and accounts (“Cash on Hand”); and (iii) the amount which could be realized from the sale of all investments (not including FHA debentures) deposited to the credit of all funds and accounts (other than the Mortgage Account, the Equity Account and the Arbitrage Rebate Fund) established under the Applicable Series Resolution (“Investments on Hand”).

In the event that all mortgage insurance proceeds are paid by FHA in cash and the Funds Available for Extraordinary Mandatory Redemption are sufficient in reliance upon a Cash Flow Statement to redeem all Bonds Outstanding of the Applicable Series pursuant to Extraordinary Mandatory Redemption on the first practicable date such redemption can be made in accordance with the Resolution, and pay all other amounts due as provided in paragraph (e) under the heading "Redemption Account," the Applicable Trustee will sell all investments on Hand and deposit the proceeds of sale, together with all Cash Proceeds and Cash on Hand, in the Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of such Bonds.

(b) In the event that mortgage insurance benefits are paid by FHA entirely in FHA debentures or in part in FHA debentures and in part in cash, except as provided in paragraph (c) below, the Applicable Trustee shall deposit the cash and hold such FHA debentures in the Debt Service Account to their maturity, or until the Principal Amount of and interest on the Applicable Series of Bonds and all fees and expenses of the Authority, the Applicable Trustee, the Mortgage Servicer and the Applicable Bond Insurer have been paid, whichever is the earlier; *provided*, *however*, the Applicable Bond Insurer may request (unless the Applicable Bond Insurer is in default of its obligations under the Applicable Bond Insurance Policy or the Applicable Surety Bond, or any Letter of Credit provided by the Applicable Bond Insurer, in which case the Holders of 100% in aggregate Principal Amount of the Applicable Series of Bonds Outstanding may request), that either (i) the Applicable Trustee at the direction of the Authority (which direction shall be consented to by the Applicable Bond Insurer) and with the consent of HUD, if applicable, shall sell the FHA Debentures and all investments under the Resolution, except the respective Arbitrage Rebate Fund, and deposit the proceeds so obtained together with all immediately available funds held by the Applicable Trustee under the Resolution in the Applicable Redemption Account for application to the Extraordinary Mandatory Redemption of the Applicable Series of Bonds Outstanding pursuant to subdivision (b) under the heading "Redemption Account," and return any excess thereof to HUD, or (ii) the Applicable Trustee shall sell all investments on hand (but not the FHA Debentures) and deposit the proceeds of such sale, together with all cash proceeds and cash on hand, in the applicable Redemption Account and apply such amounts to the Extraordinary Mandatory Redemption of the Applicable Series of Bonds and payment of all fees and expenses of the Authority, the Applicable Bond Insurer, the Applicable Trustee and the Mortgage Servicer and any Mortgagee Advances and shall deposit the FHA Debentures to the credit of the Applicable Debt Service Account, and apply the interest income thereon and the principal thereof to the interest due on the Applicable Series of Bonds and then to the maturing principal of and to the Sinking Fund Redemption of the Applicable Series of Bonds. Any such request to the Applicable Trustee must be accompanied by a determination by the Applicable Trustee, which determination may be made in reliance upon a Cash Flow Statement prepared by a Financial Consultant, that (x) in the case of (i) above, the proceeds of the sale of the FHA Debentures and all amounts or investments under the Resolution, except the respective Arbitrage Rebate Fund, would produce sufficient funds together with all immediately available funds held by the Applicable Trustee under the Resolution to pay (taking into account Bonds owned by the Applicable Bond Insurer, including Bonds held as a result of draws on the Applicable Bond Insurance Policy and/or Applicable Surety Bond) the principal amount of all the Applicable Series of Bonds Outstanding, accrued interest on such Series of Bonds to the redemption date, the fees and expenses of the Authority, the Applicable Bond Insurer, the Applicable Trustee and Mortgage Servicer, and any Mortgagee Advances, and (y) in the case of (ii) above, the Funds Available for Extraordinary Mandatory Redemption (if applied on the first practicable date to Extraordinary Mandatory Redemption) and the income and principal on any FHA Debentures received as FHA Mortgage Insurance Benefits (if applied to Sinking Fund Redemption pursuant Subdivision (a) under the heading "Debt Service Fund"), would be sufficient to pay the Principal Amount of and interest on all of the Applicable Series of Bonds Outstanding (taking into account Bonds owned by the Applicable Bond Insurer, including Bonds held as a result of draws on the Applicable Bond Insurance Policy and/or Applicable Surety Bond in accordance with the related Cash Flow Statement) and all fees and expenses of the Authority, the Applicable Trustee and the Mortgage Servicer, and any Mortgagee Advances.

(c) In the event that the amount of debentures received from FHA is sufficient to provide for the payment when due of the interest on the Applicable Series of Bonds Outstanding and to pay the Principal Amount thereof at or prior to maturity, but not sufficient to reimburse all Mortgagee Advances and to pay fees and expenses of the Applicable Trustee, *provided*, *however*, with respect to the Principal Amount of such Series of Bonds, the Cash Flow Statement prepared pursuant to this subsection may consider draws under the Applicable Surety Bond in considering sufficiency of paying principal no later than the latest respective maturity dates, provided such schedule shall show that subsequent to the receipt of such FHA debentures, the amount to be drawn under the Applicable Surety Bond with respect to each Interest Payment Date for such Series of Bonds shall not exceed the amount to be drawn under the Applicable Surety Bond on the Original Cash Flow Statement delivered at closing reflecting a projected default on the Mortgage on the date such default occurred and that the Bonds held by the Applicable Bond Insurer as a result of projected draws on the Applicable Surety Bond on each Interest Payment Date would remain outstanding no longer than as set forth in such related Cash Flow Statements, but not sufficient to reimburse all Mortgagee Advances and to pay fees and expenses of the Applicable Trustee, the Authority and the Mortgage Servicer, the Authority will cause a Cash Flow Statement to be prepared showing the debt service payments to be made on such Bonds on each succeeding Interest Payment Date using the funds available from the debentures received by the Applicable Trustee. Any additional funds available from such debentures on any Interest Payment Date which will not be needed to pay debt service on the Bonds in accordance with such Cash Flow Statement will be applied first to the extent available to the reimbursement of Mortgagee Advances and the balance shall be deposited in the Surplus Account. Notwithstanding clause Third of subdivision (a) under the heading "Debt Service Fund," the Applicable Trustee will apply moneys in the Debt Service Fund, including the interest payments and principal payments from the FHA debentures, to the payment of the Principal Amount (pursuant to clause Second of subdivision (a) under the heading "Debt Service Fund") or Redemption Price (pursuant to clause Fourth of subdivision (a) under the heading "Debt Service Fund") of and interest (pursuant to clause First of subdivision (a) under the heading "Debt Service Fund") on the Bonds Outstanding. The Applicable Trustee shall apply moneys in the Surplus Account in accordance with subdivision (b) under the heading "Debt Service Fund."

(d) In the event that all mortgage insurance proceeds, Cash on Hand and proceeds which could be realized from the sale of Investments on Hand are not sufficient to pay the principal or Redemption Price of and interest on all Bonds Outstanding of an Applicable Series in the manner described in subsections (a) or (b) above, and the Applicable Trustee with the consent of the Applicable Bond Insurer and the Authority have received a Cash Flow Statement showing such insufficiency (copies of which shall be sent to the Rating Service(s) and the Applicable Bond Insurer), then, with the consent of the Applicable Bond Insurer, all such Investments and all FHA debentures shall be sold and the proceeds of such sale, together with all Cash on Hand (except the Arbitrage Rebate Fund), together with the redemption price of FHA debentures redeemed by FHA, shall be applied to the extent available: first, to the Extraordinary Mandatory Redemption of the Bonds, second, to reimburse any Mortgagee Advances, to pay any unpaid Servicing Fee and to pay any fees and expenses of the Applicable Bond Insurer, and third, to pay the fees and expenses of the Authority and the Applicable Trustee; provided, that, if such moneys shall be insufficient to provide for the Extraordinary Mandatory Redemption of all of the Bonds of such Series, then such amounts shall be applied, as shall be directed by the Authority based on a Cash Flow Statement and with the consent of the Applicable Bond Insurer, and taking into account the provisions of the Resolution in the case of claims for interest extended or transferred apart from the Bonds after maturity.

(e) In the event that all or any portion of mortgage insurance proceeds are paid in the form of FHA debentures, and such debentures are redeemed by FHA, the Applicable Trustee will deposit the amount paid as the redemption price for such debentures in the Redemption Account and apply the same in accordance with subdivisions (a), (b), (c) and (d) under this heading.

(f) Amounts paid to reimburse the Applicable Bond Insurer for amounts obtained under the Applicable Surety Bond shall be applied first to the extent of interest paid on the Applicable Series of Bonds with amounts obtained under the Applicable Surety Bond, second, to the extent of accrued interest on the Applicable Series of Bonds held by the Applicable Bond Insurer as a result of the payment of principal on such Applicable Series of Bonds and third, to the extent of principal of such Applicable Series of Bonds held by the Applicable Bond Insurer as a result of the payment of principal on such Applicable Series of Bonds in direct order of maturity with amounts obtained under the Applicable Surety Bond.

(g) In the event there is in effect with respect to all Applicable Series of Bonds, all FHA Debenture Agreement, the Authority agrees to return or cause the Trustee to return to FHA, any excess FHA debentures received all in accordance with the provisions of the Applicable FHA Debenture Agreement. In addition, to the extent required in any Applicable Commitment, the Authority agrees to return or cause the Trustee to return to FHA any remaining FHA Debentures after the Applicable Series of Bonds are fully retired and the reasonable administrative expenses of redemption have been met.

(h) All certifications, Cash Flow Statements and reports prepared pursuant to this heading shall be provided to the Applicable Bond Insurer.

(*Section 8.05*)

Monetary Defaults Prior to the End of the No Call Period or when a Prepayment Premium is Payable under the Note

The following procedures shall apply in connection with a monetary default by the Institution:

(a) In lieu of the provisions of subdivision (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance," in the event of a monetary default under the Note and the Mortgage prior to the date set forth in the Applicable Bond Series Certificate or during a period when a prepayment premium in excess of one percent (1%) is payable under the Note, within one (1) Business Day following the lapse of the thirty (30) day grace period, the Authority will, or will cause the Mortgage Servicer to, (1) notify FHA (both the Area Office and the Central Office), the Applicable Bond Insurer and the Rating Service(s) of the default and of the fact that the Mortgage was given to secure an issue of tax-exempt bonds rated by the Rating Service(s), such notice to be accompanied by a schedule of funds available to make payments as they become due, (2) file with the Central Office a request for a three (3) month extension of the time to file its notice of intention and election to file a claim for mortgage insurance in connection with such default, and (3) file a copy of such extension request with the Authority, the Applicable Bond Insurer and the Rating Service(s). In filing such notice, the Authority will, or will cause the Mortgage Servicer to, state that it intends to request priority processing of the mortgage insurance claim and will attach a copy of the June 23, 1987 letter from FHA to Standard & Poor's. Immediately upon the filing of such notice and request, the Authority will, or will cause the Mortgage Servicer to, request forms and instructions relating to the assignment of the Mortgage, and within five (5) Business Days of the receipt of such forms and instructions, the Authority will, or will cause the Mortgage Servicer to, submit legal documentation for review to office of General Counsel of FHA. During the extension period approved by FHA (which, except as provided in Subdivision (f) of this heading, will be not longer than three months), the Authority will, or will cause the Mortgage Servicer to, follow the directions in subdivision (b) under this heading. If the request by the Authority for the extension is not approved, the Authority will, or will cause the Mortgage Servicer to, file with FHA (both the Central Office and the Area Office) notice of the Authority's intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the receipt of the decision from FHA and thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in subdivision (a) under the heading "Remedies under Mortgage and FHA Insurance." A copy of the intention and election filed with FHA will also be filed with the Authority, the Applicable Bond Insurer and the Rating Service(s).

(b) If an extension period is granted, during the extension period approved by FHA, the Authority will take the following actions, as appropriate:

(1) assist the Institution in arranging a refinancing of the Note to cure the default and avert the filing of the claim for mortgage insurance;

(2) report to FHA (both the Central Office and the Area Office) on a monthly basis the progress, if any, in arranging the refinancing;

(3) cooperate with FHA and take all reasonable steps in accordance with prudent business practices to avoid filing the mortgage insurance claim;

(4) if thirty (30) days prior to any Interest Payment Date the Authority determines that sufficient moneys will not be available to make the payments required on the Applicable Series of Bonds, notify FHA (both the Central Office and the Area Office) of such deficiency and request the immediate payment of FHA mortgage insurance benefits in cash; and

(5) if a determination is made by the Authority that the refinancing of the Note is not feasible, (i) file a request with the Central Office of FHA for its concurrence in such determination, (ii) submit to FHA (both the Central Office and the Area Office) a notice of intention and election to file a claim for mortgage insurance, (iii) file a copy of such intention and election with the Applicable Trustee, the Applicable Bond Insurer and the Rating Service(s), and (iv) proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance."

(c) The Authority agrees that it will not request more than one additional extension of the initial extension period approved by FHA and that it will not make such request unless the Authority shall require that a Cash Flow Statement be prepared by a Financial Consultant. If the conditions for such further extension are not met, the Authority will proceed with processing the mortgage insurance claim in a timely fashion in the manner described in paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance."

(d) Anything under this heading to the contrary notwithstanding, simultaneous with the Authority's efforts to refinance the Note, the Authority will follow the procedures set forth in paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance," such that if the Note is not refinanced the Authority will be able to file its notice of intention and election to file a mortgage insurance claim within two (2) Business Days after the expiration of the approved extension period and proceed with the processing of the mortgage insurance claim in a timely fashion.

(e) To the extent a refinancing is arranged and approved by FHA in accordance with the Cash Flow Statements described below, the Note will be prepaid, in whole or in part, and the proceeds will be applied to the Extraordinary Mandatory Redemption of the Bonds as provided in paragraph (d) under the heading "Redemption Account," *provided*, *however*, that such refinancing will result in a prepayment of the Note prior to the expiration of the approved extension period (which, except as provided in subdivision (f) under this heading in no event will be longer than three (3) months). Cash Flow Statements shall be prepared by a Financial Consultant in connection with such refinancing.

(f) To the extent a refinancing is not approved by FHA, the Authority will or will cause the Mortgage Servicer to (i) file with FHA (both the Central Office and the Area Office) its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Applicable Trustee, the Applicable Bond Insurer and the Rating Service(s) and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance." To the extent a refinancing cannot be completed within the approved extension period, the Authority will or will cause the Mortgage Servicer to (i) file with FHA (both the Central Office and the Area Office) its intention to file an insurance claim and its election to assign the Mortgage within two (2) Business Days of the disapproval of the refinancing by FHA, (ii) file a copy of such intention and election with the Applicable Trustee, the Applicable Bond Insurer and the Rating Service(s), and (iii) thereafter proceed with the processing of the mortgage insurance claim in a timely fashion in the manner described in paragraph (a) under the heading "Remedies under Mortgage and FHA Mortgage Insurance"; *provided*, *however*, that at the option of the Authority, if a refinancing has been arranged and approved within the approved extension period in accordance with the Cash Flow Statement described in paragraph (e) under this heading, and such refinancing can be completed within an additional thirty (30) days, at the Authority's sole discretion, the refinancing will be accepted by the Authority, as mortgagee, if the Note and Mortgage have not been assigned to FHA. During the period when the Authority can exercise the right set forth in the prior sentence to accept a refinancing, it will not in any way delay the filing and processing of the mortgage insurance claim during the additional thirty (30) day period.

(g) To the extent there is a partial prepayment of the Note pursuant to a refinancing approved in accordance with the provisions described under this heading, the Authority will consent to any subordinate or parity liens on the Mortgaged Property which may be required.

(h) Notwithstanding any other provisions of the Resolution, to the extent (i) FHA does not immediately pay a claim as requested by the Authority pursuant to subdivision (b)(4) under this heading, (ii) FHA does not process a claim made pursuant to subdivision (b)(5) under this heading, or (iii) the processing of the mortgage insurance claim does not proceed in the fashion set forth under this heading, then the Authority will proceed in a manner to preserve the mortgage insurance of the Note and the Mortgage, and otherwise protect the interest of the Bondholders.

(*Section 8.06*)

Legal Proceedings by Applicable Trustee

(a) If an Event of Default as defined in paragraph (c) under the heading "Events of Default" has occurred, or if an Event of Default as defined in paragraph (e) under the heading "Events of Default" has occurred by reason of a default by the Authority in the performance of its obligations described in the Resolution, the Applicable Trustee will immediately record the assignment of the Applicable FHA Documents referred to in subdivision (a) under the heading "Pledge of Trust Revenues," notify FHA and the Applicable Bond Insurer of such assignment and will thereupon succeed to all duties and obligations of the Authority under the terms of such FHA Documents, and all duties and obligations of the Authority with respect to such FHA Documents under the Resolution and the Applicable Series Resolution. The Applicable Trustee may not declare the principal amount of the Bonds of such Series then Outstanding to be due and payable if an Event of Default as defined in paragraphs (a) and (b) under the heading "Events of Default" has occurred without the prior written consent of the Applicable Bond Insurer and may not declare such Bonds to be due and payable if an Event of Default as defined in paragraphs (c), (d) or (e) under the heading "Events of Default" has occurred.

(b) If any Event of Default has occurred and is continuing (other than an Event of Default as defined in paragraphs (c), (d) or (e) under the heading "Events of Default" resulting from a default under the Mortgage), or if any event of default will occur in the Institution's performance of any of its obligations under the Loan Agreement, the Applicable Trustee with the written consent of the Applicable Bond Insurer in its discretion may, and (i) at the direction of the Applicable Bond Insurer or (ii) upon the written request of the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds of the Applicable Series then Outstanding (with the consent of the Applicable Bond Insurer) and receipt of indemnity to its satisfaction, shall, in its own name:

(i) by suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Authority and the Institution to carry out any of their respective obligations under the Resolution and under the Loan Agreement or under any other agreements with, or for the benefit of, the Bondholders; and enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders for the sole purpose of curing such default; and

(ii) if an Event of Default defined in paragraphs (a) or (b) under the heading "Events of Default" has occurred and is continuing, bring suit upon the Applicable Series of Bonds.

(c) If any proceeding taken by the Applicable Trustee on account of any default is discontinued or is determined adversely to the Applicable Trustee, the Authority, the Institution, the Applicable Trustee and the Bondholders of Applicable Series of Bonds shall be restored to their former positions and rights under the Resolution as though no such proceeding had been taken.

(d) The Applicable Bond Insurer or, if there is no Applicable Bond Insurer, or if the Applicable Bond Insurer shall be in default of its obligations under the Applicable Surety Bond or the Applicable Bond Insurance Policy, the Holders of a majority in aggregate principal amount of the Bonds Outstanding of the Applicable Series will have the right, subject to the prior written approval of FHA when necessary, to direct the method and place of conducting all remedial proceedings by the Applicable Trustee, provided such direction will not be otherwise than in accordance with law or the provisions of the Resolution and the Applicable Trustee will have the right to decline to follow any such direction which in the opinion of the Applicable Trustee would be prejudicial to Bondholders not parties to such direction. If the directions of the Bondholders conflict with those of the Applicable Bond Insurer, those of the Applicable Bond Insurer shall control.

(*Section 8.07*)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law without the written consent of the Applicable Bond Insurer (unless the Applicable Bond Insurer shall then be in default of its obligations under the Applicable Bond Insurance Policy and/or the Applicable Surety Bond, in which even the consent of the Applicable Bond Insurer will not be required) for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless (1) such Holder previously shall have given to the Applicable Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and (2) unless the Holders of not less than (i) twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series, or, (ii) in the case of an event of default specified in subdivision (c) under the heading "Events of Default," the Applicable Bond Insurer or the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series shall have made written request to the Applicable Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Applicable Trustee a reasonable opportunity either to proceed to exercise the powers granted 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 Applicable Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Applicable Trustee shall have refused or neglected to comply with such request within a reasonable time. Under the Resolution, such notification, request and offer of indemnity are declared in every such case, at the option of the Applicable Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution. It is understood and intended that no one or more Holders of the Bonds of all 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 therein provided, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of all Applicable Series shall have the right which is absolute and unconditional to receive payment of the principal of or Redemption Price, if any, and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(*Section 8.08*)

Modification and Amendment Without Consent

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

(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, or any Applicable Series Resolution, the Applicable Trust 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 respect, with respect to any Applicable Series of Bonds, provided that such modifications will not be effective, with respect to any Applicable Series of Bonds, until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution will cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolutions will contain a specific reference to the modifications contained in such subsequent resolutions;

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

(g) To amend a Series Resolution previously adopted by the Authority to provide for the issuance of an additional series of bonds under such Series Resolution for the purpose of financing a Capital Addition, which additional bonds may be secured on a parity with any Outstanding Bonds issued under such Series Resolution; *provided*, *however*, that such additional bonds may only be issued upon compliance with the provisions of the Resolution relating to the issuance of an Applicable Series of Bonds, and provided further, to the extent such Additional Bonds are secured by the Mortgage or Note, Cash Flow Statements shall be prepared.

(*Section 10.02*)

Applicable Supplemental Resolutions Effective with Consent of Holders of Bonds

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

(*Section 10.03*)

Amendment of Loan Agreement

No amendment to the Loan Agreement will be effective between the parties thereto until approved in writing by the Applicable Trustee, who will give such approval if it reasonably determines (in reliance upon an opinion of counsel, if so required by the Applicable Trustee) that such amendment or supplement is not inconsistent with the Resolution and would not impair the security of the Applicable Series of Bonds or impair the rights of the Applicable Bond Insurer. In the event the Applicable Trustee has made no written response to any such request for approval of an amendment or supplement to a Loan Agreement by the close of business on the 30th day after confirmed receipt by a Trust Officer, the Applicable Trustee shall be deemed to have given its approval. Copies of all amendments to the Loan Agreement will be provided to the Applicable Bond Insurer.

(Section 10.06)

Amendments for Uninsured Bonds

In the event a Series of Bonds is issued pursuant to the Resolution and such Series of Bonds is not insured by a Bond Insurance Policy, the Applicable Series Resolution may include amendments to the Resolution as may be necessary to provide a methodology for establishing the Applicable Bond Insurer's respective interests, if any, in each Applicable Series of Bonds. Any such amendments shall not apply to any Series of Bonds that are insured by a Bond Insurance Policy.

(*Section 10.07*)

Defeasance

(a) If the Authority will pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated in said Bonds, in the Resolution, and in the Applicable Series Resolution and

Applicable Bond Series Certificate, then the pledge of the Applicable Trust Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds will be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Loan Agreement, the Note, the Mortgage and the Trust Revenues will thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, will release the lien of the Resolution and Applicable Series Resolution, but only with respect to such Applicable Series except as it covers moneys and securities provided for the payment of such Bonds, will cancel the Applicable Note and endorse the Applicable Mortgage for cancellation and return the same to the Institution together with a release of the Mortgage in proper form for recordation (unless the Note and Mortgage have been assigned to FHA or pledged for the benefit of the holders of any indebtedness authorized pursuant to the Resolution or indebtedness issued or incurred to refund the Applicable Series of Bonds in which latter case the Applicable Trustee will deliver and assign such Note and Mortgage to such person as the Institution will direct), and will execute such documents to evidence such release as may be reasonably required by the Authority and the Institution and will turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith including any amounts due under the Servicing Agreement; provided that if any of such Bonds are to be redeemed prior to the maturity thereof, the Authority will have taken all action necessary to redeem such Bonds and notice of such redemption will have been duly mailed in accordance with the Resolution or irrevocable instructions to mail such notice shall have been given to the Applicable Trustee.

(b) Bonds of an Applicable Series for which moneys have been set aside and shall be held in trust by the Applicable Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Applicable Trustee, in form satisfactory to it, irrevocable instructions to publish as provided in the Resolution notice of redemption on said date of such Bonds, (b) there has been deposited with the Applicable Trustee either moneys, in an amount which will be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Applicable Trustee at the same time, will be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the, Authority will have given the Applicable Trustee, in form satisfactory to it, irrevocable instructions to provide to the Applicable Bond Insurer and to publish as soon as practicable, 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 Applicable Trustee and that said Bonds are deemed to have been paid in accordance with the provisions under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds. The Authority will give written notice to the Applicable Trustee and the Applicable Bond Insurer of its selection of the maturity for which payment will be made in accordance with the provisions under this heading including the Schedule of Sinking Fund Installments to be set forth in the Bond Series Certificate as the same may be amended by the Authority from time to time. Such written notice shall be accompanied by a report of an independent certified public accountant which report shall show that the principal amount of and investment income on the Defeasance Securities will be sufficient to make the payments, when due, of the maturing principal, anticipated sinking fund redemptions, the redemption price of and interest on the Applicable Series of Bonds when due. Such report shall be provided to the Applicable Bond Insurer together with any related escrow agreement. The Applicable Trustee will select which Bonds of such Series and which maturity thereof shall be paid in accordance with the provisions under this heading in the manner provided in the Resolution. Neither direct obligations of the United States of America nor moneys deposited with the Applicable Trustee pursuant to the provisions under this heading nor principal or interest payments on any such direct obligations of the United States of America will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds; provided that any moneys received from such principal or interest payments on such direct obligations of the United States of America deposited with the Applicable Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, will, to the extent certified by the Applicable Trustee or reflected in a record of an independent certified public accountant furnished t the Applicable Bond Insurer, to be in excess of the amounts required by the Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Applicable Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Institution, and any such moneys so paid by the Applicable Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by such Loan Agreement.

(*Section 12.01*)

Rights of the Applicable Bond Insurer

As long as a Applicable Bond Insurance Policy shall be in full force and effect with respect to an Applicable Series of Bonds, subject to the provisions set forth below under the heading "Termination of Applicable Bond Insurer's Rights," with respect to such Series, the following shall apply:

(a) In the event that the principal and/or interest due on the Applicable Series of Bonds is paid by the Applicable Bond Insurer pursuant to the Applicable Surety Bond or Applicable Bond Insurance Policy such Applicable Series of Bonds shall remain Outstanding for all purposes of the Resolution and the Applicable Series Resolution, and the assignment and pledge of the Resolution and all covenants, agreements and other obligations of the Authority to such Series of Bonds shall continue to exist and will run to the benefit of the Applicable Bond Insurer, and the Applicable Bond Insurer will be subrogated to the rights of such Bondholders.

(b) As long as the Applicable Surety Bond or Applicable Bond Insurance Policy is in full force and effect, the Authority, the Trustee and any Paying Agent further agree to comply with the following provisions:

(1) If, as of the third Business Day next preceding any date on which payment of principal of or interest on the Bonds is due, the Trustee has not received payments in such amounts so that sufficient moneys are available under the Resolution and the Applicable Series Resolution to pay all principal and interest coming due on the Applicable Bonds on the next succeeding payment date, the Trustee will immediately notify the Applicable Bond Insurer or its designee by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency. The Trustee shall request payments of amounts sufficient to pay principal and interest coming due on the Applicable Bonds first from amounts payable under the Applicable Surety Bonds, and, second, from the Applicable Bond Insurance Policy in accordance with the Applicable Series Resolution.

(2) If the deficiency is made up in whole or in part prior to or on the Interest Payment Date or Principal Payment Date, the Trustee will so notify the Applicable Bond Insurer or its designee.

(3) In addition, if the Trustee has notice that any of the Bondholders of the Applicable Series have been required to disgorge payments of principal or interest on such Bonds to the Authority or to the trustee in bankruptcy for creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Holders within the meaning of any applicable bankruptcy laws, then the Trustee will notify the Applicable Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(4) The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Bonds as more fully set forth in the Applicable Series Resolution.

(5) Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of the Applicable Surety Bond or by the Insurance Trustee pursuant to the terms of the Applicable Bond Insurance Policy, as the case may be, will not be considered to discharge the obligation of the Authority with respect to such Bonds as set forth in the Resolution, and the Applicable Bond Insurer shall become the owner of such unpaid Bond and claims for interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(6) Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Applicable Bond Insurer that:

(a) they recognize that to the extent the Applicable Bond Insurer makes payments, directly or indirectly (as by paying through the Trustee or the Insurance Trustee), on account of principal of or interest on the Bonds, the Applicable Bond Insurer will be subrogated to the, rights of such Holders to receive the amount of such principal and interest from the Authority, with interest thereon as provided and solely from the sources stated in the Resolution and the Bonds; and

(b) they will accordingly pay to the Applicable Bond Insurer the amount of such principal and interest, which principal and interest shall be deemed past due and not to have been paid, as provided in the Resolution and the Bonds, but only from the sources and in the manner provided in the Resolution for the payment of principal of and interest on the Bonds to Holders, and will otherwise treat the Applicable Bond Insurer as the owner of such rights to the amount of such principal and interest.

(7) Solely for purposes of enforcing its rights as specifically set forth under the Resolution and any Applicable Series Resolution, the Applicable Bond Insurer will be an intended beneficiary of the Resolution and any Applicable Series Resolution, entitled to enforce the provisions of the Resolution and any Applicable Series Resolution on its own behalf.

(*Section 14.01*)

Termination of Applicable Bond Insurer's Rights

Whenever by the terms of the Resolution or an Applicable Series Resolution the consent or approval of the Applicable Bond Insurer is required, alone or together with the Holders of Bonds of an Applicable Series or the Applicable Bond Insurer is authorized to request or direct the Trustee to take any action, such consent or approval will not be required and the Trustee will not be obligated to comply with such request or direction if the Applicable Bond Insurer is in default under the Applicable Surety Bond or Applicable Bond Insurance Policy and such default shall then exist and be continuing (an "Insurer Default"). Nothing contained in the Resolution will limit or impair the rights of the Holders of Bonds of an Applicable Series to give any consent or approval or to request or direct the Trustee to take any action and, if the Insurer Default under the Applicable Surety Bond or Applicable Bond Insurance Policy continues to exist, such consent or approval shall be effective without the consent or approval of the Applicable Bond Insurer otherwise required by the Resolution and the Trustee shall comply with such request or direction notwithstanding that such request or direction is required to be made be given together with the Applicable Bond Insurer.

If such default shall be cured, the Trustee will follow the instructions of the Applicable Bond Insurer in accordance with the Resolution. Anything in the Resolution or the Applicable Series Resolution to the contrary notwithstanding, any rights of subrogation of the Applicable Bond Insurer gained as a result of any payments made pursuant to a Applicable Bond Insurance Policy will continue to exist and be unaffected by any limitations on such rights under this heading or elsewhere in the Resolution or in the Applicable Series Resolution imposed as a result of the Insurer Default.

Notwithstanding the foregoing, the occurrence of an Insurer Default shall not affect the subrogation rights of the Applicable Bond Insurer acquired as a result of payments pursuant to the Applicable Surety Bond or Applicable Bond Insurance Policy.

(*Section 14.02*)

No Recourse under Resolution or on the Bonds

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution will be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse will be had for the payment of the principal Sinking Fund Installments, if any, or Redemption Price of or interest on the Bonds of an Applicable Series or for any claims based thereon or on the Resolution or on the Applicable Series Resolutions against any member, officer or employee of the Authority or any person executing such Bonds, all such liability, if any, being expressly waived and released by every Holder of a Bond of an Applicable Series by the acceptance of such Bonds.

(*Section 15.04*)

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

Set forth below are summaries of certain sections of the Loan Agreement. These summaries do not purport to be complete and reference should be made to the Loan Agreement, copies of which are on file with the Authority and the Trustee, for a complete Statement of the rights, duties and obligations of the Authority, the Trustee and the Bondholders under the Loan Agreement. The headings below are not part of the Loan Agreement but have been added for ease of reference only.

Project Financing

The Authority agrees to use its best efforts to authorize, issue, sell and deliver the Series 2008 Bonds in an aggregate principal amount not exceeding the amount set forth in the Series 2008 Resolution. The proceeds of the Series 2008 Bonds shall be applied as specified in the Resolution, the Series 2008 Resolution and the Bond Series Certificate relating thereto.

(*Section 4*)

Project Construction; Institution's Role

The Institution agrees that it has completed the project financed, in part, with the proceeds of the bonds to be refunded as part of the Project in accordance with and subject to, the terms, provisions and covenants of the Building Loan Agreement and the documents executed in connection therewith or required thereby, including, without limiting the foregoing, the plans and specifications as approved by FHA.

Institution covenants that it shall not transfer, sell, encumber or convey, by lease or otherwise, any interest in the Project or any part thereof or interest therein, including development rights, without complying with Governmental Requirements and obtaining the prior written consent of the Authority and FHA, if required, which consent shall be accompanied by (i) an agreement by the Institution to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the change will not have an effect on the status of the taxability of the interest on the Bonds for federal income taxation purposes. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit in the Debt Service Fund an amount not to exceed the amount of Bonds Outstanding at the date of such transfer, sale or conveyance, together with any other amounts required to pay the redemption price and interest to accrue on the Bonds Outstanding on the earliest practicable redemption date of such Bonds, as such amount is determined by the Authority.

(*Section 5*)

Application of Bond Proceeds

(a) The Authority shall deposit in the Mortgage Account and/or the Prepayment Account, from the proceeds of the sale of the Series 2008 Bonds, an amount equal to the original principal amount of the Note or such other amount as may be directed by an Authorized Officer of the Authority. The Institution shall deposit into the Equity Account, in cash, a Letter of Credit or any combination thereof, an amount equal to the equity required pursuant to the FHA Documents, less any approved equity advances. Amounts on deposit in the Equity Account, if any, shall be applied as provided in the Resolution for Costs of the Project.

(b) The Authority shall deposit in the Reserve Account, from the proceeds of the sale of the Series 2008 Bonds, an amount equal to the Debt Service Reserve Fund Requirement, less an amount equal to the Collateral Account Requirement, if any. The Institution shall deposit in the Collateral Account cash, a Letter of Credit or any combination thereof in an amount equal to the Collateral Account Requirement, if any.

(c) The Authority shall deposit in the Costs of Issuance Account, from the proceeds of the sale of the Series 2008 Bonds and from any other source, an amount as specified in the Bond Series Certificate.

(d) The Authority agrees that there shall be remitted to the Institution any sums payable to the Institution from the Construction Fund and the Debt Service Reserve Fund in the amounts and as otherwise provided in the Resolution. The Authority further agrees that there shall be credited or applied to the reduction of the Letter of Credit deposited to the credit of the Collateral Account, if any, and to interest payments due from the Institution under the Note, and to prepayments of the Note, such sums as are to be so credited or applied at the times and in the manner provided in the Resolution.

(*Section 6*)

Payments from Construction Fund

(a) Payments from the Construction Fund shall be made only in accordance with the provisions of the Loan Agreement, the Resolution, the Series 2008 Resolution, the Building Loan Agreement and the Servicing Agreement. Until the conditions for disbursement from the Construction Fund have been met, as specified in the Loan Agreement and in the Resolution, the Construction Fund shall be held for the benefit of the owners of the Series 2008 Bonds, subject to the provisions of the Resolution in the event the Note and Mortgage are in default and assigned to FHA.

(b) To the extent not paid from the Construction Fund, the Institution shall pay (i) to the Authority upon its written request, the Costs of Issuance, and (ii) to the Trustee, upon approval of the Authority, its reasonable fees and expenses.

(*Section 7*)

Institution to Complete the Project

No funds of the Authority, other than the proceeds of the Series 2008 Bonds available therefor as provided in the Resolution, shall be available to pay Costs of the Project. If the moneys in the Mortgage Account available for payment of the Costs of the Project, together with moneys, if any, held in the Equity Account, are not sufficient therefor, the Institution shall complete the Project at its own expense unless the Authority, in its sole discretion, has determined to finance such excess Costs by the issuance and sale of additional Bonds. The Authority makes no warranty, express or implied, that the moneys held in the Construction Fund will be sufficient to pay the Costs of the Project. Whether or not the Institution shall pay any portion of the Costs of the Project pursuant to the provisions described under this heading, it shall not be entitled to any reimbursement therefor (except to the extent of reimbursement from the proceeds of any additional bonds) from the Authority, the Trustee, the Mortgage Servicer or the Holders of any of the Series 2008 Bonds, nor shall the Institution be entitled to any diminution in or postponement of the payments required to be made by it under the Loan Agreement and under the Note. Notwithstanding anything in the Loan Agreement to the contrary, the provisions described under this heading are not in any way intended to limit or waive any rights of the Authority to the proceeds of any performance bonds or payment bonds to be used to complete the Project.

(*Section 8*)

Procedure upon Completion of the Project

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

(b) In the event that the Institution is obligated by the FHA to prepay or reduce the Note in connection with the Project cost certification process and the amounts available in the Construction Fund for application to such prepayment or reduction are less than the amount which the Institution is so obligated to prepay or reduce, the Institution shall promptly pay the amount of such deficiency to the Authority. Any such payment by the Institution whether or not received prior to Final Endorsement, shall, together with the amounts available in the Construction Fund, be credited as a prepayment or reduction of the principal outstanding amount of the Note and deposited in the Redemption Fund and applied to the Special Mandatory Redemption of the Bonds as provided in the Resolution.

(*Section 9*)

Prepayments under the Note; Redemption of Bonds

(a) The Institution agrees that, with respect to certain prepayments under the Loan Agreement and/or certain prepayments of the Note, the following requirements apply. However, such requirements shall not apply if such prepayment is to be made with (i) Net Insurance Proceeds or Net Condemnation Proceeds; (ii) borrowed funds which are required by the terms thereof to be applied to such prepayment; or (iii) the proceeds of refunding bonds.

(i) At least one-hundred twenty-three (123) days prior to the date on which notice is given for the redemption of Series 2008 Bonds to be made from a prepayment of either the Note or the Loan Agreement, the Institution shall (A) give written notice of the proposed prepayment to the Authority, the Trustee and the Mortgage Servicer, specifying the prepayment date and amount to be prepaid, (B) deposit with the Trustee an amount equal to the premium, if any, required to be paid in connection with any prepayment of the principal of the Note, (C) deposit with the Trustee the Non-Asset Bond Prepayment, if any, sufficient to pay the Redemption Price of and interest on a portion of the Non-Asset Bonds such that, after giving effect to such redemption, the ratio of (i) the aggregate principal amount of Bonds Outstanding less the Debt Service Reserve Fund Requirement to (ii) the outstanding principal amount of the Note is the same, as nearly as practicable, as such ratio immediately prior to such redemption (or such other amount as specified by the Authority pursuant to a Cash Flow Statement); and (D) deliver an opinion of nationally recognized counsel experienced in bankruptcy matters, addressed to the Authority and the Trustee to the effect that any payment to the Holders of moneys deposited pursuant to clause (B) or clause (C) above would not constitute a transfer which may be avoided under Section 547 or Section 550 of the United States Bankruptcy Code in the event of an Act of Bankruptcy;

(ii) The Institution shall deliver to the Trustee a certificate stating that the Institution is not insolvent and that no bankruptcy or insolvency proceedings have been commenced by or against the Institution, and that no threat has been made concerning the commencement of any such proceedings. The certificate shall be dated, signed and delivered prior to the date the redemption notice is given;

(iii) The Institution shall deposit with the Trustee, prior to the date of the Trustee's mailing of notice of such redemption, an amount equal to the principal amount of the Note to be prepaid, which deposit shall be invested as provided in the Resolution, but shall not be credited as a prepayment of the Note until the redemption date for the Series 2008 Bonds; and

(iv) On the redemption date, if the foregoing conditions are satisfied, (A) the deposits made pursuant to clause (B) of subparagraph (i) and subparagraph (iii) above shall be credited as a prepayment of principal of and premium on the Note and shall be applied to the reduction of succeeding payments due under the Note (as recast in the manner provided in the Note over the remaining term thereof), (B) subject to the provisions of the Resolution, the Series 2008 Bonds selected and called for redemption from the prepayment shall be redeemed and (C) any interest and income received upon the investment of the deposits made pursuant to subparagraphs (i) and (iii) above shall be credited to such person as the Institution directs, subject to the requirements of the Resolution.

(b) If the available amounts in the funds and accounts established under the Resolution and the Series 2008 Resolution are insufficient for the payment of the Redemption Price of the Series 2008 Bonds called for redemption, including accrued interest on such Series 2008 Bonds to the redemption date and expenses of giving notice and other expenses of such redemption, the Institution shall pay to the Trustee the amount of such deficiency in immediately available funds.

(*Section 10*)

Payments by the Institution

(a) The Institution covenants to make all payments under the Note on a timely basis.

(b) If at any time and for any reason amounts received by the Authority (as mortgagee under the Mortgage),or by the Mortgage Servicer on account of the principal and interest payments due under the Note, less the Servicing Fee payable pursuant to the Servicing Agreement, together with all other moneys held by the Trustee and then available under the terms of the Resolution are not sufficient to pay when due (i) the Trustee's Annual Fee and other fees and expenses, and (ii) the Authority's Annual Administrative Fee and other fees and expenses, the Institution will pay to the Trustee the amounts required to make up any such deficiencies as to amounts under clause (i) above and to the Authority, the amount of the deficiency under clause (ii) above.

(c) The Institution shall pay the Annual Administrative Fee to the Authority. The Institution shall pay promptly to the Trustee the Trustee's Annual Fee to the extent that moneys in the Surplus Account are insufficient therefor.

(d) Within thirty (30) days after notice from the Paying Agent, the Institution shall pay to the Paying Agent or the Co-Paying Agent its reasonable fees and expenses.

(e) The Institution shall pay on or before the date of delivery of the Series 2008 Bonds, the Authority Fee as set forth in the Loan Agreement.

(f) The Institution shall pay, or provide for payment, on or before the date of delivery of the Series 2008 Bonds, the Costs of Issuance of the Series 2008 Bonds, and other costs in connection with the issuance of the Series 2008 Bonds.

(g) The Institution shall pay promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (ii) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Series 2008 Bonds or the financing or construction of the project, including, but not limited to, costs and expenses of insurance, auditing and arbitrage analysis, (iv) for the costs and expenses incurred to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement, of the Servicing Agreement, of the FHA Documents, of the Series 2008 Resolution and of the Resolution in accordance with the terms thereof, and (v) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution and the Series 2008 Resolution.

(h) In the event the Institution receives notice pursuant to the Resolution that as a result of the FHA cost certification process for Final Endorsement the principal amount of the Note is to be reduced in an amount in excess of the amount available in the Construction Fund, the Institution shall promptly pay the Authority the amount necessary to reduce the Note to the amount to be so endorsed.

(i) The Institution shall pay promptly upon demand by the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds or otherwise available therefor under the Resolution and the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with such Bonds.

(*Section 11*)

Payments by the Institution; Assignment

As a source of the payments to be made by the Institution under the Loan Agreement, except any payments required under the headings "Payments by the Institution" above, the Institution shall deliver or cause to be delivered to the Authority the FHA Documents. The Institution also consents to the assignment by the Authority to the Trustee, as provided in the Resolution, of any or all of the Authority's right, title and interest in and to the Loan

Agreement, except for the rights of the Authority to amend the Loan Agreement and to give consents, receive notices and receive indemnity against claims and payment of its fees and expenses. The Institution covenants to fully perform, in timely fashion, all of its agreements and obligations under the Loan Agreement and the FHA Documents.

(*Section 12*)

Funding of the Equity Account, the Collateral Account and the Investment Income Account

In the event that the Authority is required to make a deposit to the Equity Account, the Collateral Account or the Investment Income Account established under the Resolution and the Series 2008 Resolution, the Institution agrees to satisfy such required deposits with cash or Letters of Credit (as defined in the Resolution and the Series 2008 Resolution), to the extent that the Institution provides such Letters of Credit it shall also provide an opinion of counsel acceptable and addressed to the Authority and the Trustee to the effect that such Letters of Credit are valid and enforceable obligations of the issuer thereof and covering such other matters as are required for such purpose. In the event the Institution determines to satisfy such obligations with cash, such cash must constitute Available Moneys as defined in the Resolution. In addition, any such obligation may be met by any combination of Letters of Credit or cash which satisfies the requirements of provisions described under this heading.

(*Section 13*)

Compliance with Governmental Requirements

The Institution shall comply, and where applicable shall cause any operator of the Project to comply, with all Governmental Requirements with respect to the Mortgaged Property and the Project, or any part thereof, and the construction, operation, maintenance, repair and replacement thereof and any requirement of an insurance company writing insurance thereon irrespective of the nature of the work required to be done, extraordinary as well as ordinary and foreseen as well as unforeseen. Anything contained under this heading to the contrary notwithstanding, the Institution shall have the right to contest the validity of any Governmental Requirement or the application thereof at the Institution's sole cost and expense. During such contest, compliance with any such contested Governmental Requirement may be deferred by the Institution, provided that prior to commencing any action or proceeding, administrative or judicial, contesting such Governmental Requirement the Institution shall notify the Authority of the Institution's intention to contest such Governmental Requirement and, if the Authority requests, shall furnish to the Authority a surety bond, moneys or other security, reasonably satisfactory to the Authority, securing compliance with the contested Governmental Requirement and payment of all interest, penalties, fines, fees and expenses resulting from or in connection with such contest or the failure of the Institution to comply with the contested Governmental Requirement. Any such action or proceeding instituted by the Institution shall be commenced as soon as is reasonably possible after the assertion of the applicability to the Project or the Mortgaged Property, or any part thereof, of the contested Governmental Requirement by a governmental authority, and shall be prosecuted to final adjudication or other final disposition with reasonable dispatch. Notwithstanding the furnishing of any bond, deposit or other security, the Institution promptly shall comply with any such Governmental Requirement and compliance shall not be deferred if at the time the Mortgaged Property or the Project, or any part thereof, to which such contested Governmental Requirement relates, would in the reasonable judgment of the Authority be in substantial danger by reason of the Institution's noncompliance with such Governmental Requirement of being sold, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would materially impair (i) the interests or security of the Authority under the Loan Agreement, the Resolution or the Mortgage; (ii) the ability of the Authority to enforce its rights thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or under the Mortgage.

(*Section 14*)

Information Concerning the Institution

The Institution, whenever requested by the Authority, shall provide and certify or cause to be provided and certified: (i) such information concerning the Institution, its finances and other related topics as the Authority reasonably determines to be necessary or desirable, including, but not limited to, such information as in the sole judgment of the Authority is necessary to enable the Authority to complete, execute and deliver an Official Statement relating to and in connection with the sale of the Series 2008 Bonds at the time when the Series 2008 Bonds are to be offered for sale; (ii) that the Institution has reviewed the parts of the Official Statement describing the Institution, the Project, the Mortgaged Property, the sources and uses of the proceeds of the Series 2008 Bonds, and such information as was supplied by the Institution and is contained in the Official Statement; (iii) that as of the dates of sale and delivery of the Series 2008 Bonds such parts of the Official Statement do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements were made, not misleading; (iv) such additional information as the Authority considers necessary to enable it to comply with any proposed or promulgated regulations of the Securities and Exchange Commission or the Municipal Securities Rulemaking Board; and (v) such additional information as the Authority from time to time reasonably considers necessary or desirable to enable it to make any reports or obtain any approvals required by law, governmental regulation or the Resolution in order to issue the Bonds or to effect any of the transactions contemplated by the Loan Agreement, by the Resolution or by the Series 2008 Resolution.

(*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 the foregoing effect, and such letter or other notification has not been modified, limited or revoked, (iii) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (iv) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (v) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution 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, enter into any agreement or use or permit the Project to be used in any manner, or for any trade or business or other non-exempt use unrelated to the purposes of the Institution, which could adversely affect the exclusion of interest on the Series 2008 Bonds if the interest on such Series 2008 Bonds is intended to be excluded from federal gross income.

(*Section 16*)

Securities Acts Status

The Institution represents that it is an organization organized and operated: (i) exclusively for educational, benevolent or charitable purposes, (ii) not for pecuniary profit, and (iii) no part of the net earnings of which inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act or enter into any agreement which shall adversely affect such status as set forth under this heading.

(*Section 17*)

Maintenance of Corporate Existence

The Institution covenants that it will maintain its corporate existence, will continue to operate as a non-profit institution for charitable purposes as set forth in its certificate of incorporation, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institution as an institution for charitable purposes as set forth in its charter providing such services as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; *provided, however*, that if no Event of Default shall have occurred and be continuing and prior written notice shall have been given to the Authority and the Trustee, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with, acquire or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; *provided further, however*, (a) that any such sale, transfer, consolidation, merger or acquisition shall not in the opinion of counsel satisfactory to the Authority adversely affect the exclusion from federal gross income of the interest paid or payable on the Series 2008 Bonds, the interest on which is intended to be excluded from gross income, (b) that the surviving, resulting or transferee corporation or organization, as the case may be, is formed under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation or organization, as the case may be, shall assume in writing all of the obligations of and restrictions on the Institution under the Loan Agreement in form acceptable to the Authority and under the Note and Mortgage and shall furnish to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation, merger or acquisition of such organization shall be in compliance with each of the provisions of the Loan Agreement and the Series 2008 Bonds shall continue to be legally valid and enforceable in accordance with their terms and shall meet the requirements of the Act and (d) such other certificates and opinions as may reasonably be required by the Authority.

(*Section 18*)

Licensure

The Institution shall operate, or cause the operation of, the Project in accordance with all licensure and other requirements of the Department of Health of the State and/or the Department of Social Services of the State to the extent that such licensure and other requirements apply to the Project.

(*Section 19*)

Restrictions on Religious Use

The Institution agrees that with respect to the Project or any portion thereof financed by the Series 2008 Bonds, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or such portion thereof financed by the Series 2008 Bonds shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; *provided, however*, that the foregoing restriction shall not prohibit the free exercise of any religion; and further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof financed by the Series 2008 Bonds to be used without regard to the above stated restriction, said restriction shall not apply to such Project or such portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project, or any portion thereof financed by the Series 2008 Bonds, is being used for any purpose proscribed by the Loan Agreement. The Institution further agrees that prior to any disposition of any portion of the Project financed by the Series 2008 Bonds for less than its fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such Project, the real property on or in which such portion of such Project is situated) shall exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for its fair market value at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of such Project financed by the Series 2008 Bonds, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of the Project, or a portion thereof financed by the Series 2008 Bonds, upon foreclosure or otherwise, shall be considered a sale for its fair market value.

(*Section 22*)

Maintenance, Repair and Replacement

Except as otherwise provided in the Mortgage and the Note, the Institution agrees that throughout the term of the Loan Agreement: (i) it shall, at its own expense, hold, operate and maintain the Project and the Mortgaged Property in a careful, prudent and economical manner, and keep the same, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and shall from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of the Project and the Mortgaged Property may be properly and advantageously conducted; (ii) it shall not make any change or alteration of a structural nature in or to the Project without the prior written consent of FHA and the Authority; (iii) it shall have the right to remove or replace any equipment, furniture or fixtures in the Project it deems desirable or necessary, provided that if any such equipment, furniture or fixtures are replaced, they are replaced with other equipment, furniture or fixtures having equal or greater value and utility; and (iv) it shall pay at its own expense all extraordinary costs of maintaining, repairing and replacing the Project and the Mortgaged Property, except insofar as funds are made available therefor from insurance proceeds or condemnation or eminent domain awards.

The Institution shall, when requested by the Authority, render reports to the Authority and the Mortgage Servicer on all repairs, replacements and maintenance made annually to the Project by the Institution.

In connection with the operation, maintenance, repair and replacement of the Project and the Mortgaged Property, the Institution shall comply with all applicable Governmental Requirements, any requirement relating to the Project of an insurance company writing insurance on the Project and any such requirement relating to the Project as is contained in the FHA Documents.

(*Section 23*)

Insurance

The Institution shall procure and maintain all insurance required by the FHA Documents in accordance with the terms and conditions thereof. In addition, the Institution shall insure against risks normally associated with the operations of similar facilities in the State, including specifically professional liability insurance in an annual aggregate amount of not less than $2,000,000 and not less than $1,000,000 per accident or occurrence; general liability insurance in an annual aggregate amount of not less than $2,000,000 and not less than $1,000,000 per accident or occurrence; statutory workers compensation and employers liability insurance; fire and extended insurance. In addition to any other form of property insurance, the Institution shall also procure and maintain business income interruption insurance in an amount equal to one year's debt service and extra expense insurance in an amount sufficient to defray extra expenses incurred as a result of a covered loss for a period of not less than one hundred twenty (120) days. Boiler and machinery insurance shall also be required if there are any steam heat or pressure vessels used to provide heat to the Project and the vessels are located in or near buildings of the Project. Upon recommendation of an insurance consultant, the insurance referred to in the Loan Agreement may have deductibles and retentions which are deemed to be within the ability of the Institution to self-insure. Subject to the requirements of FHA, no provision of this heading shall be construed to prohibit the Institution from self-insuring against any risk which might otherwise be covered by insurance at the recommendation of an insurance consultant; provided, however, that the Institution shall provide adequate funding of such self-insurance as directed by such insurance consultant and not objected to by FHA, and no self-insurance, other than reasonable deductibles, shall be permitted unless approved by the Authority.

The Institution may purchase additional insurance on the Project and the Mortgaged Property for amounts considered adequate by the Institution against direct physical loss or damage from other perils under forms normally available in the State.

The policies procured by the Institution shall be filed with the Authority and open to inspection by the Trustee and the Mortgage Servicer at all reasonable times. Certificates of insurance describing the policies shall be forwarded by the Institution at or prior to delivery of the Bonds, and a list describing such policies and certificates as of each June 30 shall be furnished by the Institution to such parties annually, together with a certificate of an Authorized Officer of the Institution certifying that such insurance meets all the requirements of this Loan Agreement. Neither the Trustee nor the Authority shall have any other responsibilities with respect to any such insurance except as the Institution may be required, at the request of the Authority, to provide copies of such policies and certificates to the Mortgage Servicer for its records.

The Institution agrees to give the Mortgage Servicer, the Authority, FHA and the Trustee written notice of any change in any insurance or insurance policy required by this Loan Agreement or the FHA Documents at least thirty (30) days prior to such change unless a lesser period of notice is expressly approved in writing by the Authority.

On the date of the delivery of the Series 2008 Bonds, the Institution shall designate, with the concurrence of the Authority, an insurance consultant, who may be an insurance broker or an insurance agent with whom the Institution, the Mortgage Servicer or the Authority transacts business. The Institution may replace such insurance consultant and appoint a new insurance consultant by giving the Authority at least ten (10) days' written notice, stating the name, address and qualifications of the proposed insurance consultant; and, unless within such ten-day period, the Authority shall give the Institution written notice of objection to such appointment, which notice shall state the reasonable grounds upon which it bases such objection, the insurance consultant named in such written notice shall be considered to be acceptable. The insurance consultant shall render, upon the request of the Authority, a report relating to the Institution's compliance with the requirements described under this heading. Such report shall not be required more than once in any one calendar year and shall, upon any such request, be furnished to the Institution, the Trustee and the Mortgage Servicer.

All policies of hazard insurance required by the first paragraph under this heading shall be written in the names of FHA, the Authority (as mortgagee under the Mortgage) and the Institution as their respective interests may appear, and shall be made payable as provided therein. The policies for such insurance shall not be cancelable without the giving of at least thirty (30) days' written notice to the Authority, the Trustee and FHA and shall provide that all losses thereunder which are payable to the Authority shall be paid to the Authority notwithstanding any act or neglect of the Institution or other interested party which might otherwise result in a forfeiture of such insurance.

(*Section 25*)

Application of Proceeds of Hazard Insurance

(a) The Mortgage provides that amounts paid under a contract of hazard insurance shall be paid to the Authority, as mortgagee under the Mortgage. Any such amounts shall be, (i) applied to the prepayment of the Note if approved in writing by FHA prior to the payment of such proceeds or (ii) released for the repairing or replacing of the Mortgaged Property. The Authority shall recover and deliver to the Trustee all proceeds of hazard insurance payable to the mortgagee, for deposit in the Insurance and Condemnation Account of the Construction Fund pending application thereof pursuant to paragraph (c) of this heading.

(b) In the event of any damage to the Project or the Mortgaged Property, the Institution shall immediately notify the Authority, the Trustee, the Mortgage Servicer and FHA, prepare an estimate of the costs of repairing or replacing the damaged property, and (if appropriate) prepare plans and specifications therefor. If the insurance proceeds received exceed one percent of net Plant, Property and Equipment as shown on the Institution's audited financial statements for its most recent fiscal year (the "Threshold Amount"), such estimate and a copy of any such plans and specifications shall be filed with the Authority and FHA.

(c) If, within ninety (90) days from the occurrence of such damage or destruction, the Institution and the Authority agree in writing that the efficient utilization of the Mortgaged Property has not been so impaired that the ability of the Institution, taking into account all of its financial resources, to make the payments required under this Loan Agreement and the FHA Documents will be materially adversely affected prior to the completion of the replacement or restoration of such property so damaged or destroyed, the proceeds of insurance received by reason of such occurrence (after deducting any reasonable expenses incurred by the Authority or the Institution in collecting the same) and any investment earnings on such proceeds (the "Net Insurance Proceeds") shall, subject to any applicable FHA requirements, be applied to the repair or replacement of the property damaged or destroyed. If no such agreement shall be reached within such 90-day period (or such longer period as the Authority may agree in writing), all Net Insurance Proceeds shall, subject to any applicable FHA requirements, be credited to the prepayment of the Note and transferred to the Redemption Account for application to the Extraordinary Mandatory Redemption of the Bonds pursuant to the Resolution.

Such Net Insurance Proceeds shall not be credited as a prepayment of principal of the Note until the date of such redemption. The amount of such prepayment shall be applied to the reduction of succeeding payments becoming due under the Note (as recast in the manner provided in the Note over the remaining term thereof).

(d) Notwithstanding the provisions of paragraph (c) above, if at the time of such damage or destruction there are any Non-Asset Bonds Outstanding and the Net Insurance Proceeds are to be applied to the prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee at least one-hundred twenty-three (123) days prior to the date on which notice is given for the redemption of Series 2008 Bonds to be made from such prepayment of the Note an amount equal to the Non-Asset Bond Prepayment. In no event shall the Non-Asset Bond Prepayment be credited as a prepayment of principal of the Note. Such Non-Asset Bond Prepayment and Net Insurance Proceeds shall be applied to the Extraordinary Mandatory Redemption of the Series 2008 Bonds in accordance with the Resolution.

(e) If the Net Insurance Proceeds to be applied to the repair or replacement of the property damaged or destroyed exceed the Threshold Amount, such proceeds shall be disbursed by the Trustee from the Insurance and Condemnation Account of the Construction Fund in accordance with the requisition procedures described in the Resolution upon the approval of FHA, if required. If the Net Insurance Proceeds are equal to or less than the Threshold Amount such proceeds shall, at the request of the Institution and with the approval of the Authority, be paid by the Trustee in accordance with the Resolution to or upon the order of the Institution, which shall keep them separate from all other funds for application first to pay the costs of repair or replacement of the property damaged or destroyed, second, to pay in full any unpaid fees or expenses of the Authority or the Trustee and third, subject to any applicable FHA requirements, to any lawful purpose of the Institution. The Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, the repair or replacement of the property damaged or destroyed in accordance with any plans and specifications approved by FHA (if required by the FHA Documents) and shall pay any amounts required for the completion of such repair or replacement if the Net Insurance Proceeds are insufficient therefor.

(*Section 26*)

Application of Proceeds of Condemnation Compensation

(a) The Mortgage provides that all proceeds of condemnation shall be paid to the Authority (as mortgagee under the Mortgage) to be applied to prepayment of the Note, unless otherwise approved in writing by FHA prior to the payment of such proceeds. The Authority (as mortgagee under the Mortgage) shall recover and deliver to the Trustee all condemnation proceeds. Pending the application of such condemnation proceeds pursuant to paragraph (c) below, the proceeds shall be held by the Trustee in the Insurance and Condemnation Account of the Construction Fund.

(b) Upon the occurrence of any condemnation proceedings with respect to the Mortgaged Property, or any portion thereof, the Institution shall immediately notify the Authority, the Mortgage Servicer and the Trustee.

(c) Any condemnation proceeds (after deducting any reasonable expenses incurred by the Institution, the Mortgage Servicer, or the Authority in collecting the same) and any investment earnings on such proceeds (the "Net Condemnation Proceeds") received from a taking of all or substantially all of the Mortgaged Property shall, subject to any applicable FHA requirements, be applied to prepayment of the principal of the Note.

(d) Any Net Condemnation Proceeds received from a taking of less than substantially all of the Mortgaged Property shall be applied as follows:

(i) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the efficient utilization of the Mortgaged Property has not been impaired by such taking, then, subject to any applicable FHA requirements, all of the Net Condemnation Proceeds shall, whether or not such proceeds are equal to or less than the Threshold Amount, be paid to the Institution;

(ii) if the Authority (as mortgagee under the Mortgage) in its discretion determines that the repair, rebuilding, restoration, or rearrangement of the Mortgaged Property is not possible so as to restore the operational condition of the Mortgaged Property to substantially the condition existing immediately preceding such condemnation or if FHA will not permit the Net Condemnation Proceeds to be so applied, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be applied to the prepayment of principal of the Note and transferred by the Trustee to the Redemption Account to be applied to the Extraordinary Mandatory Redemption of the Series 2008 Bonds pursuant to the Resolution;

(iii) if the Authority (as mortgagee under the Mortgage) in its discretion determines that such repair, rebuilding, restoration or rearrangement is possible and that the efficient utilization of the Mortgaged Property has not been impaired, then all of the Net Condemnation Proceeds shall, subject to any applicable FHA requirements, be disbursed to the Institution as described in subparagraph (v) below for the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, so as to restore the operational condition thereof, insofar as may be possible, to that existing immediately preceding such condemnation (provided that, if the Net Condemnation Proceeds exceed the Threshold Amount, the estimate of the cost of repair, rebuilding, restoration or rearrangement of the Mortgaged Property and a copy of any plans and specifications prepared in connection therewith shall be filed with the Authority, the Trustee and FHA);

(iv) notwithstanding the provisions of subparagraph (ii) above, if at the time such Net Condemnation Proceeds are received there are any Non-Asset Bonds Outstanding and the Net Condemnation Proceeds are to be applied to prepayment of the Note, the Institution shall promptly pay, or cause to be paid, to the Trustee at least one-hundred twenty-three (123) days prior to the date on which notice is given for the redemption of Series 2008 Bonds to be made from such prepayment of the Note an amount equal to the Non-Asset Bond Prepayment. In no event shall the Non-Asset Bond Prepayment be credited as a prepayment of principal of the Note. Such Non-Asset Bond Prepayment and Net Condemnation Proceeds shall be applied to the Extraordinary Mandatory Redemption of Series 2008 Bonds in accordance with the Resolution; and

(v) if the Net Condemnation Proceeds are to be applied to the repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and if such Net Condemnation Proceeds exceed the Threshold Amount, such Net Condemnation Proceeds shall be disbursed by the Trustee in accordance with the requisition procedures described in the Resolution upon the approval of FHA, if required. If such Net Condemnation Proceeds are less than or equal to the Threshold Amount, such Net Condemnation Proceeds shall be paid by the Trustee in accordance with the Resolution to or upon the order of the Institution and with the approval of the Authority; the Institution shall keep them separate from all other funds and apply them first to pay the costs of repair, rebuilding, restoration or rearrangement of the Mortgaged Property, second to full payment of any unpaid fees or expenses of the Authority or the Trustee and third, subject to any applicable FHA requirements, to any lawful purpose of the Institution. In either of such events, the Institution shall commence and diligently prosecute, or cause to be commenced and diligently prosecuted, such repair, rebuilding, restoration or rearrangement of the Mortgaged Property, and shall pay any amounts required for the completion thereof if the Net Condemnation Proceeds are not sufficient therefor.

Net Condemnation Proceeds to be applied to prepayment of principal of the Note pursuant to paragraph (d) above shall be applied to the reduction of succeeding payments due under the Note (as recast in the manner provided in such Note over the remaining term thereof); provided that such Net Condemnation Proceeds shall not be credited as a prepayment of principal of such Note until the date of such redemption.

(*Section 27*)

Taxes and Assessments

The Institution shall pay when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Project or the Mortgaged Property or any part thereof, and upon all ordinary costs of operating, maintaining, renovating, repairing and replacing the Project and the Mortgaged Property and its equipment. The Institution shall file exemption certificates as required by law. The Institution agrees to exhibit to the Authority within ten (10) days after written demand by the Authority, certificates or receipts issued by the appropriate authority showing full payment of all taxes, if applicable, assessments, water and sewer charges and other impositions; provided, however, that the good faith contest of such impositions shall be deemed to be complete compliance with the requirements of the Loan Agreement if the Institution deposits with the Authority the full amount of such contested impositions. Notwithstanding the foregoing, the Authority in its sole discretion, after notice in writing to the Institution, may pay (such payment will be made under protest if so requested by the Institution) any such charges, taxes and assessments if, in the reasonable judgment of the Authority, the Project or the Mortgaged Property, or any part thereof, would be in substantial danger by reason of the Institution's failure to pay such charges, taxes and assessments of being sold, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would materially impair (i) the interests or security of the Authority under the Loan Agreement, the Resolution or the Mortgage; (ii) the ability of the Authority to enforce its rights under the Loan Agreement, the Resolution or the Mortgage; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or the Resolution; or (iv) the ability of the Institution to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement or the Mortgage, and the Institution agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Debt Service Fund on the date such payment was made by the Authority.

(*Section 29*)

Defaults and Remedies

Failure by the Institution to observe and perform any covenant, agreement or obligation contained in the Loan Agreement for a period of thirty (30) days after written notice, specifying such failure and requesting the same to be remedied, has been given to the Institution by the Authority or the Trustee, shall constitute an "Event of Default" under the Loan Agreement; provided that if the Authority agrees that such failure is of such nature that it can be corrected within a reasonable time (as determined by the Authority), but not within thirty (30) days, and if the Institution promptly institutes corrective action and is diligently pursuing the same, such failure by the Institution to observe and perform such covenant, agreement or obligation shall not constitute an Event of Default unless it is not cured within such reasonable time (as determined by the Authority).

Upon the occurrence of an Event of Default under the Loan Agreement, in addition to any other rights which the Authority may have under law, the Authority may withhold further performance under the Loan Agreement (including, without limitation withholding further disbursements from the Insurance and Condemnation Account or the Mortgage Account) and may also take whatever action at law or in equity may appear necessary or desirable to enforce the performance and observation by the Institution of any of its obligations, agreements or covenants under the Loan Agreement and to collect any payments due or to obtain other remedies; provided, however, that prior to commencing any action, suit or proceeding under the Loan Agreement against the Institution, the Authority shall have received the prior written consent of FHA, if required by the FHA Documents.

(*Sections 35 and 36*)

Arbitrage and Rebate Calculations

The Institution covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or the use of the proceeds of the Series 2008 Bonds, the interest on which is intended to be excluded from gross income for federal income tax purposes, which would cause such Series 2008 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Series 2008 Bonds at the time of such action, investment or use. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase such Series 2008 Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority. The Institution will, on a timely basis, provide the Authority with all necessary information and funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution.

The Authority shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof to the Department of the Treasury of the United States of America, which copies shall be subject at all reasonable times to the inspection of the Institution and its agents and representatives, any of whom may make copies thereof. Upon written request from the Institution, the Authority shall as soon as practicable provide the Institution with a copy of such documents, reports and computations.

(*Sections 48 and 49*)

Amendments to the Loan Agreement

The Loan Agreement may be amended only in accordance with the Resolution and each amendment shall be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which shall be filed with the Trustee.

(*Section 55*)

Termination

The Loan Agreement shall remain in full force and effect until no Series 2008 Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof, provided, however, that the liabilities and the obligations of the Institution under the Loan Agreement and the obligations 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, the Authority shall promptly 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 satisfaction of the Mortgage and the release or surrender of any security interests granted by the Institution to the Authority pursuant thereto.

(*Section 57*)

FHA Documents Controlling

To the extent that any provision of the Loan Agreement is in conflict with any provision of the FHA Documents, or be in conflict with the National Housing Act or FHA regulations thereunder, the provisions of the FHA Documents or the provisions of the National Housing Act and FHA regulations or written program requirements thereunder, as the case may be, will be controlling.

(*Section 58*)

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PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

Upon delivery of the Series 2008 Bonds, Winston & Strawn LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

[Date of Closing]

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $126,000,000 aggregate principal amount of Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 (the "Series 2008 Bonds") by the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"), created and existing under and pursuant to the Constitution and statutes of the State, including the Dormitory Authority Act, being Titles 4 and 4-B of Article 8 of the Public Authorities Law of the State of New York, as amended to the date hereof, including, without limitation, by the Health Care Financing Consolidation Act, being Title 4-B of the Public Authorities Law of the State of New York (as so amended, the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Series 2008 Bonds are issued under and pursuant to the Act, the Authority's Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bond Resolution, adopted June 23, 1999, as amended (the "Resolution") and the Authority's Series Resolution Authorizing Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 (the "Series Resolution"), adopted November 28, 2007. The Resolution and the Series Resolution are herein collectively referred to as the "Resolutions." Unless otherwise defined herein, capitalized terms used herein have the respective meanings assigned to them in the Resolutions.

The Series 2008 Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolutions and the Bond Series Certificate (as defined in the Series Resolution).

The Authority and Montefiore Medical Center (the "Hospital") have entered into a Loan Agreement, dated as of November 28, 2007 (the "Loan Agreement"), pursuant to which (a) the Authority has agreed to make a loan to the Hospital and (b) the Hospital is required to make payments sufficient to pay the principal and Sinking Fund Installments of and interest on the Series 2008 Bonds, as well as a part of the Authority's annual administrative expenditures and costs. All amounts payable under the Loan Agreement which are required to be paid to the Trustee under the Resolutions for payment of the principal or Redemption Price of or interest on the Series 2008 Bonds or to maintain the Debt Service Reserve Fund established for the Series 2008 Bonds at its requirement has been pledged by the Authority 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 at 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 includable in gross income of the Bondholders under Section 103 of the Code. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, required ownership of a facility by a Section 501(c)(3) organization or governmental unit, limits on the amount of tax-exempt financing of capital expenditures incurred on or before August 5, 1997, from which certain users (and related parties) of the facilities resulting from such expenditures may benefit, and the rebate to the United States of certain earnings in respect of investments. Failure to comply with the continuing requirements may cause interest on the Series 2008 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Resolution, the Series Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Hospital have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinions set forth herein as to federal income tax matters assume continuing compliance by the Authority and the Hospital (and their successors) with such covenants and the accuracy, in all material respects, of such representations and certifications (as to which we have made no independent investigation).

Certain requirements and procedures contained or referred to in the Resolutions, the Loan Agreement and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents. Winston & Strawn LLP expresses no opinion as to any Series 2008 Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Based upon the foregoing and subject to the qualifications set forth herein, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2008 Bonds thereunder.

2. The Series Resolution has been duly adopted in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

3. The Series 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 Resolution and the Series Resolution. The Series 2008 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolution and the Series Resolution, are enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Series Resolution and are entitled to the benefits of the Resolution, the Series Resolution and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and assuming due authorization, execution and delivery thereof by the Hospital, constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

5. Based on the above stated assumptions, under existing statutes, regulations, rulings and court decisions, interest on the Series 2008 Bonds is not includable in gross income for federal income tax purposes. Interest on the Series 2008 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax on individuals and corporations. However, it should be noted that

interest on the Series 2008 Bonds owned by corporations (other than S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, Real Estate Mortgage Investment Conduits and Financial Asset Securitization Investment Trusts) will be included in the calculation of corporate "adjusted current earnings," a portion of which is an adjustment to corporate alternative minimum taxable income for purposes of calculating the alternative minimum tax imposed on corporations (but not individuals). We express no opinion regarding other federal tax consequences related to the ownership of disposition of, or the accrual or receipt of interest on the Series 2008 Bonds.

6. Certain maturities of the Series 2008 Bonds are initially offered to the public at prices less than the principal amount thereof payable to maturity. If the first price at which a substantial amount of the Series 2008 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and principal amount constitutes original issue discount in respect of each Series 2008 Bond of the same maturity (the "Discount Bonds"). We are of the opinion that original issue discount, as it accrues, is not includable in gross income for federal income tax purposes to the same extent as interest on the Series 2008 Bonds. The owner of a Discount Bond who purchases it in the initial offering at the initial offering price is deemed to accrue in each taxable year original issue discount over the term of such bond under the "constant yield method" described in regulations interpreting Section 1272 of the Code with certain adjustments.

7. The interest on the Series 2008 Bonds is exempt under existing statutes from personal income taxes imposed by the State of New York and its political subdivisions thereof (including the City of New York).

We have examined a specimen of the executed Series 2008 Bond and, in our opinion, the form of said bonds are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Series 2008 Bonds and the Loan Agreement may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. Except as stated in paragraph 5 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Series 2008 Bonds.

In connection with the delivery of this opinion letter, we are not passing upon the authorization, execution and delivery of the Loan Agreement by the Hospital.

Our opinions set forth herein are based upon the facts in existence and the laws in effect on the date hereof and we disclaim any obligation to update our opinions herein, regardless of whether changes in such facts or laws come to our attention after the delivery hereof.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • MONTEFIORE MEDICAL CENTER FHA-INSURED MORTGAGE HOSPITAL REVENUE BONDS, SERIES 2008

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