

*In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series G Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series G Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Series G Bonds and any profit on the sale of the Series G Bonds are exempt from Massachusetts personal income taxes and the Series G Bonds are exempt from Massachusetts personal property taxes. 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 G Bonds. See "TAX EXEMPTION" herein.*



**\$620,000,000**

**MASSACHUSETTS HEALTH AND  
EDUCATIONAL FACILITIES AUTHORITY**

**Revenue Bonds, Partners HealthCare System Issue, Series G (2007)**

**Dated: Date of Delivery**

**Due: As shown on inside cover**

Principal of and interest on the Series G Bonds of each subseries will be paid by U.S. Bank National Association, Boston, Massachusetts, as trustee and paying agent (the "Trustee"). The Series G Bonds will be issued in five subseries and only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co. as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series G Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Series G Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Series G Bonds. See "THE SERIES G BONDS-Book-Entry Only System" herein.

The Series G Bonds will be issued as four subseries of insured Revenue Bonds (Series G-1, Series G-2, Series G-3 and Series G-4), initially bearing interest at an Auction Rate (the "ARS Rate Mode"); and one subseries of uninsured Revenue Bonds (Series G-5), bearing interest at a Fixed Rate (the "Fixed Rate Mode"), all as shown on the inside cover. Purchases of the Series G Bonds will be made in book-entry form in denominations of \$5,000 or any integral multiple thereof for Series G Bonds bearing interest at an Auction Rate, at a Fixed Rate, or at an Index Floating Rate. Interest will be payable while Series G Bonds are in the ARS Rate Mode initially on July 10, 2007 with respect to the Series G-1 Bonds, initially on July 12, 2007 with respect to the Series G-2 Bonds, initially on July 13, 2007 with respect to the Series G-3 Bonds, and initially on July 16, 2007 with respect to the Series G-4 Bonds, and thereafter as further described herein, until maturity or prior redemption or conversion to a different Mode. Interest on the Series G-5 Bonds will be payable on January 1 and July 1, commencing January 1, 2008, until maturity or prior redemption.

**The Series G Bonds are subject to redemption prior to maturity, including optional redemption and mandatory sinking fund redemption, as set forth in this Official Statement. The Series G-1 Bonds, the Series G-2 Bonds, the Series G-3 Bonds and the Series G-4 Bonds will be subject to mandatory tender for purchase prior to maturity, in each case under the circumstances described herein. The Series G-5 Bonds will not be subject to optional or mandatory tender at any time.**

The scheduled payment of principal of and interest on the Series G-1 Bonds and the Series G-3 Bonds when due will be guaranteed under a FGIC bond insurance policy to be issued concurrently with the delivery of the Series G-1 Bonds and the Series G-3 Bonds by **Financial Guaranty Insurance Company** ("FGIC"), and the scheduled payment of principal of and interest on the Series G-2 Bonds and the Series G-4 Bonds when due will be guaranteed under a FSA bond insurance policy to be issued concurrently with the delivery of the Series G-2 Bonds and the Series G-4 Bonds by **Financial Security Assurance Inc.** ("FSA", and together with FGIC, the "Bond Insurers").

The Series G Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues, as defined herein, of the Authority, including payments to the Trustee for the account of the Authority by Partners HealthCare System, Inc. (the "Institution") in accordance with the provisions of the Agreement (as defined herein). The payments pursuant to the Agreement are general obligations of the Institution.

**THE SERIES G BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY SUCH POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR PURCHASE PRICE OF OR INTEREST ON THE SERIES G BONDS. THE ACT DOES NOT IN ANY WAY CREATE A SO-CALLED MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS TO PAY DEBT SERVICE IN THE EVENT OF DEFAULT BY THE INSTITUTION. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.**

*The Series G Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Institution by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York. It is expected that the Series G Bonds in definitive form will be available for delivery to DTC in New York, New York on or about June 28, 2007.*

**JPMorgan**

**Bear, Stearns & Co. Inc.**

**Citi**

**Goldman Sachs & Co.**

**Merrill Lynch & Co.**

**Morgan Stanley**

Dated: June 7, 2007

See inside front cover for designations of Underwriters for each series.

**\$620,000,000**  
**Massachusetts Health and Educational Facilities Authority**  
**Revenue Bonds, Partners HealthCare System Issue, Series G (2007)**  
consisting of:

**\$75,000,000 Series G-1**

**ARS Rate Bonds**

**Auction Period:** Seven Days

**Auction Dates Generally:** Monday

**First Auction Date:** July 9, 2007

**Last Day of Initial Auction Period:** July 9, 2007

**First Interest Payment Date:** July 10, 2007

**Due:** Regular Interest Payment Date on or  
immediately preceding July 1, 2042

**Bond Insurer:** FGIC

**Underwriters and Broker-Dealers:** Bear, Stearns &  
Co. Inc., Goldman Sachs & Co. and Morgan Stanley  
& Co. Incorporated

**\$75,000,000 Series G-2**

**ARS Rate Bonds**

**Auction Period:** Seven Days

**Auction Dates Generally:** Wednesday

**First Auction Date:** July 11, 2007

**Last Day of Initial Auction Period:** July 11, 2007

**First Interest Payment Date:** July 12, 2007

**Due:** Regular Interest Payment Date on or  
immediately preceding July 1, 2042

**Bond Insurer:** FSA

**Underwriters and Broker-Dealers:** Morgan Stanley  
& Co. Incorporated, Citigroup and J.P. Morgan  
Securities Inc.

**\$75,000,000 Series G-3**

**ARS Rate Bonds**

**Auction Period:** Seven Days

**Auction Dates Generally:** Thursday

**First Auction Date:** July 12, 2007

**Last Day of Initial Auction Period:** July 12, 2007

**First Interest Payment Date:** July 13, 2007

**Due:** Regular Interest Payment Date on or  
immediately preceding July 1, 2038

**Bond Insurer:** FGIC

**Underwriters and Broker-Dealers:** Goldman Sachs  
& Co., Citigroup and Merrill Lynch & Co.

**\$75,000,000 Series G-4**

**ARS Rate Bonds**

**Auction Period:** Seven Days

**Auction Dates Generally:** Friday

**First Auction Date:** July 13, 2007

**Last Day of Initial Auction Period:** July 13, 2007

**First Interest Payment Date:** July 16, 2007

**Due:** Regular Interest Payment Date on or  
immediately preceding July 1, 2038

**Bond Insurer:** FSA

**Underwriters and Broker-Dealers:** Merrill Lynch &  
Co., Bear, Stearns & Co. Inc. and J.P. Morgan  
Securities Inc.

**\$320,000,000 Series G-5**

**Fixed Rate Bonds**

**First Interest Payment Date: January 1, 2008**

<b>Maturity</b>		<b>Interest</b>	<b>Price or</b>	<b>Maturity</b>		<b>Interest</b>	<b>Price or</b>
<b>July 1,</b>	<b>Amount</b>	<b>Rate</b>	<b>Yield</b>	<b>July 1,</b>	<b>Amount</b>	<b>Rate</b>	<b>Yield</b>
2008	\$2,540,000	4.000%	3.800%	2020	\$4,800,000	5.000%	4.470%*
2009	2,695,000	4.000	3.910	2020	1,875,000	4.400	4.470
2010	6,845,000	4.000	4.010	2021	4,935,000	5.000	4.500*
2011	7,110,000	4.000	4.060	2021	2,055,000	4.500	100.000
2012	7,380,000	4.000	4.120	2022	10,210,000	5.000	4.520*
2013	7,670,000	5.000	4.160	2022	3,510,000	4.500	4.520
2014	8,035,000	4.125	4.200	2023	14,385,000	4.600	4.620
2015	8,360,000	5.000	4.240	2024	15,055,000	4.650	100.000
2016	5,645,000	4.250	4.280	2025	15,745,000	4.650	4.670
2017	19,990,000	5.000	4.330	2026	16,485,000	4.650	4.680
2018	17,535,000	5.000	4.390*	2027	17,250,000	5.000	4.610*
2018	2,200,000	4.300	4.390	2028	9,015,000	5.000	4.640*
2019	3,130,000	5.000	4.430*	2029	9,470,000	5.000	4.660*
2019	4,565,000	4.375	4.430				

\$60,010,000 5.00% Term Bonds due July 1, 2032, Yield 4.670%\*

\$31,500,000 5.00% Term Bonds due July 1, 2047, Yield 4.780%\*

**Underwriters: J.P. Morgan Securities Inc. and Bear, Stearns & Co. Inc.**

\* These Bonds were priced to the July 1, 2017 par call date.

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

No dealer, broker, salesperson or other person has been authorized by the Authority, the Institution or the Underwriters to give information or to make representations with respect to the Series G Bonds, other than those contained in this Official Statement, and if given or made, such other 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 by any person to sell or the solicitation by any person of an offer to buy, nor shall there be any sale of the Series G Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information contained herein has been obtained from the Institution, DTC, the Bond Insurers and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Authority. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective 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 information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

Other than with respect to information concerning the Bond Insurers contained under the caption "BOND INSURANCE" and Appendix G- "Specimen Bond Insurance Policies" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurers and neither Bond Insurer makes any representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series G Bonds; or (iii) the tax-exempt status of the interest on the Series G Bonds.

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**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY**  
99 SUMMER STREET, BOSTON, MASSACHUSETTS 02110-1240

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MARVIN A. GORDON, Vice Chairman  
GAIL MILESZKO, Secretary  
N. SCOTT BATES

JOSEPH M. GIGLIO  
TIMOTHY O'CONNOR  
ROBERT M. PLATT  
CHRISTINE C. SCHUSTER

BENSON T. CASWELL, Executive Director

**OFFICIAL STATEMENT**

**Relating to**

**\$620,000,000**

**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY**  
**Revenue Bonds, Partners HealthCare System Issue, Series G (2007)**

**INTRODUCTION**

**Purpose of this Official Statement**

The purpose of this Official Statement is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority (the "Authority"), Partners HealthCare System, Inc. (the "Institution") and the \$75,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-1, the \$75,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-2, the \$75,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-3, the \$75,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-4, and the \$320,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-5 (each referred to herein as a "subseries" and collectively, the "Series G Bonds"). The Series G Bonds are being issued under the Loan and Trust Agreement, dated as of May 10, 2007 (the "Agreement"), by and among the Authority, the Institution and U.S. Bank National Association, as trustee (in such capacity, the "Trustee").

The Series G Bonds are to be issued in accordance with the provisions of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (the "Act"), and the Agreement. The information contained in this Official Statement is provided for use in connection with the initial sale of the Series G Bonds. The definitions of certain terms used and not otherwise defined herein are contained in Appendix C-1 — "DEFINITIONS OF CERTAIN TERMS."

**Partners HealthCare System, Inc.**

The Institution is a charitable membership corporation established under the laws of The Commonwealth of Massachusetts (the "Commonwealth") that is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Institution, formed in 1994 by an affiliation between The Brigham Medical Center, Inc. (now known as Brigham and Women's/Faulkner Hospitals, Inc.) and The Massachusetts General Hospital, controls a major healthcare system consisting of two tertiary and six community acute care hospitals, one hospital providing inpatient and outpatient mental health services, three rehabilitation hospitals, and other healthcare and related facilities. Appendix A hereto sets forth more information relating to the Institution and its healthcare system, and Appendix B sets forth the audited consolidated financial statements of the Institution and its affiliates for the fiscal years ended September 30, 2006 and 2005.

## **The Series G Project**

The proceeds from the sale of the Series G Bonds and certain other available moneys will be used to: (i) refund all or portion of the following series of the Authority's Revenue Bonds: (a) Partners HealthCare System Issue, Series A (the "Partners Series A Bonds"); (b) Partners HealthCare System Issue, Series C (the "Partners Series C Bonds"); and (c) Newton-Wellesley Hospital Issue, Series G (the "Newton-Wellesley Series G Bonds") (collectively, the "Prior Bonds"); (ii) pay or reimburse the cost of acquiring, constructing and equipping the New Part of the Series G Project (as described herein); (iii) provide for capitalized interest on a portion of the Series G Bonds and certain other fees during the construction of the New Part of the Series G Project; and (iv) pay certain costs and expenses incurred in connection with the issuance of the Series G Bonds. A more detailed description of the use of the proceeds from the sale of the Series G Bonds and the use of certain other moneys, including approximate amounts and purposes, is included herein under "THE SERIES G PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS." In addition to the issuance of the Series G Bonds, as additional sources of funds for the Series G Project, at approximately the same time as the issuance of the Series G Bonds, the Institution intends to incur the following Indebtedness: (i) approximately \$80,000,000 of tax-exempt index put bonds to be issued by the Authority on behalf of the Institution under the Agreement and designated as the Series G-6 Bonds (the "Series G-6 Bonds"), which would be privately placed with a financial institution, and (ii) approximately \$100,000,000 of taxable bonds (the "Taxable Bonds") to be issued directly by the Institution.

## **SOURCES OF PAYMENT AND SECURITY FOR THE SERIES G BONDS**

The Authority, the Institution and the Trustee shall execute the Agreement, which provides that, to the extent permitted by law, it is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. The Agreement provides, among other things, that the Institution is obligated to make payments to the Trustee not later than the Business Day (except for the Insured Bonds, in which case not later than the third day) preceding an Interest Payment Date or the date on which a payment of principal (including sinking fund installments) is due of an amount equal to principal or sinking fund installments, as the case may be, and interest on the Series G Bonds, and requires the Trustee to make transfers from the Debt Service Fund in amounts and at times necessary to provide for debt service payments on the Series G Bonds. The Agreement shall remain in full force and effect until such time as all the Series G Bonds, and the Series G-6 Bonds, and the interest thereon have been fully paid or until adequate provision for such payments has been made.

Under the Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (i) all Revenues to be received from the Institution or derived from any security provided thereunder, and (ii) all rights to receive such Revenues and the proceeds of such rights. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues is valid and binding from the time when such pledge is made and the Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority 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 and binding 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.

The assignment and pledge by the Authority does not include (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority, or the filing of reports, certificates or other documents with the Authority, or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions thereof.

The Brigham and Women's Hospital, Inc. ("Brigham") and Brigham and Women's/Faulkner Hospitals, Inc. ("BWF") together will issue a Guarantee, and The Massachusetts General Hospital ("MGH") and The General Hospital Corporation ("The General" and, together with Brigham, BWF and MGH, the "Guarantors") together will issue a Guarantee (collectively with the Guarantee to be issued by Brigham and BWF, the "Series G Guarantees"), both of which guarantee to the Authority the payment of debt service on the Series G Bonds and the Series G-6 Bonds, and any and all other monetary obligations of the Institution under the Agreement, including any obligation of the Institution to purchase Series G Bonds and the Series G-6 Bonds that are eligible to be tendered. In addition, pursuant to separate but substantially similar guarantees (the "Similar Guarantees"), Brigham, MGH and The General have also guaranteed, and BWF will guarantee, the monetary obligations of the Institution with respect to the Authority's Revenue Bonds, Partners HealthCare System Issue, Series A, Partners HealthCare System Issue,

Series B, Partners HealthCare System Issue, Series C, Partners HealthCare System Issue, Series D, Partners HealthCare System Issue, Series E, Partners HealthCare System Issue, Series F, Newton-Wellesley Hospital Issue, Series F and Newton-Wellesley Hospital Issue, Series G (collectively, the “Prior Outstanding Institution Bonds”), as well as repayments of variable rate loans from a capital asset program issued and administered by the Authority, which has been funded from the proceeds of the Authority’s Partners HealthCare System Capital Asset Program Issue, Series P (the “Pool P Bonds”) and the Guarantors are expected to guarantee the Taxable Bonds. The obligations of the Guarantors under their respective Series G Guarantees and Similar Guarantees (collectively, the “Guarantees”) are unconditional, and in the case of the General’s and MGH’s Guarantees are secured on a parity basis with their outstanding revenue bond obligations. Brigham’s and BWF’s Guarantees are unsecured. In addition, the Guarantees include certain financial covenants applicable to the Guarantors.

The Guarantees may be suspended (a “Guarantee Suspension”), and the Authority and the Trustee shall have no right to make demand upon the Guarantors, if and for so long as the ratio of all Indebtedness of Affiliates (as such terms are defined in the Guarantees) to the unrestricted net assets of (i) the Partners System, as shown on the most recent audited consolidated financial statements of the Partners System, plus (ii) any Affiliate that is not included in the Partners System’s consolidated financial statements, as shown on such Affiliate’s most recent audited financial statements, is less than twenty-five percent (25%) (the “Suspension Ratio”), as demonstrated in a certificate of an Authorized Officer of the Institution filed with the Authority, the Trustee, the Bond Insurers, the credit enhancers insuring the payment of debt service on, or providing liquidity support for, one or more series of the Prior Outstanding Institution Bonds or the Pool P Bonds (each, a “Prior Credit Enhancer”), setting forth the financial information and calculations used to determine such ratio (a “Suspension Certificate”). Once a Suspension Certificate has been filed, within 120 days after the end of each fiscal year of the Guarantors, the Guarantors shall file, if appropriate, a confirmatory Suspension Certificate demonstrating that the Suspension Ratio was achieved for such fiscal year. If the Suspension Ratio is not achieved, the Guarantors’ obligations under the Guarantees are deemed reinstated until such time as the Suspension Ratio is again achieved. As a condition to the effectiveness of any Suspension Certificate, any Bond Insurer, in the case of the Series G Bonds, or Prior Credit Enhancer, in the case of the Prior Outstanding Institution Bonds and the Pool P Bonds, may require the Guarantors to covenant to provide such funds to the Institution as may be necessary to enable the Institution to make all debt service payments on, and other required fees and expenses in respect of, all of its outstanding Indebtedness, including the applicable bonds, other than Indebtedness which is made expressly subordinate to the obligations of the Institution under the Agreement. The Institution has achieved the Suspension Ratio but has not filed, and has no present intention of filing, a Suspension Certificate under any Guarantee.

The Agreement also contains provisions permitting the incurring of additional Indebtedness by the Institution. Such additional Indebtedness can be incurred without limitation, except during a Guarantee Suspension. See “ADDITIONAL INDEBTEDNESS” herein and Appendix C-2 — “SUMMARY OF THE AGREEMENT” under the heading “Senior Indebtedness.”

The Series G Bonds are not secured by a mortgage lien or security interest in any real or tangible personal property or any other property or revenues of the Institution. The Agreement contains restrictions on the creation of liens and encumbrances with respect to the Property of the Institution. See Appendix C-2 — “SUMMARY OF THE AGREEMENT” under the heading “Restrictions on Encumbrance, Sale and Lease of Property.” The Agreement also contains provisions permitting transfers of assets to be made upon compliance with certain tests. See Appendix C-2 — “SUMMARY OF THE AGREEMENT” under the heading “Transfer of Assets.”

**In addition, the summary of the Agreement set forth herein as Appendix C-2 does not reflect certain additional and more restrictive covenant requirements imposed on the Institution by the Bond Insurers. Such additional covenants are set forth in separate Insurance Agreements between the Institution and each Bond Insurer (each, an “Insurance Agreement”), relate only to the applicable Insured Bonds, do not run to the benefit of the owners of the Insured Bonds, are enforceable only by the applicable Bond Insurer, may be waived in the sole discretion of the applicable Bond Insurer, may be eliminated or amended at any point subsequent to the issuance of the Insured Bonds, and remain in effect only while the Insured Bonds are Outstanding. Unless waived, a breach of any such covenants in the Insurance Agreement would constitute an Event of Default under the Agreement.**

The Series G Bonds are special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the Agreement, the moneys received with respect to the Series G Bonds by the Trustee for the account of the Authority pursuant to the Agreement.

THE SERIES G BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DERIVED BY THE AUTHORITY UNDER THE AGREEMENT. THE AUTHORITY DOES NOT HAVE TAXING POWER.

The scheduled payment of the principal of and interest on the Series G-1 Bonds and the Series G-3 Bonds when due will be guaranteed under an insurance policy (the "FGIC Policy") to be issued by Financial Guaranty Insurance Company ("FGIC"), and the scheduled payment of principal of and interest on the Series G-2 Bonds and the Series G-4 Bonds when due will be guaranteed under an insurance policy (the "FSA Policy", and together with the FGIC Policy, the "Bond Insurance Policies") to be issued by Financial Security Assurance Inc. ("FSA", and together with FGIC, the "Bond Insurers"). See "BOND INSURANCE" herein and Appendix G hereto.

### **THE AUTHORITY**

The Authority is a body politic and corporate and a public instrumentality of the Commonwealth organized and existing under and by virtue of the Act. The purpose of the Authority, as stated in the Act, is essentially to provide assistance for public and private nonprofit institutions for higher education, private nonprofit schools for the handicapped, nonprofit hospitals and their nonprofit affiliates, nonprofit nursing homes and nonprofit cultural institutions in the construction, financing, and refinancing of projects to be undertaken in relation to programs for such institutions.

#### **Authority Membership and Organization**

The Act provides that the Authority shall consist of nine members who shall be appointed by the Governor and shall be residents of the Commonwealth. At least two members shall be associated with institutions for higher education, at least two shall be associated with hospitals, at least one shall be knowledgeable in the field of state and municipal finance (by virtue of business or other association) and at least one shall be knowledgeable in the field of building construction. All Authority members serve without compensation, but are entitled to reimbursement for necessary expenses incurred in the performance of their duties as members of the Authority. The Authority elects annually one of its members to serve as Chairman and one to serve as Vice Chairman.

The members of the Authority are as follows:

ALLEN R. LARSON, Chairman; term as Member expires July 1, 2007.

Mr. Larson, a resident of Yarmouth Port, is the founding principal of a law firm and a separate consulting firm, the Enterprise Management Group, that advise business and non-profit clients on matters of government regulation, business competition, market entry, and economic development. Prior to establishing his law firm in 1984, Mr. Larson worked as an antitrust attorney for the Federal Trade Commission in Washington, D.C. Currently, he is a Trustee of Cape Cod Community College, President of the Cape Cod Center for Sustainability Inc., Vice President of TeenAIDS-PeerCorps, Inc. and a member of the Board of Directors of the Highlands Center, Inc. Mr. Larson graduated from Dartmouth College and earned a J.D. from Albany Law School and an M.B.A. from the University of Minnesota.

MARVIN A. GORDON, Vice Chairman; term as Member expires July 1, 2010.

Mr. Gordon, a resident of Milton, is Chairman of the Board, Chief Executive Officer of Gordon Logistics, L.L.C. in Mansfield, Massachusetts. From 1974 to 2001, Mr. Gordon was Chief Executive Officer and Chairman of Whitehall Co. Ltd. of Norwood, Massachusetts. From 1994 to 1996, Mr. Gordon served on the Board of Directors to Techniek Development Co. of San Diego, California. He also served as Chairman of the Board of US Trust Norfolk (Milton Bank and Trust) from 1974 to 1976 and as Vice President and Member of the Executive Committee from 1971 to 1974. Mr. Gordon has been actively engaged in non-profit, charitable and civic activities.



His present affiliations include Board Member and Chairman of the Audit and Compliance Committee of The Milton Hospital Foundation, Inc. and Board Member of Milton Hospital, Inc., and President of Milton Fuller Housing Corporation. Mr. Gordon has been elected to and appointed to a number of public boards including serving as a Milton Selectman from 1986 to 1993 and belongs to several civic associations. Mr. Gordon holds a degree from Harvard College and Harvard Business School.

GAYL A. MILESZKO, Secretary; term as Member expires July 1, 2012.

Ms. Mileszko, a native of Amherst and current resident of Boston, is the former Massachusetts Director of Labor, serving as a member of the Governor's Cabinet and also as a member of the Massachusetts Economic Assistance Coordinating Council, the Massachusetts Industrial Accident Board Nominating Panel, the Massachusetts Workers' Compensation Advisory Council, and the Massachusetts Human Resources Advisory Council. Prior to joining the Department in 2005, Ms. Mileszko served in the Massachusetts Governor's office since 2003 as Director of External Relations/Community Affairs, and as Chief of Staff for Legislative and Intergovernmental Relations. She was associated with the investment banking firm Tucker Anthony Incorporated in Boston and New York from 1990 to 2002, serving as a Vice President in public finance and later as a Senior Vice President in the fixed income capital markets division. She was a member of the staff of the Committee on Appropriations for the U.S. House of Representatives from 1983 to 1988, and previously served as a staff assistant to Massachusetts Congressman Silvio O. Conte. Ms. Mileszko holds a B.A. from Yale College.

N. SCOTT BATES; term as Member expires July 1, 2010.

Mr. Bates, a resident of Concord, is Vice President of Tishman Construction Corporation of Massachusetts. He manages the business development for Tishman Construction Corporation throughout the New England region and is also responsible for developing the business strategy for the Tishman's Boston office and managing its public relations with the local community. Mr. Bates has had 18 years of industry experience including nine years with Tishman Construction. From 1995 to 1997, Mr. Bates was the Manager of Business Development and Marketing for Hanscomb Inc. one of the nation's top 50 construction management firms. He serves as a Board Member for YouthBuild Boston and The Boston Private Industry's Youth Council; Member of the Development Subcommittee of the Greater Boston Chamber of Commerce; and serves on the Town of Concord's School Building Committee. In 2004, Mr. Bates helped initiate Building Careers Partnership, a unique collaboration of construction industry employers and associations, the Mayor's Office of Jobs and Community Services, building trade unions, Boston Public Schools, and local workforce development organizations. In 1999, Mr. Bates received the "Marketing Executive of the Year Award" from the Society of Marketing Professional Services (SMPS). In 2004 Mr. Bates was honored by the Boston Junior Chamber of Commerce (Boston Jaycees) as one of ten recipients of the TOYL Award, which pays tribute to ten individuals ages 21 to 40 who have contributed to the Greater Boston community throughout their exceptional professional, civic, and personal achievements. Mr. Bates holds an M.B.A. from Babson Graduate School of Business and a B.A. in Economics from Colby College.

JOSEPH M. GIGLIO; term as Member expires July 1, 2013.

Mr. Giglio is an Executive Professor at Northeastern University's College of Business Administration and an adjunct faculty member at Polytechnic University in New York City. He was appointed to the board of the Special Commission on Transportation Finance by Governor Romney and has served as Special Advisor to the U.S. Office of the Secretary of Transportation. Mr. Giglio is the Vice Chairman of the Hudson Institute, a leading public policy organization in Washington D.C. and has served as Chairman of President Reagan's National Council on Public Works Improvement, which released its report "Fragile Foundations" in 1988. He also chaired the U.S. Senate Budget Commission on Innovative Financing of Infrastructure. Mr. Giglio has also served as Chairman and Vice Chairman of the Board of Directors for the Intelligent Transportation Society of America (ITSA), a federally chartered advisory committee addressing public and private sector technology applications. Mr. Giglio is a former board member of the Massachusetts Educational Financing Authority and is the former Chairman of the Public-Private Division of the American Road and Transportation Builders Association. Mr. Giglio has served as Executive Vice President at Smith Barney, President of Chase Municipal Securities and as Senior Managing Director at Bear, Stearns & Co. Inc. and served as chairman of Apogee Research Inc. He holds a B.A. degree from Rutgers University, an M.P.A. degree from New York University, an M.B.A. degree from Columbia Business School and a Ph.D. degree from Northeastern University.

TIMOTHY O'CONNOR; term as Member expires July 1, 2009.

Mr. O'Connor, a resident of Salem, is Executive Vice President, Chief Financial Officer and Treasurer of Lahey Clinic Foundation, Inc.; Lahey Clinic Hospital, Inc.; Lahey Clinic, Inc.; Lahey Clinic Affiliated Services, Inc. and Lahey Clinic Canadian Foundation. In addition Mr. O'Connor is also President, Chief Financial Officer and Treasurer of Lahey Clinic Insurance Company Limited. His memberships and affiliations include the American Medical Group Association, the Healthcare Financial Management Association, the Healthcare Information and Management Systems Society and the Massachusetts Hospital Association's Committee on Finance.

ROBERT M. PLATT; term as Member expires July 1, 2009.

Mr. Platt, a resident of Newton, is President of National Consulting Inc., a business development and marketing strategy organization which assists clients in achieving their true market potential. Mr. Platt works in conjunction with both state and federal government to facilitate the exchange of ideas and opportunities for clients. His board memberships include Past President of the Newton Athletic Association, Past Board of Director of the Newton Youth Soccer for Boys and Girls, and Past Board Member of Youth Commission for the City of Newton. Mr. Platt's current board memberships include Commissioner of Parks and Recreation of his ward in Newton, Advisory Board Member for Second Step which aids women who have suffered domestic violence and abuse, and Member of the Board of Trustees for Curry College. Mr. Platt holds a B.A. from Curry College.

CHRISTINE C. SCHUSTER; term as Member expires July 1, 2013.

Ms. Schuster, a resident of Sudbury, is President and Chief Executive Officer of Emerson Health System located in Concord. Ms. Schuster formerly held the position of President and Chief Executive Officer of Quincy Medical Center. She is a Member of the Board of Trustees of the South Shore Chamber of Commerce where she serves as Vice Chairman of Government Affairs; and is a Member of the Board of Trustees of the Massachusetts Hospital Association ("MHA") where she serves as the MHA Chair of the Clinical Issues Advisory Council which provides advice and counsel to the MHA on key medical, clinical, and public policy issues. She also serves on the American Hospital Association Regional Policy Board. Ms. Schuster was recognized by Modern Healthcare magazine and Witt Kieffer Associates as one of the Year 2000 "Up and Comers Award" recipients. She is a frequent speaker both locally and nationally on a wide variety of healthcare topics. Ms. Schuster received an M.B.A. with Honors from the University of Chicago Graduate School of Business and a B.S. in Nursing from Boston University.

There are nine Board Members of the Authority. Currently, there is one vacancy and a successor has not been appointed.

BENSON T. CASWELL, a resident of North Andover, was appointed Executive Director of the Authority on April 9, 2002, and is responsible for the management of the Authority's affairs. From 1992 through 2002, Mr. Caswell worked for Ponder & Co. in Chicago where he was a Senior Vice President. From 1987 through 1992, he was Vice President of Ziegler Securities, Chicago, Illinois. From 1983 through 1986, he was an attorney with Gardner, Carton & Douglas. Mr. Caswell holds a Juris Doctor from the University of Chicago, an MBA from Lehigh University and a B.S. from the University of Maine.

Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, is serving as Bond Counsel to the Authority and will submit its approving opinion with regard to the legality of the Series G Bonds in substantially the form attached hereto as Appendix D.

The Act provides that the Authority may employ such other counsel, engineers, architects, accountants, construction and financial experts, or others as the Authority deems necessary.

### **Powers of the Authority**

Under the Act, the Authority is authorized and empowered, among other things, directly or by and through a participating institution for higher education, a participating school for the handicapped, a participating hospital or hospital affiliate, a participating nursing home or a participating cultural institution, as its agent, to

acquire real and personal property and to take title thereto in its own name or in the name of one or more participants as its agent; to construct, reconstruct, remodel, maintain, manage, enlarge, alter, add to, repair, operate, lease, as lessee or lessor, and regulate any project; to enter into contracts for any or all of such purposes, or for the management and operation of a project; to issue bonds, bond anticipation notes and other obligations, and to fund or refund the same; to fix and revise from time to time and charge and collect rates, rents, fees and charges for the use of and for the services furnished or to be furnished by a project or any portion thereof and to enter into contracts in respect thereof; to establish rules and regulations for the use of a project or any portion thereof; to receive and accept from any public agency loans or grants for or in the aid of the construction of a project or any portion thereof; to mortgage any project and the site thereof for the benefit of the holders of revenue bonds issued to finance such projects; to make loans to any participant for the cost of a project or to refund outstanding obligations, mortgages or advances issued, made or given by such participant, for the cost of a project; to charge participants its administrative costs and expenses incurred; to acquire any federally guaranteed security and to pledge or use such security to secure or provide for the repayment of its bonds; and to do all things necessary or convenient to carry out the purposes of the Act. Additionally, the Authority may undertake a joint project or projects for two or more participants.

The Authority has heretofore authorized and issued certain series of its revenue bonds for public and private colleges and universities, and private hospitals and their affiliates, community providers, cultural institutions, schools for the handicapped and nursing homes in the Commonwealth. Each series of revenue bonds has been a special obligation of the Authority.

The Authority expects to enter into separate agreements with eligible institutions in the Commonwealth for the purpose of financing projects for such institutions. Each series of bonds issued by the Authority constitutes a separate obligation of the borrowing institutions for such series, and the general funds of the Authority are not pledged to any bonds or notes.

## **THE SERIES G BONDS**

### **General**

The following description of the Series G Bonds primarily describes the terms and provisions applicable to the Series G Bonds (i) that are Series G-1, Series G-2, Series G-3 and Series G-4 Bonds while bearing interest in the ARS Rate Mode; and (ii) that are Series G-5 Bonds bearing interest in the Fixed Rate Mode. Except for the Series G-5 Bonds, which bear Fixed Rates to their maturity or earlier redemption, at the option of the Institution and upon certain conditions provided for in the Agreement, all or a portion of any subseries of the Series G Bonds may be converted to bear interest in a different Interest Rate Mode, which may be an ARS Rate Mode, a Fixed Rate Mode, a Daily Mode, a Weekly Mode, a Flexible Mode, an Index Floating Rate Mode, or a Term Rate Mode. Brief descriptions of certain features of such other modes are set forth below. For a further description of the provisions relating to the Series G Bonds in the Daily Mode, the Weekly Mode, the Flexible Mode, the Index Floating Rate Mode and the Term Rate Mode (which are collectively referred to in this Official Statement as “Variable Rate Modes”), or in the Fixed Rate Mode, see Appendix C-2 — “SUMMARY OF THE AGREEMENT.” For a description of the ARS Rate Mode and the Auction Rate Procedures, see “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES”, Appendix C-2 — “SUMMARY OF THE AGREEMENT” and Appendix F — “AUCTION PROCEDURES.”

The Series G Bonds will be issued as four subseries of insured Revenue Bonds (Series G-1, Series G-2, Series G-3 and Series G-4), initially bearing interest in the ARS Rate Mode; and one subseries of uninsured Revenue Bonds (Series G-5), bearing interest in the Fixed Rate Mode, in each case in the aggregate principal amounts, set forth on the inside cover page. Each subseries of the Series G Bonds will be dated the date of initial delivery thereof. The last date of each of the initial Auction Periods for the Series G-1 Bonds, the Series G-2 Bonds, the Series G-3 Bonds and the Series G-4 Bonds is indicated on the inside cover page hereof. Thereafter, the Series G-1 Bonds, the Series G-2 Bonds, the Series G-3 Bonds and the Series G-4 Bonds will each have a seven-day Auction Period until conversion to a different Auction Period or Interest Rate Mode. See “THE SERIES G BONDS – Conversion to Other Modes” herein. The Series G-5 Bonds will be issued in the Fixed Rate Mode, with Fixed Rates until their maturity or earlier redemption. The Series G Bonds of each subseries will mature on the dates indicated on the inside cover page hereof.

Subject to the provisions discussed under “THE SERIES G BONDS—Book-Entry Only System” below, the Series G Bonds are issuable as fully registered bonds without coupons in the denomination of (i) while in the Daily Mode or Weekly Mode, \$100,000 or any integral multiple of \$5,000 in excess thereof, (ii) while in the Flexible Mode, \$100,000 or any integral multiple of \$1,000 in excess thereof and (iii) while in the ARS Rate Mode, Fixed Rate Mode, Index Floating Rate Mode or Term Rate Mode, \$5,000 or any integral multiple thereof. The Record Date for Series G Bonds (i) in a Daily Mode, a Weekly Mode, a Flexible Mode, or in the ARS Rate Mode is the Business Day immediately preceding an Interest Payment Date and (ii) in the Fixed Rate Mode, Index Floating Rate Mode or a Term Rate Mode is the 15<sup>th</sup> day of the month immediately preceding each Interest Payment Date.

The Series G Bonds will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company (“DTC”). So long as DTC or its nominee is the Bondowner, payment of principal, redemption price or Purchase Price of, and interest on, the Series G Bonds will be made to DTC for ultimate distribution to the Beneficial Owners (hereinafter defined) of the Series G Bonds in accordance with the procedures described herein under the heading “THE SERIES G BONDS - Book-Entry Only System”.

Unless otherwise specified, the terms of the Series G Bonds while in the ARS Rate Mode are described under the heading “THE SERIES G BONDS – Description of Auction Rate Series G Bonds”, the terms of the Series G-5 Bonds, which are issued as Fixed Rate Bonds, and the terms of any other Series G Bonds that may be converted to the Fixed Rate Mode, are described under the heading “THE SERIES G BONDS - Description of Fixed Rate Series G Bonds”, the terms of the Series G Bonds that may be converted to the Index Floating Rate Mode are described under the heading “THE SERIES G BONDS—Description of Series G Bonds in the Index Floating Rate Mode”, the terms of any Series G Bonds that may be converted to the Flexible Rate Mode are described under the heading “THE SERIES G BONDS - Description of Series G Bonds in the Flexible Mode”, the terms of any Series G Bonds that may be converted to the Daily Mode or the Weekly Mode are described under the heading “THE SERIES G BONDS – Description of Series G Bonds in the Daily Mode or the Weekly Mode”, and the terms of any Series G Bonds that may be converted to the Term Rate Mode are described under the heading “THE SERIES G BONDS - Description of Series G Bonds in the Term Rate Mode.” Terms used and not defined herein are as defined in Appendix C-1 — “DEFINITIONS OF CERTAIN TERMS.”

### **Description of Auction Rate Series G Bonds**

The Series G Bonds bearing interest at an Auction Rate will be dated as of their date of initial delivery. See “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES” herein. For a description of the Auction Rate Procedures, see Appendix F — “AUCTION PROCEDURES.”

Interest on the Series G Bonds while in the ARS Rate Mode will be payable initially on the Interest Payment Dates for the Initial Auction Periods set forth on the inside cover hereof, and thereafter (a) with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, on the Business Day immediately following such Auction Period, (b) with respect to a daily Auction Period, on the first Business Day of the month immediately succeeding such Auction Period, (c) with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, on the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each January 1 and July 1, and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

While Series G Bonds are in the ARS Rate Mode in a daily, seven-day, 28-day, 35-day or three-month Auction Period or Flexible Auction Period of 180 days or less, interest shall be computed on the basis of a 360-day year for the actual number of days elapsed. While Series G Bonds are in the ARS Rate Mode in a six-month Auction Period or Flexible Auction Period of more than 180 days, interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Broker-Dealers have advised the Institution that they intend initially to make a market for the Series G Bonds bearing interest in the ARS Rate Mode between Auctions; however, the Broker-Dealers are not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop. See “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES” herein.

The definitions of certain terms used and not otherwise defined in this section under the heading “Description of ARS Rate Series G Bonds” are contained in Appendix C-1 — “DEFINITIONS OF CERTAIN TERMS.”

While the Series G Bonds are in the ARS Rate Mode, changes to the Auction Procedures, including changes in Auction Periods or Auction Dates, may be implemented in accordance with the provisions summarized in Appendix F hereto.

#### **Auction Agent**

The Agreement provides that when Series G Bonds bear interest at ARS Rates, the Trustee shall, at the written direction of the Institution, appoint an Auction Agent meeting the requirements of the Agreement. See Appendix F — “AUCTION PROCEDURES” under the heading “Qualifications of Auction Agent; Resignation; Removal.” The Trustee and the Auction Agent will enter into an Auction Agreement which will provide, among other things, that the Auction Agent will determine the Auction Period Rate for each Auction in accordance with the Auction Procedures. The Trustee will enter into the Auction Agreement initially with Deutsche Bank Trust Company, as agent for the Trustee, which shall perform the duties of Auction Agent with respect to Series G Bonds bearing interest in the ARS Rate Mode. See “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES” herein.

#### **Auction Date**

An Auction to determine the interest rate with respect to Series G Bonds bearing interest in the ARS Rate Mode for the next succeeding Auction Period will be held on each Auction Date. The first Auction Date will take place on July 9, 2007 with respect to the Series G-1 Bonds, on July 11, 2007 with respect to the Series G-2 Bonds, on July 12, 2007 with respect to the Series G-3 Bonds, and on July 13, 2007 with respect to the Series G-4 Bonds. Thereafter, each Auction Date will take place (a) with respect to a daily Auction Period, on each Business Day, (b) with respect to a Flexible Auction Period, on the last Business Day of the Flexible Auction Period and (c) with respect to any other Auction Period, on the Business Day next preceding each Interest Payment Date.

#### **Order Procedures for Existing Owners and Potential Owners**

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix F — “AUCTION PROCEDURES” attached hereto, as are the particulars with regard to the determination of the Auction Period Rate, the allocation of Series G Bonds bearing interest in the ARS Rate Mode (referred to in this Official Statement as the Auction Procedures), amendment of the Auction Procedures, changes to the Auction Periods or Auction Dates, and the resignation or removal of the Auction Agent. See also “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES” herein.

#### **Special Considerations Relating to the Broker-Dealer Agreements**

Each Broker-Dealer Agreement provides that such Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreements, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

Each Broker-Dealer Agreement provides that such Broker-Dealer may at any time resign and be discharged of the duties and obligations created by the Broker-Dealer Agreement by giving at least 5 Business Days’ written notice to the Authority, the Institution, the Trustee, the Auction Agent and each other Broker-Dealer; provided, however, that a Broker-Dealer may resign immediately if it determines, in its reasonable judgment, that for any reason, including, without limitation, (i) a pending or proposed change in applicable tax laws, (ii) a material adverse change in the financial condition of the Authority or the Institution, (iii) hostilities involving the United States, (iv) a reduction in the ratings of the applicable subseries of Series G Bonds, or (v) an imposition of material restrictions on the Series G Bonds in the ARS Rate Mode or similar obligations, it is not advisable to attempt to Auction such Series G Bonds. In addition, the Auction Agent upon the written direction of the Institution may

terminate a Broker-Dealer Agreement at any time on 5 Business Days' written notice to the other parties thereto. See also "CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES" herein.

### **Description of Series G Fixed Rate Bonds**

The Series G-5 Bonds will be dated as of their date of initial delivery. Interest on the Series G Bonds in the Fixed Rate Mode is payable on January 1 and July 1 of each year, commencing, with respect to the Series G-5 Bonds, on January 1, 2008, and shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

### **Description of Series G Bonds in the Index Floating Rate Mode**

Interest on the Series G Bonds in the Index Floating Rate Mode is payable on each October 1, January 1, April 1 and July 1. Series G Bonds in the Index Floating Rate Mode shall bear interest at the Index Floating Rate, which shall be determined by the Trustee on an Index Floating Rate Determination Date. The first Index Floating Rate for each Index Floating Rate Period shall apply to the period commencing on the first day of such Index Floating Rate Period and ending on the day immediately prior to the first Interest Payment Date and thereafter, each Index Floating Rate shall apply to the period commencing on and including an Index Floating Rate Accrual Date to but not including the following Interest Payment Date. The Index Floating Rate for Series G Bonds bearing interest at an Index Floating Rate shall be the rate of interest per annum determined by the Trustee on an Index Floating Rate Determination Date to be the sum of a percentage of the Index chosen by the Institution and a spread, to be determined by the Remarketing Agent that will result in the Remarketing Agent selling the Bonds at a price equal to par on the Conversion Date. Notwithstanding anything herein to the contrary, Series G Bonds bearing interest at an Index Floating Rate may not bear interest in any Index Floating Rate Period at more than the Maximum Rate.

### **Description of Series G Bonds in the Daily Mode or the Weekly Mode**

Interest on the Series G Bonds in the Daily Mode or the Weekly Mode will be payable on: (i) the first Business Day of each month; (ii) any Mode Change Date (without duplication as to any Interest Payment Date described in (i) above), other than a change between a Daily Mode and a Weekly Mode and the Maturity Date; and (iii) with respect to any Liquidity Provider Bonds, the days set forth as interest payment dates in the applicable Liquidity Facility.

While Series G Bonds are in the Daily Mode, a new interest rate shall be determined at 10:00 a.m. on each Business Day effective for that day. While Series G Bonds are in the Weekly Mode, a new interest rate shall be determined by 4:00 p.m. on the Rate Determination Date and shall take effect generally on each Thursday. No Series G Bonds shall bear interest at an interest rate higher than the Maximum Rate.

While the Series G Bonds are in the Daily Mode or the Weekly Mode, the Daily Rate or the Weekly Rate in effect for each Interest Period shall be determined on the Rate Determination Date for the applicable Mode. The Daily Rate or the Weekly Rate shall be the rate of interest determined by the applicable remarketing agent (the "Remarketing Agent"), for each Interest Period to be the lowest rate which in its judgment, on the basis of then existing market conditions, would permit the sale of Series G Bonds bearing interest at the Daily Rate or the Weekly Rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The Rate Determination Date (i) in the case of the Daily Mode shall be each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode; and (ii) in the case of the Weekly Mode shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday or in the case of a conversion or reconversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter as described above. If the Remarketing Agent fails to make such determination or fails to announce the interest rate as required, the rate to take effect on any Effective Date shall be the Alternate Rate.

While the Series G Bonds are in the Daily Mode or the Weekly Mode, interest shall be computed on the basis of a 365/366 day year and actual days elapsed. Notwithstanding the foregoing, while a Series G Bond is a Liquidity Provider Bond, such Series G Bond shall bear interest and be payable at the times and in the amounts required under the Liquidity Facility then in effect.

### **Description of Series G Bonds in the Flexible Mode**

Interest on Flexible Rate Bonds is payable on each Mandatory Purchase Date applicable thereto, and shall be computed on the basis of a 365/366-day year for the actual days elapsed.

While the Series G Bonds are in the Flexible Mode, the Flexible Rate in effect for each Interest Period shall be determined on the Rate Determination Date. On each Rate Determination Date the Remarketing Agent shall determine the Interest Period and the lowest interest rate for such Interest Period for Series G Bonds in the Flexible Rate Mode which would permit the sale of Series G Bonds bearing interest at the Flexible Rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The Rate Determination Date in the case of the Flexible Mode shall be the first day of an Interest Period. If the Remarketing Agent fails to make such determination or fails to announce the interest rate as required, the Interest Period shall be a Flexible Rate Period with a duration of one day, and the rate to take effect on any Effective Date shall be the Alternate Rate. While Series G Bonds are in a Flexible Mode, such Bonds may have successive Flexible Rate Periods of any duration up to 360 days each and ending on a Business Day and any such Bond may bear interest at a rate and for a period different from any other such Bond.

### **Description of Series G Bonds in the Term Rate Mode**

Interest on Term Rate Bonds is payable on the first day of the sixth calendar month following the month in which such Term Rate Mode takes effect, and on the first day of each sixth calendar month thereafter, and on the final day of the current Interest Period if other than a regular six-month interval, and shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

While the Series G Bonds are in the Term Rate Mode, the Term Rate in effect for each Interest Period shall be determined on the Rate Determination Date. The Term Rate shall be the rate of interest determined by the Remarketing Agent for each Interest Period to be the lowest rate which in its sole judgment would permit the sale of Series G Bonds bearing interest at the Term Rate at par on and as of the applicable Rate Determination Date for the Interest Period selected by the Institution in writing delivered to the Remarketing Agent prior to the Rate Determination Date. The Rate Determination Date in the case of the Term Rate shall be a Business Day no earlier than 15 Business Days and no later than the Business Day next preceding the first day of an Interest Period. If the Remarketing Agent fails to make such determination or fails to announce the interest rate as required, the Series G Bonds in the Term Rate Mode shall automatically convert to the Flexible Rate Mode with a Flexible Rate Period with a duration of one day, and the rate to take effect on any Effective Date shall be the Alternate Rate.

### **Redemption of the Series G Bonds**

#### Optional Redemption

Series G Bonds in the ARS Rate Mode may be optionally redeemed at par plus accrued interest at the direction of the Institution in whole or in part on any Interest Payment Date immediately following the last day of an Auction Period during an ARS Rate Period (credited to sinking fund installments as directed by the Institution), provided that in the event of any partial redemption of such Series G Bonds prior to the Fixed Rate Conversion Date, the aggregate principal amount so redeemed shall be an integral multiple of \$5,000 and the aggregate principal amount of Series G Bonds of any subseries bearing interest in the ARS Rate Mode that will remain Outstanding shall be at least \$10,000,000 unless otherwise consented to by the applicable Broker-Dealers.

The Series G-5 Bonds maturing after July 1, 2017 are subject to optional redemption at the option of the Authority with the consent of the Institution or by direction of the Institution, as a whole or in part at any time on or after July 1, 2017 in such order of maturity as directed by the Institution or, in certain cases, by the Authority, at 100% of their principal amount, plus accrued interest to the redemption date.

Series G Bonds that have been converted to bear interest in the Index Floating Rate Mode are subject to optional redemption at the direction of the Institution in whole or in part (i) on any date prior to the date 10 years from the date of conversion of such Series G Bonds to the Index Floating Rate (the "Par Call Date") at a redemption price equal to the Spread Premium (as defined in the Agreement), and (ii) on any date after the Par Call

Date, at a redemption price equal to 100% of the principal amount redeemed, without premium, plus interest accrued to the redemption date.

Series G Bonds that have been converted to bear interest in the Daily Mode and the Weekly Mode are subject to optional redemption at par plus accrued interest at the direction of the Institution in whole or in part on any date.

Series G Bonds that have been converted to bear interest in the Flexible Mode are not subject to optional redemption prior to their respective Purchase Dates. Series G Bonds in the Flexible Mode shall be subject to redemption at the option of the Institution in whole or in part on their respective Purchase Dates at a redemption price equal to the principal amount thereof.

Series G Bonds (other than the Series G-5 Bonds) that have been converted to bear interest in the Fixed Rate Mode or in the Term Rate Mode are subject to redemption at the direction of the Institution in whole or in part at any time at 100% of the principal amount redeemed, plus interest accrued to the redemption date as follows:

<u>Length of Long-Term Mode</u>	<u>Commencement of Redemption Period</u>
Greater than or equal to 15 years	Tenth anniversary of the commencement of Long-Term Mode
Less than 15, and greater than or equal to 10 years	Seventh anniversary of the commencement of Long-Term Mode
Less than 10, and greater than or equal to 5 years	Third anniversary of the commencement of Long-Term Mode
Less than 5 years	Bonds not subject to optional redemption

#### Mandatory Redemption

Each subseries of the Series G Bonds shall be redeemed from their respective sinking fund installments set forth below at their respective principal amounts, without premium, plus accrued interest to their respective redemption dates on each July 1 as provided for in the Agreement; provided, that while the Series G Bonds are bearing interest in any Auction Period other than a daily Auction Period, if such July 1 is not an Interest Payment Date, the redemption of such Series G Bonds shall occur on the Interest Payment Date immediately preceding such July 1 and provided further that while such Series G Bond bears interest in a Flexible Auction Period, it may be redeemed prior to the end of the Flexible Auction Period.

For the retirement of the Series G-1 Bonds, sinking fund installments shall be payable on July 1, 2039 and each July 1 thereafter, or the Interest Payment Date immediately preceding such July 1 if such Series G Bonds are bearing interest in any Auction Period other than a Daily Auction Period and such July 1 is not an Interest Payment Date, as follows:

<u>Year</u>	<u>Sinking Fund Installment</u>
2039	\$15,000,000
2040	15,000,000
2041	22,500,000
2042*	22,500,000

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\* Maturity.



For the retirement of the Series G-2 Bonds, sinking fund installments shall be payable on July 1, 2039 and each July 1 thereafter, or the Interest Payment Date immediately preceding such July 1 if such Series G Bonds are bearing interest in any Auction Period other than a Daily Auction Period and such July 1 is not an Interest Payment Date, as follows:

<u>Year</u>	<u>Sinking Fund Installment</u>
2039	\$15,000,000
2040	15,000,000
2041	22,500,000
2042*	22,500,000

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\* Maturity.

For the retirement of the Series G-3 Bonds, sinking fund installments shall be payable on July 1, 2028 and each July 1 thereafter, or the Interest Payment Date immediately preceding such July 1 if such Series G Bonds are bearing interest in any Auction Period other than a Daily Auction Period and such July 1 is not an Interest Payment Date, as follows:

<u>Year</u>	<u>Sinking Fund Installment</u>	<u>Year</u>	<u>Sinking Fund Installment</u>
2028	\$7,000,000	2034	\$5,950,000
2029	7,125,000	2035	6,000,000
2030	7,300,000	2036	6,025,000
2031	7,550,000	2037	6,050,000
2032	7,825,000	2038*	6,050,000
2033	8,125,000		

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\* Maturity.

For the retirement of the Series G-4 Bonds, sinking fund installments shall be payable on July 1, 2028 and each July 1 thereafter, or the Interest Payment Date immediately preceding such July 1 if such Series G Bonds are bearing interest in any Auction Period other than a Daily Auction Period and such July 1 is not an Interest Payment Date, as follows:

<u>Year</u>	<u>Sinking Fund Installment</u>	<u>Year</u>	<u>Sinking Fund Installment</u>
2028	\$7,000,000	2034	\$5,950,000
2029	7,125,000	2035	6,000,000
2030	7,300,000	2036	6,025,000
2031	7,550,000	2037	6,050,000
2032	7,825,000	2038*	6,050,000
2033	8,125,000		

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\* Maturity.

For the retirement of the Series G-5 Bonds maturing on July 1, 2032, sinking fund installments shall be payable on July 1, 2030 and each July 1 thereafter, as follows:

<u>Year</u>	<u>Sinking Fund Installment</u>
2030	\$19,035,000
2031	19,985,000
2032*	20,990,000

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\* Maturity.

For the retirement of the Series G-5 Bonds maturing on July 1, 2047, sinking fund installments shall be payable on July 1, 2043 and each July 1 thereafter, as follows:

<u>Year</u>	<u>Sinking Fund Installment</u>
2043	\$5,210,000
2044	5,700,000
2045	6,205,000
2046	6,745,000
2047*	7,640,000

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\* Maturity.

Special Redemption. The Series G-5 Bonds are subject to redemption, as a whole or in part at any time, in such order of maturity as directed by the Institution or, in certain cases, by the Authority, at their principal amounts, without premium, plus accrued interest to the redemption date, at the option of the Institution, in the event of substantial loss to the Series G Project, from insurance or condemnation award proceeds allocable to the Series G Bonds pursuant to the Agreement.

Selection of Series G Bonds. If less than all of the Series G Bonds of a subseries or a Mode are to be redeemed, the Series G Bonds to be redeemed shall be selected by the Trustee (in units of \$100,000 while such Series G Bonds bear interest at a Daily Rate, a Weekly Rate or a Flexible Rate or in integral multiples of \$5,000 while Series G Bonds bear interest at an Auction Rate, a Term Rate, an Index Floating Rate or a Fixed Rate) by lot or in any customary manner of selection as determined by the Trustee, provided, however, that so long as DTC or its nominee is the Bondowner, if less than all of the Series G Bonds of a subseries or a Mode shall be called for redemption, the particular Series G Bonds or portions of Series G Bonds to be redeemed shall be selected by DTC in such manner as DTC may determine. Subject to the preceding sentence, if less than all of Series G Bonds of a subseries or a Mode are to be redeemed, and if such redemption includes the redemption of Series G Bonds of such subseries subject to sinking fund redemption, the Trustee shall credit such redemption to particular sinking fund installments as directed by the Institution.

Purchase in Lieu of Redemption. The Institution may purchase Series G Bonds of any subseries and maturity and credit them against the principal payment or, as the case may be, any sinking fund installments for such Series G Bonds of the same subseries and maturity at the principal amount or applicable redemption price, as the case may be, by delivering them to the Trustee for cancellation at least 60 days before the principal payment date or sinking fund installment date.

Acceleration. In addition to the foregoing redemption provisions, the Trustee may, upon the occurrence of an Event of Default, as defined in the Agreement, by written notice to the Institution and the Authority, declare immediately due and payable the principal amount of the Outstanding Series G Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice at par prior to maturity. The Insured Bonds may not be accelerated without the prior consent of the applicable Bond Insurer. See Appendix C-2 — “SUMMARY OF THE AGREEMENT” under the headings “Default by the Institution” and “Remedies for Events of Default.”

Effect of Redemption. On the redemption date, the redemption price of each Series G Bond to be redeemed will become due and payable; and from and after such date, notice having been properly given and amounts having been made available and set aside from such redemption in accordance with the provisions of the Agreement, notwithstanding that any Series G Bonds called for redemption have not been surrendered, no further interest will accrue on any Series G Bonds called for redemption.

Notice of Redemption and Other Notices. So long as DTC or its nominee is the Bondowner, the Authority, the Trustee, and the Paying Agent will recognize DTC or its nominee as the Bondowner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to indirect Participants, and by DTC Participants and indirect Participants to Beneficial Owners (as such terms are defined herein) will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Trustee shall give notice of redemption to the holders of Series G Bonds bearing interest at a Daily Rate, a Weekly Rate or a Flexible Rate not less than 7 days prior to the date fixed for redemption, to the holders of Series G Bonds bearing interest at an Auction Rate no less than 15 days (and no less than 30 days when such Series G Bonds are in a six-month Auction Period or a Flexible Auction Period of 180 days or more) prior to the date fixed for redemption, and to the holders of Series G Bonds bearing interest at a Fixed Rate, a Term Rate or an Index Floating Rate no less than 30 days nor more than 45 days prior to the date fixed for redemption. Failure to mail notice to a particular Bondowner or any defect in the notice of such Bondowner shall not affect the redemption of any other Series G Bond. So long as DTC or its nominee is the Bondowner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

### **Conversion to Other Modes**

The Institution may elect to have all or a portion of a subseries of the Series G Bonds bearing interest at a Variable Rate converted to the Fixed Rate Mode and, prior to the Fixed Rate Conversion Date, from one Variable Rate Mode to another Variable Rate Mode or from a Variable Rate Mode to an ARS Rate Mode. In addition, at the option of the Institution, all or a portion of a subseries of the Series G Bonds bearing interest in the ARS Rate Mode may be converted to a Variable Rate Mode or the Fixed Rate Mode. No conversion from one Mode to another shall be effective if such Series G Bonds to be converted are not fully remarketed on the applicable mandatory tender date. The Series G-5 Bonds are Fixed Rate Bonds and are not subject to conversion to another Mode. The Institution's right to effect any such conversion of Series G Bonds will terminate on the date of defeasance of such Series G Bonds as provided in the Agreement, and any such conversion of Series G Bonds shall be in accordance with the procedures set forth in the Agreement which are described in Appendix C-2 — "SUMMARY OF THE AGREEMENT" under the headings "Conversion; Changes in Mode."

While any Index Floating Rate is in effect with respect to a series of Bonds, the Bonds of such series may be converted to any Variable Rate Mode, the ARS Rate Mode or the Fixed Rate Mode at the option of the Institution on any Business Day, and on any such Conversion Date, such Bonds shall be subject to mandatory tender for purchase (i) on any date prior to the date 10 years from the conversion to the Index Floating Rate Mode (the "Par Call Date"), at a Purchase Price equal to the Spread Premium for such Bonds and (ii) on any date on or after the Par Call Date for such Bonds, at a Purchase Price equal to 100% of the principal amount thereof, without premium, plus in each case accrued interest to the date fixed for redemption.

While Series G Bonds are in the Daily Mode or the Weekly Mode, conversions to any other Mode may take place on any Business Day, upon not less than 5 days' prior written notice from the Tender Agent to the registered owners of such Series G Bonds. While the Series G Bonds are in the ARS Rate Mode, conversions to a Variable Rate Mode or a Fixed Rate Mode may take place on a Conversion Date selected by the Institution occurring at least 15 days (or, if such Series G Bonds are then in a six-month Auction Period, or a Flexible Auction Period of 180 days or more, 30 days) following notice from the Trustee to the registered owners, the Paying Agent, the Auction Agent and the applicable Broker-Dealers. Conversions to the Index Floating Rate Mode may take place on any Business Day not less than 30 days following the second Business Day after receipt by the Trustee of such direction, subject to written direction by the Institution to the Authority, the Tender Agent (if any), the Liquidity Facility (if any) and the Remarketing Agent.

While Series G Bonds are in the Term Rate Mode, conversions to any other Mode, or conversions between Term Rate Periods of different lengths while in the Term Rate Mode, may take place only on an Interest Payment Date on which such Series G Bonds are subject to optional redemption or on the last Interest Payment Date of the current Term Rate Period, upon not less than 15 days' prior written notice from the Tender Agent to the owners of such Series G Bonds.

While Series G Bonds are in the Flexible Mode, conversions to any other Mode may take place only on the next Mandatory Purchase Date for such Series G Bonds.

Upon such conversion or reconversion the Series G Bonds may be subject to mandatory tender for purchase as described below under "Mandatory Tender." Each conversion of Series G Bonds from one Mode to another Mode, or conversions between Term Rate Periods of different lengths while in the Term Rate Mode, shall be subject to the conditions set forth in the Agreement. In the event that the conditions for a proposed conversion to a new Mode, or conversions between Term Rate Periods of different lengths while in the Term Rate Mode, are not met, (i) such new Mode shall not take effect on the proposed conversion date, notwithstanding any prior notice to the Bondowners of such conversion, (ii) such Series G Bonds bearing interest at a Variable Rate (including Index Floating Rate Bonds) shall remain in their prior Mode (and, with respect to a failed conversion of Flexible Rate Bonds, the interest rates and Interest Periods shall be established by the Remarketing Agent on the failed Mode Change Date), such Series G Bonds bearing interest at an Auction Rate shall remain in the ARS Rate Mode and the next Auction Period shall be a seven-day Auction Period and the Auction Rate of such Auction Period shall be the Maximum Auction Rate, and such Series G Bonds in a Term Rate Mode shall remain in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date and the interest rate shall be established by the Remarketing Agent on the failed Mode Change Date, and (iii) such Series G Bonds, other than Series G Bonds bearing interest at an Auction Rate or an Index Floating Rate Mode (for which there shall be no mandatory tender on a failed conversion), shall be subject to mandatory tender for purchase as described below if notice has been sent to the registered Owners stating that such Series G Bonds would be subject to mandatory purchase on such date. In no event shall the failure of Series G Bonds to be converted to another Mode be deemed to be a default or an Event of Default as long as the applicable Purchase Price is made available if Series G Bonds are required to be purchased.

### **Optional Tender**

Series G Bonds in the Flexible Mode, Term Rate Mode, Index Floating Rate Mode, Fixed Rate Mode and ARS Rate Mode are not subject to optional tender. While Series G Bonds are in the Daily Mode or the Weekly Mode the registered owners shall have the right to tender Series G Bonds (or portions of such Series G Bonds in amounts equal to Authorized Denominations) for purchase on any Business Day at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, upon compliance with the conditions described below. In order to exercise the right to tender, the registered owners must deliver to the Tender Agent a written irrevocable notice of tender satisfactory to the Tender Agent (i) by 11:00 a.m. (New York City time) on any Business Day if the Series G Bonds are in the Daily Mode, and (ii) by 5:00 p.m. (New York City time) on the Business Day 7 days prior to the applicable Purchase Date if the Series G Bonds are in the Weekly Mode. If the registered owner of a Series G Bond has elected to require purchase as provided above, the registered owner shall be deemed, by such election, to have agreed irrevocably to sell such Series G Bond to any purchaser determined in accordance with the provisions of the Agreement on the date fixed for purchase at a price (the "Purchase Price") equal to the principal amount of such Series G Bond plus accrued interest thereon, if any, to the Purchase Date. The Purchase Price of such Series G Bonds shall be paid to the registered owners by the Paying Agent on the Delivery Date, which shall be the Purchase Date or any subsequent Business Day on which such Bonds are delivered to the Tender Agent. From and after the Purchase Date, no further interest on Series G Bonds shall be payable to the registered owners who gave notice of tender for purchase, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price. Tender of Series G Bonds will not be effective and such Series G Bonds will not be purchased if at the time fixed for purchase an acceleration of the maturity of such Series G Bonds shall have occurred and not have been annulled in accordance with the Agreement. Notice of tender of Series G Bonds is irrevocable. Subject to the provisions of the Agreement relating to book-entry tenders described in Appendix C-2 — "SUMMARY OF THE AGREEMENT" under the heading "Book-Entry Tenders", all deliveries of tendered Series G Bonds, including deliveries of Series G Bonds subject to mandatory tender, shall be made to the Tender Agent. **After the Fixed Rate Conversion Date, the registered owners of the Series G Bonds shall have no right to tender the Series G Bonds for purchase.**

## **Mandatory Tender**

Series G Bonds bearing interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or an Auction Rate are subject to mandatory tender for purchase at a price of par plus accrued interest, if any, to the Purchase Date, (a) for any subseries of Series G Bonds the purchase of which is provided for by a Liquidity Facility, (i) on any Substitution Date applicable to such subseries of Series G Bonds, (ii) on the Business Day prior to the Expiration Date of any applicable Liquidity Facility (other than as a result of an Automatic Termination Event), and (iii) on the date specified by the applicable Liquidity Provider, if any, in a written notice to the Trustee following the occurrence of an event of default (other than an Automatic Termination Event) under the applicable Liquidity Facility, if any, then in effect, which date shall be a Business Day not more than the number of days specified in the Liquidity Facility after the Trustee's receipt of such notice and in any event prior to the termination of the Liquidity Facility, if any, (b) with respect to a Flexible Rate Bond, on the first Business Day following the last day of each Flexible Rate Period with respect to such Bonds, (c) for Series G Bonds in the Term Rate Mode, on the first Business Day following the last day of each Term Rate Period, and (d) on any Mode Change Date.

Series G Bonds bearing interest at an Index Floating Rate Mode are subject to mandatory tender for purchase at the Index Mode Purchase Price plus accrued interest, if any, to the Purchase Date, on any Mode Change Date. The Index Mode Purchase Price shall mean (i) the Spread Premium with respect to any Mode Change Date prior to the Par Call Date for such Index Floating Rate Bonds, and (ii) par with respect to any Mode Change Date on or after the Par Call Date for such Index Floating Rate Bonds.

Notice of mandatory tender shall be given or caused to be given by the Tender Agent in writing to the registered owners of the Series G Bonds in a Variable Rate Mode of the subseries that is subject to mandatory tender (a) no less than 15 days prior to the Mandatory Purchase Date in the case of a mandatory purchase, (i) at the end of an Interest Period for Series G Bonds in a Term Rate Mode, or (ii) on a Substitution Date applicable to a subseries of Series G Bonds; (b) no less than 7 days prior to the Mandatory Purchase Date in the case of a mandatory purchase on a Mode Change Date; and (c) (i) no less than the number of days specified in the Liquidity Facility prior to the Mandatory Purchase Date following notice from the applicable Liquidity Provider, if any, of an event of default under the applicable Liquidity Facility, if any, then in effect and directing the Trustee to cause a mandatory tender of such Series G Bonds or (ii) immediately preceding any Expiration Date. No notice shall be given of the Mandatory Purchase Date at the end of each Interest Period for Flexible Rate Bonds. Notice of mandatory tender shall be given or caused to be given by the Trustee in writing to the registered owners of Series G Bonds in an ARS Rate Mode of the subseries that is subject to mandatory tender at least 15 days (or, if such subseries of Series G Bonds is then in a six-month Auction Period or a Flexible Auction Period of more than 180 days, 30 days) prior to the mandatory Purchase Date. From and after the Purchase Date, no further interest on the Series G Bonds subject to such mandatory tender shall be payable to the registered owners thereof, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price. The Beneficial Owners or owners of Series G Bonds subject to such mandatory purchase as described above may not elect to retain such Series G Bonds.

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

The following table sets forth, for each respective year ending July 1, the amounts required to be made available by the Institution in such year for payment of total debt service on the Series G Bonds, total debt service on the to-be issued Series G-6 Bonds and Taxable Bonds, total debt service on all other Outstanding Obligations, and total debt service on the Series G Bonds, the Series G-6 Bonds, the Taxable Bonds and all other Obligations, in such year.

Year Ending July 1	Total Debt Service on the Series G Bonds <sup>(2)(3)</sup>	Total Debt Service on the Series G-6 Bonds and the Taxable Bonds <sup>(2)</sup>	Total Debt Service on Other Outstanding Obligations <sup>(1)(2)(3)</sup>	Total Debt Service on the Series G Bonds, the Series G-6 Bonds, the Taxable Bonds and Other Obligations <sup>(1)(2)(3)</sup>
2008	\$29,855,613	\$9,450,000	\$92,776,150	\$132,081,763
2009	29,909,013	9,450,000	92,972,825	132,331,838
2010	33,951,213	9,450,000	92,450,919	135,852,132
2011	33,942,413	9,450,000	92,695,964	136,088,376
2012	33,928,013	9,450,000	92,803,913	136,181,925
2013	33,922,813	9,450,000	86,535,197	129,908,010
2014	33,904,313	9,450,000	83,937,010	127,291,322
2015	33,897,869	9,450,000	84,309,772	127,657,641
2016	30,764,869	9,450,000	80,104,010	120,318,879
2017	44,869,956	9,450,000	66,274,410	120,594,366
2018	43,615,456	9,450,000	65,557,554	118,623,010
2019	30,604,106	9,450,000	78,871,600	118,925,706
2020	29,227,888	9,450,000	80,752,794	119,430,682
2021	29,220,388	9,450,000	67,686,581	106,356,969
2022	35,611,163	9,450,000	65,742,307	110,803,469
2023	35,607,713	9,450,000	91,402,563	136,460,276
2024	35,616,003	9,450,000	87,712,257	132,778,259
2025	35,605,945	9,450,000	85,377,688	130,433,633
2026	35,613,803	9,450,000	75,451,813	120,515,616
2027	35,612,250	9,450,000	73,830,163	118,892,413
2028	40,514,750	9,450,000	43,883,051	93,847,801
2029	40,209,000	9,450,000	44,117,588	93,776,588
2030	49,080,500	9,450,000	44,226,038	102,756,538
2031	48,994,750	9,450,000	44,229,900	102,674,650
2032	48,946,500	9,450,000	44,212,925	102,609,425
2033	26,881,000	19,600,000	55,949,400	102,430,400
2034	21,881,000	23,144,000	60,855,400	105,880,400
2035	21,505,000	22,480,000	61,166,400	105,151,400
2036	21,075,000	21,870,000	61,505,800	104,450,800
2037	20,643,000	121,262,000	61,879,000	203,784,000
2038	20,159,000	14,456,000	62,196,000	96,811,000
2039	37,575,000	-	57,575,200	95,150,200
2040	36,375,000	-	57,075,200	93,450,200
2041	50,175,000	-	-	50,175,000
2042	48,375,000	-	-	48,375,000
2043	6,785,000	-	-	6,785,000
2044	7,014,500	-	-	7,014,500
2045	7,234,500	-	-	7,234,500
2046	7,464,250	-	-	7,464,250
2047	8,022,000	-	-	8,022,000

- (1) Includes scheduled debt service requirements on the following long-term obligations recorded in the Consolidated Financial Statements of the Institution and its Affiliates that will be outstanding after the issuance of the Series G Bonds, being the Prior Outstanding Institution Bonds, assumed principal and interest requirements of loans from the Pool P Bonds and the Authority's Revenue Bonds, Massachusetts General Hospital Issue, Series F. Excludes debt service on the Prior Bonds being refunded with proceeds of the Series G Bonds, and on approximately \$15.9 million of capital leases and certain other obligations.
- (2) For purposes of this schedule, interest on the Partners Series D Bonds, the Partners Series F-1, F-2, F-3 and F-4 Bonds, the Series G-1, G-2, G-3 and G-4 Bonds, the Series G-6 Bonds, the Pool P loans and the Newton-Wellesley Hospital Series F Bonds, for which interest changes periodically, has been assumed at an interest rate of 4.0% through the maturity of each respective issue. Principal on the Pool P loans is expected to correspond to the principal due on the Pool P Bonds. Interest on the Taxable Bonds has been assumed at an interest rate of 6.25% through maturity.
- (3) The Institution has entered into certain interest rate exchange agreements to fix the rate on \$177.7 million of the outstanding Partners Series D Bonds, \$217.4 million of the outstanding Partners Series F Bonds, and \$150 million of the Series G Bonds, which arrangements are not reflected in the table above. For a further discussion of such agreements, see Appendix A — "LETTER FROM PARTNERS HEALTHCARE SYSTEM, INC" under the heading "Management's Discussion and Analysis of Recent Financial Performance - Liquidity and Capital Resources."

## **Book-Entry Only System**

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

DTC, the world's largest depository, 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, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (all of which are 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"). DTC has a rating of "AAA" from Standard & Poor's Ratings Services ("Standard & Poor's"). The DTC rules applicable to its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

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

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

Principal, premium and interest payments on the 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 Trustee or Paying Agent on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, the Institution or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, the Trustee or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE 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 TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

NONE OF THE AUTHORITY, THE PAYING AGENT, THE INSTITUTION OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, OR INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES G BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES G BONDS.

DTC may discontinue providing its services as securities depository with respect to the Series G Bonds at any time by giving reasonable notice to the Authority or the Trustee. In addition, the Authority may determine that continuation of the system of book entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. If for either reason the Book Entry Only system is discontinued, Bond certificates will be delivered as described in the Agreement and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, the Series G Bonds may be exchanged for an equal aggregate principal amount of the Series G Bonds in other authorized denominations of the same maturity and interest rate, upon surrender thereof at the principal corporate trust office of the Paying Agent. The transfer of any Bond may be registered on the books maintained by the Paying Agent for such purpose only upon assignment in form satisfactory to the Paying Agent. For every exchange or registration of transfer of the Series G Bonds, the Authority and the Paying Agent may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondowner for any exchange or registration of transfer of the Series G Bonds. The Paying Agent will not be required to transfer or exchange any Series G Bond during the notice period preceding any redemption if such Series G Bond (or any part thereof) is eligible to be selected or has been selected for redemption.



## BOND INSURANCE

### FGIC Bond Insurance Policy

*Financial Guaranty Insurance Company has supplied the following information for inclusion in this Official Statement. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.*

**Payments Under the Policy.** Concurrently with the issuance of the Series G-1 and Series G-3 Bonds (“the FGIC-Insured Bonds”), Financial Guaranty Insurance Company (“FGIC”) will issue its Municipal Bond New Issue Insurance Policy for the FGIC-Insured Bonds (the “FGIC Policy”). The FGIC Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the FGIC-Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority, as issuer of the FGIC-Insured Bonds. FGIC will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the “Fiscal Agent”), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which FGIC shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of FGIC-Insured Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any FGIC-Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal, accreted value or interest (as applicable) shall be vested in FGIC. The term “nonpayment” in respect of a FGIC-Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a FGIC-Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Policy is non-cancellable by FGIC. The FGIC Policy covers failure to pay principal (or accreted value, if applicable) of the FGIC-Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC-Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC-Insured Bonds is accelerated, FGIC will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, FGIC will become the owner of the FGIC-Insured Bond, appurtenant coupon or right to payment of principal or interest on such FGIC-Insured Bond and will be fully subrogated to all of the FGIC-Insured Bondholder’s rights thereunder.

The FGIC Policy does not insure any risk other than Nonpayment by the Authority, as defined in the FGIC Policy. Specifically, the FGIC Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the FGIC-Insured Bonds, FGIC may be granted certain rights under the FGIC-Insured Bond documentation. The specific rights, if any, granted to FGIC in connection with its insurance of the FGIC-Insured Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The FGIC Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

**Financial Guaranty Insurance Company.** FGIC is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. FGIC is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

FGIC is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At March 31, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of FGIC or any claims under any insurance policy, including the Policy, issued by FGIC.

FGIC is subject to the insurance laws and regulations of the State of New York, where FGIC is domiciled, including New York’s comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders’ surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, FGIC is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At March 31, 2007, FGIC had net admitted assets of approximately \$3.947 billion, total liabilities of approximately \$2.828 billion, and total capital and policyholders’ surplus of approximately \$1.119 billion, determined in accordance with statutory accounting practices (“SAP”) prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of March 31, 2007, and the audited consolidated financial statements of FGIC and subsidiaries, on the basis of U.S. generally accepted accounting principles (“GAAP”), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading “BOND INSURANCE - FGIC Bond Insurance Policy,” or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by FGIC with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of FGIC (if any) included in documents filed by FGIC with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the FGIC-Insured Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

**The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although FGIC prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to FGIC’s audited SAP financial statements.**

Copies of FGIC’s most recently published GAAP and SAP financial statements are available upon request to: FGIC Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. FGIC’s telephone number is (212) 312-3000.

**FGIC’s Credit Ratings.** The financial strength of FGIC is rated “AAA” by Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc., “Aaa” by Moody’s Investors Service, and “AAA” by Fitch Ratings. Each rating of FGIC should be evaluated independently. The ratings reflect the respective ratings agencies’ current assessments of the insurance financial strength of FGIC. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC-Insured Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the FGIC-Insured

Bonds. FGIC does not guarantee the market price or investment value of the FGIC-Insured Bonds nor does it guarantee that the ratings on the FGIC-Insured Bonds will not be revised or withdrawn.

**Neither FGIC nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the FGIC-Insured Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to FGIC or the FGIC Policy under the heading “BOND INSURANCE - FGIC Bond Insurance Policy.” In addition, FGIC makes no representation regarding the FGIC-Insured Bonds or the advisability of investing in the FGIC-Insured Bonds.**

### **FSA Bond Insurance Policy**

Concurrently with the issuance of the Series G Bonds, Financial Security Assurance Inc. ("FSA") will issue its Municipal Bond Insurance Policy for the Series G-2 Bonds and the Series G-4 Bonds, being the FSA-Insured Bonds (the "FSA Policy"). The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA-Insured Bonds when due as set forth in the form of the FSA Policy included as an Appendix G to this Official Statement.

The FSA Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

**Financial Security Assurance Inc.** FSA is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

At December 31, 2006, FSA's combined policyholders' surplus and contingency reserves were approximately \$2,554,147,000 and its total net unearned premium reserve was approximately \$2,070,751,000 in accordance with statutory accounting principles. At December 31, 2006, FSA's consolidated shareholder's equity was approximately \$2,722,312,000 and its total net unearned premium reserve was approximately \$1,648,334,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of FSA included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of FSA included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The FSA Policy does not protect investors against changes in market value of the FSA-Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the FSA-Insured Bonds or the advisability of investing in the FSA-Insured Bonds. FSA makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that FSA has provided the information presented under this caption and the form of the FSA Policy set forth in Appendix G for inclusion in this Official Statement.

## **CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES**

### **Role of Broker-Dealer**

*Auction Rate Securities Market Generally.* J.P. Morgan Securities Inc., Bear, Stearns & Co. Inc., Goldman Sachs & Co., Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. (each, a “Broker-

Dealer”) have each been appointed by the Institution to serve as a dealer in the Auctions for the ARS Rate Bonds, and each Broker-Dealer is to be paid by the Institution for their services. Each Broker-Dealer receives broker-dealer fees from the Institution at an agreed-upon annual rate that is applied to the principal amount of the ARS Rate Bonds sold or successfully placed through such Broker-Dealer in such Auctions.

ARS Rate Bonds. Each Broker-Dealer is designated in the applicable Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the ARS Rate Bonds. Each Broker-Dealer will receive Broker-Dealer Fees from the Institution with respect to the ARS Rate Bonds sold or successfully placed through it in Auctions for the ARS Rate Bonds. Each Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the ARS Rate Bonds.

### **Bidding by Broker-Dealer**

Each Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the ARS Rate Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because such Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the ARS Rate Bonds and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the ARS Rate Bonds and (ii) the Auction for the ARS Rate Bonds will clear at a particular rate. For this reason, and because each Broker Dealer is appointed and paid by the Institution to serve as a Broker-Dealer in the Auctions for the ARS Rate Bonds, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction for the ARS Rate Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the ARS Rate Bonds. See “Role of Broker-Dealer” above. The Broker Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker Dealer Agreement.

The Broker-Dealers are the only Broker-Dealers appointed by the Institution to serve as Broker-Dealer in the Auctions for the ARS Rate Bonds, and as long as that remains the case they will be the only Broker-Dealers that submit Orders to the Auction Agent in the Auctions for the ARS Rate Bonds. Each Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an “Auction Failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. Each Broker-Dealer may place one or more Bids in an Auction for the ARS Rate Bonds for its own account to acquire the ARS Rate Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the ARS Rate Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARS Rate Bonds. The Broker Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the ARS Rate Bonds for its own account, a Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See “Price Talk” below.

Each Broker-Dealer routinely encourages bidding by others in auctions generally for which it serves as broker-dealer. Each Broker-Dealer also may encourage Bidding by others in Auctions for the ARS Rate Bonds, including to prevent an Auction Failure or to prevent an Auction for the ARS Rate Bonds from clearing at a rate that the Broker Dealer believes does not reflect the market for the ARS Rate Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by a Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate, including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the ARS Rate Bonds being auctioned, including displacing some Bidders who may have their Bids rejected or receive fewer ARS Rate Bonds than they would have received if the Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the ARS Rate Bonds clears successfully does not mean that an investment in the ARS Rate Bonds involves no significant liquidity or credit risk. The Broker-Dealers are not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the ARS Rate Bonds to prevent an Auction Failure or an Auction for the ARS Rate Bonds from clearing at a rate the applicable Broker-Dealer believes does not reflect the market for the ARS Rate Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so

or that Auction Failures will not occur. Investors should also be aware that Bids by a Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the ARS Rate Bonds, if all outstanding ARS Rate Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If a Broker-Dealer holds any ARS Rate Bonds for its own account on an Auction Date, it is the Broker Dealer's practice to submit a Sell Order into the Auction for the ARS Rate Bonds with respect to such ARS Rate Bonds, which would prevent that Auction for the ARS Rate Bonds from being an All Hold Auction. A Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the ARS Rate Bonds, as set forth above.

### **Price Talk**

Before the start of an Auction for the ARS Rate Bonds, each Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the ARS Rate Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the ARS Rate Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. The Broker-Dealer occasionally may update and change the Price Talk based on changes in the Institution's or the applicable Bond Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with their Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

### **"All-or-Nothing" Bids**

The Broker-Dealers will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of ARS Rate Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

### **No Assurances Regarding Auction Outcomes**

The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the ARS Rate Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any ARS Rate Bonds purchased or retained in the Auction for the ARS Rate Bonds may be lower than the market rate for similar investments.

None of the Broker-Dealers will agree before an Auction to buy ARS Rate Bonds from or sell ARS Rate Bonds to a customer after the Auction.

### **Deadlines**

Each particular Auction for the ARS Rate Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, each Broker-Dealer imposes an earlier deadline for all customers— called the "Broker-Dealer Deadline"— by which Bidders must submit Bids to the respective Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealers may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. Each Broker-Dealer may submit Bids for its own account at any time until the Submission

Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

### **Existing Owner's Ability to Resell Auction Rate Securities May Be Limited**

An Existing Owner may sell, transfer or dispose of an ARS Rate Bond (i) in an Auction for the ARS Rate Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the ARS Rate Bonds, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the ARS Rate Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those ARS Rate Bonds in the Auction for the ARS Rate Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the ARS Rate Bonds all, and may not be able to sell any, of the ARS Rate Bonds subject to such Submitted Sell Orders. As discussed above (*see* "Bidding by Broker-Dealer"), a Broker-Dealer may submit a Bid in an Auction for the ARS Rate Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of a Broker-Dealer Bidding in the Auction for the ARS Rate Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Institution's or the applicable Bond Insurer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, a Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the ARS Rate Bonds, there can be no assurance that a secondary market for the ARS Rate Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the ARS Rate Bonds on the terms or at the times desired by an Existing Owner. Each Broker-Dealer, in its own discretion, may decide to buy or sell the ARS Rate Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the ARS Rate Bonds. However, the Broker-Dealers are not obligated to make a market in the ARS Rate Bonds and may discontinue trading in the ARS Rate Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the ARS Rate Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased an ARS Rate Bond through a dealer which is not a Broker-Dealer for the ARS Rate Bonds, such Existing Owner's ability to sell its ARS Rate Bonds may be affected by the continued ability of its dealer to transact trades for the ARS Rate Bonds through the Broker-Dealer.

The ability to resell the ARS Rate Bonds will depend on various factors affecting the market for the ARS Rate Bonds, including news relating to the Institution or the applicable Bond Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the ARS Rate Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the ARS Rate Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" below) or press reports, financial reporting cycles and market conditions generally. Demand for the ARS Rate Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

### **Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions**

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice to the Institution and the Trustee, or 30 days notice if its fee has not been paid, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction

Agent be in place if its fee has not been paid. The Broker-Dealer Agreements provide that the Broker-Dealer thereunder may resign upon 5 Business Days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the ARS Rate Bonds, with the result that the interest rate on the ARS Rate Bonds will be determined as described in the Agreement.

## **Securities and Exchange Commission Settlements**

On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms, including J.P. Morgan Securities Inc., Bear, Stearns & Co. Inc., Goldman Sachs & Co., Morgan Stanley & Co. Incorporated and Citigroup Global Markets, Inc. (the “Settling Broker-Dealers”), that participate in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the ARS Rate Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including Deutsche Bank Trust Company (the “Settling Auction Agents”), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the ARS Rate Bonds.

## **ADDITIONAL INDEBTEDNESS**

### **General**

Subject to certain provisions set forth therein, the Agreement permits the Institution to incur Indebtedness for any purpose of the Institution or to guarantee the Indebtedness of others. In general, during the period that there is no Guarantee Suspension, there are no limitations set forth in the Agreement relating to the incurrence of additional Indebtedness by the Institution or the securing of Indebtedness by the Institution. Subject to certain requirements that apply only during a Guarantee Suspension (*i.e.*, while the obligations of the Guarantors under the Guarantees are suspended), Indebtedness of the Institution, whether incurred through the Authority or another lender, may be secured by a pledge, lien, mortgage, security interest or other encumbrance on the Property of the Institution without any such lien or security interest equally or ratably securing the obligations of the Institution with respect to the Series G Bonds under the Agreement. See Appendix C-2 — “SUMMARY OF THE AGREEMENT,” under the heading “Senior Indebtedness” and “Restrictions on Encumbrance, Sale and Lease of Property.”

### **Senior Indebtedness**

The Agreement provides that, during any period in which the guarantee obligations of Brigham and BWF and the General and MGH are suspended, the Institution shall not permit an Affiliate to incur Indebtedness, whether secured or unsecured, unless (i) such Affiliate delivers to the Authority a guarantee, substantially similar in form and substance to the Guarantees, securing the Institution’s obligations under the

Agreement on an equal and ratable basis with such Indebtedness, or (ii) such Indebtedness does not exceed certain limitations set forth in the Agreement. In addition, during any such suspension, the Institution shall not incur any Indebtedness secured by a non-parity lien on any Property of the Institution (other than a Permitted Lien, as defined in the Agreement) unless such Indebtedness does not exceed certain limitations set forth in the Agreement. See Appendix C-2— “SUMMARY OF THE AGREEMENT” under the heading “Senior Indebtedness.” The Agreement also provides that if Brigham or BWF shall, or if a certain prior lien on the General’s and MGH’s Gross Receipts has been terminated and the General or MGH shall, incur Indebtedness secured by a pledge, lien, mortgage, security interest or other encumbrance on any of their tangible or intangible property (other than such an encumbrance on or of property financed by such Indebtedness or on the proceeds of such Indebtedness provided only to secure such Indebtedness), the Institution shall cause such Affiliate to extend such encumbrance also to secure such Affiliate’s obligations under its respective Guarantee.

## **DEBT SERVICE COVERAGE RATIO AND RATE COVENANT**

Under the Agreement, the Institution agrees to maintain or cause to be maintained a Debt Service Coverage Ratio at least equal to 1.0 in each fiscal year. If the Institution fails to maintain such ratio, then within 30 days after publication of its audited consolidated financial statements, the Institution covenants to retain a consultant to make recommendations as to how such ratio may be achieved in subsequent fiscal years. Failure to follow the consultant’s recommendations shall not be a default under the Agreement so long as the ratio actually achieved in the immediately following fiscal year is at least 1.0. In addition, a consultant’s report will not be required in the succeeding fiscal year if the report provided in the prior fiscal year states that the Institution was precluded from achieving a Debt Service Coverage Ratio of at least 1.0 by factors beyond its control and that the Institution has done all that it reasonably could to achieve the highest possible Debt Service Coverage Ratio under the circumstances, and the Institution certifies that these circumstances have persisted into the succeeding fiscal year. For a more complete description, see Appendix C-2 — “SUMMARY OF THE AGREEMENT” under the heading “Debt Service Coverage Ratio.”

## **THE SERIES G PROJECT**

The Series G Project consists of the New Part of the Series G Project and the Existing Part of the Series G Project. For information concerning the New Part of the Series G Project, see Appendix A — “LETTER FROM PARTNERS HEALTHCARE SYSTEM, INC.” under the heading “The Project - New Part of the Project.”

The Existing Part of the Series G Project consists of the refunding of a portion of the Prior Bonds outstanding in the aggregate principal amount of \$143,615,000. The refunding of the Prior Bonds will be achieved through the deposit of a portion of the proceeds of the Series G Bonds, together with other funds, if any, with U.S. Bank National Association, as successor trustee for the Prior Bonds. Such moneys will be invested as directed by the Institution and will be utilized to pay when due the principal of and interest on a portion of the Prior Bonds until and including the applicable redemption date for the Prior Bonds. A portion of the Partners Series A Bonds maturing on July 1, 2017, 2019 and 2024 in the aggregate principal amount of \$20,590,000 will be current refunded and redeemed at 101% on or about July 30, 2007. A portion of the Partners Series C Bonds maturing on July 1, 2017, July 1, 2018 and July 1, 2032 in the aggregate principal amount of \$103,040,000 will be advance refunded and redeemed at 101% on July 1, 2011. All of the outstanding Newton-Wellesley Series G Bonds will be current refunded and redeemed at 102% on or about July 30, 2007. The Partners Series A Bonds and the Newton-Wellesley Series G Bonds will not be defeased upon the issuance of the Series G Bonds, and will remain outstanding until their applicable redemption date.

In addition to the issuance of the Series G Bonds, the Institution intends to enter into two additional financings, that may occur at approximately the same time as the issuance of the Series G Bonds. The first is the proposed issuance by the Authority on behalf of the Institution of approximately \$80,000,000 of tax-exempt index put bonds, designated as the Series G-6 Bonds (*i.e.*, the Series G-6 Bonds), which would be privately placed with a financial institution, and the second is the proposed direct issuance by the Institution of approximately \$100,000,000 of taxable bonds (*i.e.*, the Taxable Bonds). The proceeds of these two financings would also be applied to new capital expenditures for the Institution and its healthcare system.



## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series G Bonds are expected to be applied as follows:

### Sources of Funds

Principal Amount of the Series G Bonds	\$620,000,000
Plus Net Original Issue Premium	<u>6,508,722</u>
Total Sources of Funds	<u>\$626,508,722</u>

### Uses of Funds

Refunding of Prior Bonds	\$153,496,369
New Part of the Series G Project	436,723,071
Capitalized Interest	27,062,973
Costs of Issuance <sup>(1)</sup>	<u>9,226,309</u>
Total Uses of Funds	<u>\$626,508,722</u>

- <sup>(1)</sup> Includes initial fees and expenses of the Authority and the Trustee, rating agency charges, legal fees, fees of accountants, the bond insurance premiums, Underwriters' discount and other costs of issuance.

## BONDOWNERS' RISKS

For a discussion of certain of the risks to the Series G Bondowners, see Appendix A — "LETTER FROM PARTNERS HEALTHCARE SYSTEM, INC." particularly under the heading "Bondowners' Risks and Matters Affecting the Health Care Industry," as well as the risks described below.

### Payment of Debt Service

The principal of, redemption premium, if any, and interest on the Series G Bonds are payable solely from the amounts paid by the Institution to the Authority under the Agreement. No representation can be made and no assurance can be given that revenues will be realized by the Institution in the amounts necessary to make payments at the times and in the amounts sufficient to pay the debt service on the Series G Bonds.

Future revenues and expenses will be affected by events and conditions relating generally to, among other things, demand for the Institution's services, the ability of the Institution to provide the services required by patients, physicians' relationships with the Institution, the ability of the Institution to obtain research grant funding, management capabilities, the design and success of the Institution's strategic plans, economic developments in the Institution's service area, the Institution's ability to control expenses, maintenance of the Institution's relationships with managed care organizations, competition, rates, costs, third party payments, legislation, and governmental regulation. Unanticipated events and circumstances may occur which cause variations from the Institution's expectations, and the variations may be material.

### No Security Interest Granted

The Agreement provides that the Institution shall make payments to the Trustee sufficient to pay the Series G Bonds, and the interest thereon, as the same become due. The obligation of the Institution to make such payments is an unsecured general obligation of the Institution. The Series G Bonds are not secured by a mortgage lien or security interest in any real or tangible personal property or any other property or revenues of the Institution. Under certain circumstances the Institution can issue, incur or assume additional Indebtedness which may be secured without equally and ratably securing the Series G Bonds, with the effect that such Indebtedness would be senior to the Series G Bonds. See Appendix C-2 — "SUMMARY OF THE AGREEMENT - Senior Indebtedness".

## **Enforceability of Remedies Generally**

The remedies granted to the Trustee or the Owners of the Bonds, including the Series G Bonds, upon an Event of Default under the Agreement are or may be dependent upon judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified in the Agreement may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series G Bonds will be qualified as to the enforceability of the provisions of the Agreement by limitations imposed by state and federal laws, rulings and decisions relating to equitable remedies regardless of whether enforceability is sought in a proceeding at law or in equity, fraudulent conveyances, the ability of one charitable corporation to pledge its assets to secure the debt of another, and bankruptcy, reorganization, insolvency, receivership or other similar laws affecting the rights of creditors generally.

## **Enforceability of Guarantees**

Under Massachusetts law, a nonprofit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor nonprofit corporation. In addition, it is possible that the joint and several obligation of a Guarantor to make payments due under a Guarantee may be declared void in an action brought by third party creditors pursuant to the Massachusetts fraudulent conveyance statutes or may be avoided by a Guarantor or a trustee in bankruptcy in the event of the bankruptcy of the Guarantor from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the Massachusetts fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of “fair consideration” or “reasonably equivalent value,” and (b) the obligation renders the obligor “insolvent,” as such terms are defined under the applicable statute. Interpretation by the courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, a Guarantor’s joint and several obligation under a Guarantee to make all payments thereunder, including payments in respect of funds used for the benefit of the Institution or the other Guarantors, may be held to be a “transfer” which makes such Guarantor “insolvent” in the sense that the total amount due under the Guarantee could be considered as causing its liabilities to exceed its assets. Also, one of the Guarantors may be deemed to have received less than “fair consideration” for such obligation because only a portion of the proceeds of the indebtedness is to be used to finance facilities occupied or used by such Guarantor. While the Guarantors may benefit generally from the facilities financed from the indebtedness for the Institution or the other Guarantors, the actual cash value of this benefit may be less than the joint and several obligation. Rights under the Massachusetts fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Agreement.

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

## **Covenant to Maintain Tax Exempt Status of the Series G Bonds**

The tax exempt status of the Series G Bonds is based on the continued compliance by the Authority and the Institution with certain covenants contained in the Agreement. These covenants relate generally to maintenance of the Institution’s tax-exempt status, arbitrage limitations, rebate of certain investment earnings to the federal government, and restrictions on the amount of costs of issuance financed with the proceeds of the Series G Bonds. Failure to comply with any of these covenants may result in the treatment of interest on the Series G Bonds as taxable retroactive to the date of issuance.

## **Revocation of Tax Exemption; Private Inurement**

Revocation of the tax-exempt status of the Institution under Section 501(c)(3) of the Code could subject the interest paid to Bondowners to federal income taxation retroactively to the date of issuance of the Series G Bonds. Section 501(c)(3) of the Code specifically conditions the continuing exemption of all organizations

described in such section upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. See Appendix A hereto, under the caption “Bondowners’ Risks and Matters Affecting the Health Care Industry – Not-for-Profit Status”.

### **Financial Distress of Private Health Plans**

The Institution may also be affected by the financial instability of the HMOs, PPOs and other third-party payors. For example, if the regulators place a financially-troubled third party payor into rehabilitation under state law, or if a third-party payor files for protection under the federal bankruptcy laws, it is unlikely that health care providers will be reimbursed in full for services furnished to enrollees of the third-party payor. Also, health care providers may be required by law or court order to continue furnishing health care services to the enrollees of an insolvent third-party payor, even though the providers may not be reimbursed in full for such services.

### **CONTINUING DISCLOSURE**

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Series G Bonds and the Authority will not provide any such information. The Institution has undertaken all responsibilities for any continuing disclosure to Bondowners as described below, and the Authority shall have no liability to the Bondowners or any other person with respect to such disclosures.

The Institution has covenanted for the benefit of Bondowners to provide certain financial information and operating data relating to the Institution by not later than 150 days following the end of the Institution’s fiscal year beginning with the fiscal year ending September 30, 2007 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if deemed by the Institution to be material. The Annual Report will be filed on behalf of the Institution with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository if such repository is established (collectively, a “Repository”). The notices of material events will be filed on behalf of the Institution with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in Appendix E — “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission.

The Institution has expressed its willingness to furnish, or cause to be furnished, to (1) the Authority, (2) each Repository, and (3) any person who has so requested in writing, no later than 60 days subsequent to the last day of each of the first three calendar quarters, and 90 days subsequent to the last day of the fourth calendar quarter, in each fiscal year (i) the Institution’s internal, unaudited and consolidated (a) balance sheet as of the end of such quarter and as of the end of the prior fiscal year, and (b) statement of operations and statement of cash flows for the year-to-date period then ended and, in the case of the statement of operations, for the comparable prior year period; and (ii) utilization statistics of the Institution in form and substance similar to that provided in Appendix A attached hereto subject, however, in each case to modification if the form of such information changes. Failure of the Institution to provide such information shall not constitute a default under the Agreement or the Continuing Disclosure Agreement.

### **TAX EXEMPTION**

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series G Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the further opinion that interest on the Series G Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is also of the opinion that, under existing law, interest on the Series G Bonds and any profit on the sale of the Series G Bonds are exempt from Massachusetts personal income taxes and that the Series G Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Series G Bonds. Prospective Bondowners should be aware, however, that the Series G Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Series G Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series G Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

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

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds (“Premium Bonds”), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a holder’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series G Bonds. Failure to comply with these requirements may result in interest on the Series G Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series G Bonds. The Authority and the Institution have covenanted to comply with such requirements to ensure that interest on the Series G Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants. Certain requirements and procedures contained or referred to in the Agreement, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series G Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. 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 G Bonds may adversely affect the value of, or the tax status of interest on, the Series G Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Series G Bonds. Prospective Bondowners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective holders of the Series G Bonds should be aware that the statutory framework on which the exemptions from Massachusetts personal income taxes and from Massachusetts personal property taxes described above are based is similar to that at issue in *Department of Revenue of Kentucky v. Davis*, 197 S.W. 3d

557 (Ky. App. 2006), cert. granted (May 21, 2007), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions and/or legislation designed to ensure the constitutionality of Massachusetts tax law could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding bonds, including the Series G Bonds, to the extent constitutionally permissible, or result in the exemption from Massachusetts income tax of interest on non-Massachusetts municipal bonds, either of which could affect the market price of the Series G Bonds.

Although Bond Counsel is of the opinion that interest on the Series G Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series G Bonds may otherwise affect a Bondowner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondowner or the Bondowner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondowners should consult with their own tax advisors with respect to such consequences.

On the date of delivery of the Series G Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix D — "PROPOSED FORM OF BOND COUNSEL OPINION."

## LEGALITY OF THE SERIES G BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Series G Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all Massachusetts insurance companies, trust companies, savings banks, cooperative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. The Series G Bonds, under the Act, are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

## DESCRIPTION OF RATINGS

Moody's, Standard & Poor's, and Fitch have assigned the long-term ratings to each subseries of the Series G Bonds as indicated in the table below.

<u>Subseries</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
G-1 (FGIC-Insured)	Aaa	AAA	AAA
G-2 (FSA-Insured)	Aaa	AAA	AAA
G-3 (FGIC-Insured)	Aaa	AAA	AAA
G-4 (FSA-Insured)	Aaa	AAA	AAA
G-5	Aa2	AA	AA

Moody's, Standard & Poor's and Fitch have assigned the Series G-1 Bonds, the Series G-2 Bonds, the Series G-3 Bonds and the Series G-4 Bonds long-term ratings of Aaa, AAA and AAA, respectively. Such ratings are conditioned on the issuance of the applicable Bond Insurance Policy by the applicable Bond Insurer.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041 and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies,

if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series G Bonds.

### **COMMONWEALTH NOT LIABLE ON THE SERIES G BONDS**

The Series G Bonds shall not be deemed to constitute a debt or liability of the Commonwealth or any political subdivision thereof, or a pledge of the faith and credit of the Commonwealth or any such political subdivision, but shall be payable solely from the Revenues derived by the Authority under the Agreement. Neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Series G Bonds. The Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay debt service on the Series G Bonds in the event of default by the Institution. The Authority does not have taxing power.

### **VERIFICATION**

On the date of delivery of and payment for the Series G Bonds, a portion of the proceeds of the Series G Bonds, together with other available funds, will be deposited in the Escrow Fund for the Partners Series C Bonds to provide for the payment and redemption of a portion of such bonds. The arithmetical accuracy of certain computations included in the schedules prepared by the Underwriters on behalf of the Institution relating to (a) the computation of the adequacy of the anticipated receipts of principal and interest on the Escrow Securities and the uninvested cash on deposit in the Escrow Fund to pay the principal of and interest on the Partners Series C Bonds to be refunded when due through and including their respective maturity or optional redemption dates, and (b) the computation of yields on the Series G Bonds and the Escrow Securities, have been verified by Grant Thornton LLC, certified public accountants (the "Verifier"). Such computations are based solely upon assumptions and information supplied by the Underwriters on behalf of the Institution. The Verifier has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

### **UNDERWRITING**

The Series G Bonds are being purchased for reoffering by the applicable underwriter or underwriters listed on the inside cover page hereof for the applicable subseries (collectively, the "Underwriters") pursuant to separate Purchase Contracts for each subseries between the Authority and the applicable Underwriters. The Series G-1 Bonds, the Series G-2 Bonds, the Series G-3 Bonds and the Series G-4 Bonds will be purchased by the applicable Underwriters at purchase prices reflecting an underwriters' discount of \$362,303.57, respectively, for each series. The Series G-5 Bonds will be purchased by J.P. Morgan Securities, Inc., as representative of the Underwriters, at a purchase price reflecting an underwriters' discount of \$1,545,828.58. The obligations of the Underwriters are subject to certain terms and conditions contained in each applicable Purchase Contract. The Underwriters of each subseries will be obligated to purchase all of the Series G Bonds of such subseries if any of the Series G Bonds of such subseries are so purchased. The Institution has agreed to indemnify the Underwriters and the Authority against certain liabilities, including certain liabilities arising under federal and state securities laws.

### **LEGAL MATTERS**

All legal matters incidental to the authorization and issuance of the Series G Bonds by the Authority are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority, whose opinion approving the validity and tax exempt status of the Series G Bonds will be delivered with the Series G Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed on for the Institution and the Guarantors by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Certain legal matters will be passed on for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series G Bonds or questioning or affecting the validity of the Series G Bonds or the proceedings and authority under

which they are to be issued. Neither the creation, organization, or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. See Appendix A with respect to any material litigation affecting the Institution.

## **INDEPENDENT ACCOUNTANTS**

The consolidated financial statements as of and for the fiscal years ended September 30, 2006 and September 30, 2005 of Partners HealthCare System, Inc. and Affiliates, included in Appendix B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix B to this Official Statement.

## **MISCELLANEOUS**

The references to the Act, the Agreement and the Guarantees are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to the Act, the Agreement and the Guarantees for full and complete statements of such provisions. The agreements of the Authority with the owners of the Series G Bonds are fully set forth in the Agreement, and neither any advertisement of the Series G Bonds nor this Official Statement is to be construed as constituting an agreement with the Bondowners. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Trustee.

Information relating to DTC and the book entry system described herein under the heading “THE SERIES G BONDS - Book Entry Only System” has been furnished by DTC and is believed to be reliable.

Attached hereto as Appendix A is a letter from the Institution to the Authority that contains certain information relating to the Institution and certain of its affiliates. While the information contained therein is believed to be reliable, the Authority and the Underwriters make no representations or warranties whatsoever with respect to the information contained therein. Attached hereto as Appendix B are the audited consolidated financial statements of the Institution and its affiliates and the report of its independent certified public accountants.

The Authority and the Underwriters have relied on the information contained in Appendix A and the financial statements contained in Appendix B.

Appendix C-1 — “DEFINITIONS OF CERTAIN TERMS,” Appendix C-2 — “SUMMARY OF THE AGREEMENT”, Appendix D — “PROPOSED FORM OF BOND COUNSEL OPINION” and Appendix F — “AUCTION PROCEDURES” have been prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority.

Appendix E — “FORM OF CONTINUING DISCLOSURE AGREEMENT” has been prepared by Hawkins Delafield & Wood LLP in its capacity as counsel to the Underwriters.

Appendix G — “SPECIMEN BOND INSURANCE POLICY” has been prepared by the applicable Bond Insurer.

All appendices are incorporated as an integral part of this Official Statement.

The Institution has reviewed the portions of this Official Statement describing the Institution, the Series G Project, Estimated Sources and Uses of Funds and Bondowners’ Risks, and has furnished Appendix A to this Official Statement, and has approved all such information for use with this Official Statement. At the closing for the Series G Bonds, the Institution will certify that such portions of this Official Statement, except for any projections and opinions contained in such portions, do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such statements therein, in the light of the circumstances under which they are made, not misleading.

The execution and delivery of this Official Statement by its Executive Director has been duly authorized by the Authority.

**MASSACHUSETTS HEALTH AND EDUCATIONAL  
FACILITIES AUTHORITY**

By:                     /s/ Benson T. Caswell                      
Executive Director



## **APPENDIX A**

**Letter from Partners HealthCare System, Inc**

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June 7, 2007

Massachusetts Health and Educational  
Facilities Authority  
99 Summer Street  
Boston, MA 02110

Dear Members of the Authority:

In connection with the sale of \$620,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System, Series G (the Series G Bonds), Partners HealthCare System, Inc. is pleased to submit to the Massachusetts Health and Educational Facilities Authority (the Authority) the following information with respect to Partners HealthCare System, Inc., The Brigham and Women's Hospital, Inc., The General Hospital Corporation, the Project (as more fully described herein) and other pertinent information. Unless otherwise indicated, defined terms used in the forepart of this Official Statement have the same meanings herein and references to years are to fiscal years ending September 30. In this Official Statement the corporate entity formally known as Partners HealthCare System, Inc. is referred to as "PHS," and PHS together with all of the affiliates as to which financial information is presented on a consolidated basis herein is referred to as "Partners."

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## **I. OVERVIEW AND BACKGROUND OF PARTNERS**

### **A. General**

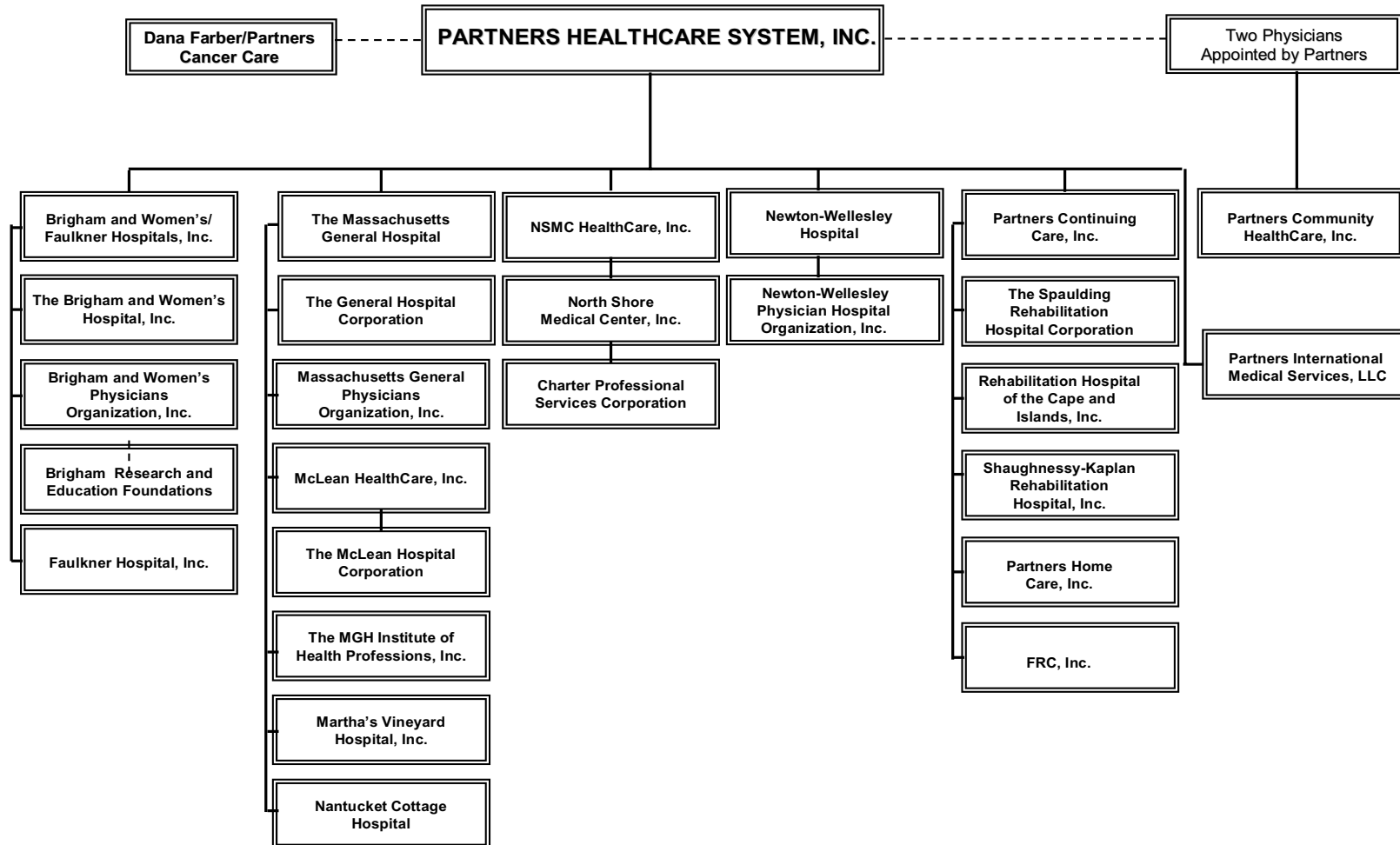
Partners is one of the largest charitable diversified health care services organizations in the United States. PHS was established in 1994 by an affiliation between The Brigham Medical Center, Inc., now known as Brigham and Women's/Faulkner Hospitals, Inc. (BW/F), and The Massachusetts General Hospital (MGH), in order to create an integrated health care delivery system. Partners currently operates two tertiary and six community acute care hospitals that comprise the largest acute health care system in eastern Massachusetts, one hospital providing inpatient and outpatient mental health services and three hospitals providing inpatient and outpatient services in rehabilitation medicine. The tertiary hospitals are Brigham and Women's Hospital (BWH) and The General Hospital Corporation (The General or The General Hospital), commonly known as Massachusetts General Hospital. The community acute care hospitals are Faulkner Hospital (Faulkner), Newton-Wellesley Hospital (NWH), Salem Hospital (Salem), Union Hospital (Union), and, effective in March 2007, Martha's Vineyard Hospital (MVH) and Nantucket Cottage Hospital (NCH). McLean Hospital (McLean) provides inpatient and outpatient mental health services, while Spaulding Rehabilitation Hospital (Spaulding), Shaughnessy-Kaplan Rehabilitation Hospital (SKRH) and Rehabilitation Hospital of the Cape and Islands (RHCI) provide inpatient and outpatient services in rehabilitation medicine. Partners Continuing Care (PCC) oversees the management, delivery and integration of non-acute services in the Partners system.

Partners has the largest non-university-based non-profit private medical research enterprise in the United States and is a principal teaching affiliate of the medical and dental schools of Harvard University. Partners has developed a physician network of approximately 6,000 primary care physicians (PCPs) and specialists. With approximately 37,200 full-time equivalent employees (FTEs), Partners is one of the largest private employers in The Commonwealth of Massachusetts (the "Commonwealth").

PHS provides a number of services for its affiliates, including clinical affairs, community benefits, finance, human resources, information systems, internal audit, legal, marketing, materials management, real estate, research administration and treasury. The Finance Committee of the PHS Board of Directors serves all of Partners constituents and oversees a centralized operating and capital budget and business planning process. Partners cash and investments are managed centrally under policies developed by the Investment Committee of the PHS Board of Directors and overseen by the Finance Committee. PHS also coordinates the research and medical education programs of its affiliates.

PHS is the sole member of six corporations: BW/F, MGH, NWH, NSMC HealthCare, Inc., PCC and Partners International Medical Services (PIMS), which provides training and consulting services to public and private organizations abroad. PHS indirectly controls Partners Community HealthCare, Inc. (PCHI), which is a management services organization that supports an integrated managed care strategy and administers its physician network of PCPs and specialists. The following table sets forth the organization of PHS and its principal affiliates.

## PARTNERS CORPORATE ORGANIZATION CHART





## **B. Description of Affiliates**

The following is a description of Partners principal affiliates. All of the affiliates described below, except for FRC, Inc. which is a stock corporation, are charitable membership corporations established under the laws of Massachusetts, and, except for PCHI and NWPFO, all of such affiliates are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code).

### **BW/F and its Affiliates**

*Brigham and Women's/Faulkner Hospitals, Inc. (BW/F)* is the sole member of The Brigham and Women's Hospital, Inc., Brigham and Women's Physicians Organization, Inc. and Faulkner Hospital, Inc. BW/F was formed to coordinate health care, research and education and performs fundraising, media relations and technology transfer services for BWH and Faulkner.

*The Brigham and Women's Hospital, Inc. (BWH)* operates a tertiary acute care hospital licensed for 747 beds in the Longwood Medical Area of Boston. Over the last twenty one years, BWH has been either the largest or second largest non-university recipient of research funding from the National Institutes of Health (NIH). It is a principal teaching affiliate of the medical and dental schools of Harvard University. See "Acute Care Sector" for a further description of the services, operations and financial performance of BWH.

*Brigham and Women's Physicians Organization, Inc. (BWPO)* employs approximately 1,090 physicians. Most of these physicians are full-time staff physicians at BWH who provide health care services to patients, supervise other professional and technical personnel of BWH, and teach medical students and residents at BWH. The BWPO also contracts with managed care organizations on behalf of its employed physicians and other members of the BWH medical staff who elect to become BWPO participating clinicians.

*Faulkner Hospital, Inc. (Faulkner)* operates an acute care community hospital licensed for 153 beds in the Jamaica Plain area of Boston, approximately 3 miles from the BWH campus. It offers medical/surgical and psychiatric services and maintains residency programs in internal medicine and surgery, integrated with those of BWH. It also serves as a training site for students of Tufts University School of Medicine (Tufts).

### **MGH and its Affiliates**

*The Massachusetts General Hospital (MGH)* is the sole member of The General Hospital Corporation, the Massachusetts General Physicians Organization, Inc., McLean HealthCare, Inc., Martha's Vineyard Hospital, Inc., Nantucket Cottage Hospital and The MGH Institute of Health Professions, Inc. The principal activity of MGH is charitable fundraising.

*The General Hospital Corporation (The General or The General Hospital)* operates a tertiary acute care hospital licensed for 902 beds in downtown Boston. Over the last twenty one years, The General has been either the largest or second largest non-university recipient of research funding from the NIH. It is a principal teaching affiliate of the medical and dental schools of Harvard

University. See “Acute Care Sector” for a further description of the services, operations, and financial performance of The General Hospital.

*Massachusetts General Physicians Organization, Inc. (MGPO)* employs approximately 3,830 physicians and other health care professionals, most of whom are full-time staff physicians at The General Hospital. MGPO personnel provide health care services to patients, supervise other professional and technical personnel of The General Hospital and other affiliated institutions, and teach medical students and residents at The General Hospital. The MGPO also contracts with managed care organizations on behalf of its employed physicians and other members of The General Hospital medical staff who elect to become MGPO participating clinicians.

*McLean HealthCare, Inc. (McLean HealthCare)* was organized in 2006 and became the sole member of The McLean Hospital Corporation in May, 2007. The principal activity of McLean HealthCare is charitable fundraising on behalf of McLean.

*The McLean Hospital Corporation (McLean)* operates a tertiary referral psychiatric hospital licensed for 328 beds with significant teaching and research programs in Belmont, a suburb of Boston. McLean, also a teaching affiliate of the Harvard Medical School, provides a continuum of inpatient, partial hospitalization, outpatient and residential mental health services to adolescents, adults and geriatric patients.

*The MGH Institute of Health Professions, Inc. (IHP)* sponsors educational programs and grants Doctorate and Masters degrees in clinical investigation, nursing, physical therapy and speech language pathology, and certificates of advanced study in clinical investigation, nursing (post-Master’s degree) and physical therapy.

*Martha’s Vineyard Hospital, Inc. (MVH)* operates an acute care community hospital licensed for 25 beds and Windemere Nursing & Rehabilitation Center, a skilled nursing facility licensed for 81 beds, on Martha’s Vineyard, an island approximately 75 miles south of Boston. It offers inpatient and outpatient medical/surgical, orthopedic, pediatric, geriatric, gynecological, emergency and rehabilitation services.

*Nantucket Cottage Hospital (NCH)* operates an acute care community hospital licensed for 19 beds on Nantucket, an island approximately 100 miles south of Boston. It offers medical/surgical, obstetrics, emergency and rehabilitation services.

### **NSMC HealthCare and its Affiliates**

*NSMC HealthCare, Inc. (NSMC HealthCare)* became the sole member of North Shore Medical Center, Inc. in October, 2006. The principal activity of NSMC HealthCare is to coordinate the health care, research, education and fundraising activities of North Shore Medical Center, Inc. and Charter Professional Services Corporation.

*North Shore Medical Center, Inc. (NSMC)* operates two acute care community hospitals. Salem Hospital (Salem), located in Salem, approximately 20 miles north of Boston, is licensed for 268 beds, and Union Hospital (Union), located in Lynn, approximately 15 miles north of Boston, is licensed for 147 beds. NSMC offers medical/surgical, cardiac, obstetrics, pediatric and psychiatric services; operates its own three-year residency program in internal medicine; serves as a site for obstetrics and gynecology, orthopedic and surgical residency programs of BWH and The General;

and collaborates in cardiac surgery and pediatrics with The General. NSMC is the sole member of Charter.

*Charter Professional Services Corporation (Charter)* operates a medical group practice that currently employs approximately 73 primary care and specialist physicians at 17 office locations north of Boston. Charter personnel provide medical, surgical and other health care services to patients, including but not limited to, the inpatients and outpatients of NSMC and Shaughnessy-Kaplan Rehabilitation Hospital.

### **NWH and its Affiliate**

*Newton-Wellesley Hospital (NWH)* operates an acute care community hospital licensed for 246 beds in Newton, approximately 10 miles west of Boston. It offers medical/surgical, obstetrics, pediatric and psychiatric services, is a teaching affiliate of Tufts, and serves as a site for medicine residents of The General. NWH is the sole member of Newton-Wellesley Physician Hospital Organization, Inc.

*Newton-Wellesley Physician Hospital Organization, Inc. (NWPHO)* represents a cooperative effort between NWH and its affiliated physicians for contracting with managed care entities for the delivery of health care services. NWPHO has participation agreements with approximately 500 physicians.

### **Partners Community HealthCare, Inc.**

*Partners Community HealthCare, Inc. (PCHI)* has developed a management services organization that has the infrastructure and expertise needed to manage the integrated managed care strategy of the Partners network. As of March 31, 2007, the network consisted of approximately 6,000 physicians, including 1,118 community and academically-based PCPs, 1,797 community-based specialists and 3,060 tertiary specialists. See “Network Sector.”

### **Partners Continuing Care and its Affiliates**

*Partners Continuing Care, Inc. (PCC)* oversees the management, delivery and integration of non-acute services in the Partners system. PCC is the sole member of Partners Home Care, Inc., The Spaulding Rehabilitation Hospital Corporation, Rehabilitation Hospital of the Cape and Islands, and Shaughnessy-Kaplan Rehabilitation Hospital and the sole stockholder of FRC, Inc.

*Partners Home Care, Inc. (PHC)* is a home care agency with regional branch offices in Beverly, Waltham, and Rockland. PHC employs over 800 staff members and is one of the largest home health care providers in New England.

*The Spaulding Rehabilitation Hospital Corporation (Spaulding)* operates a rehabilitation hospital licensed for 296 beds in downtown Boston that serves primarily as a referral hospital for community and tertiary acute care hospitals in the greater Boston area. It is also a teaching affiliate of the Harvard Medical School. Spaulding is one of the largest specialty rehabilitation hospitals in the United States. Spaulding operates eight outpatient rehabilitation centers in the Boston metropolitan area.

*Rehabilitation Hospital of the Cape and Islands, Inc. (RHCI)* is a rehabilitation hospital licensed for 60 beds that is located in the Cape Cod town of Sandwich. It predominantly treats orthopedic, neurology and amputee patients. RHCI operates a pediatric facility in Sandwich and satellite facilities in Orleans, Yarmouth and Bourne serving residents of Cape Cod.

*Shaughnessy-Kaplan Rehabilitation Hospital, Inc. (Shaughnessy-Kaplan)* operates a long-term acute care hospital licensed for 160 beds, including a skilled nursing component of 40 beds, located adjacent to the Salem campus of NSMC. Shaughnessy-Kaplan also operates six outpatient rehabilitation facilities.

*FRC, Inc. (FRC)* holds the licenses to The North End Rehabilitation and Nursing Center, a 140-bed skilled nursing facility (SNF) located in Boston's North End, and The Boston Center for Rehabilitation and Sub-Acute Care, an 81-bed SNF located in Roslindale.

### **Partners International Medical Services, LLC**

*Partners International Medical Services, LLC (PIMS)* provides a broad array of training and consulting services to public and private organizations abroad. Since it established a formal international program in 1997, Partners has taken on more than 70 projects with 32 unique client organizations in 22 countries. Partners has conducted international medical conferences and has also sponsored educational preceptorships for physicians, nurses and other health care professionals from 11 countries.

### **C. Dana-Farber/Partners CancerCare Joint Venture**

*Dana-Farber/Partners CancerCare (DF/PCC)* is a joint venture in adult oncology of Dana Farber Cancer Institute, Inc. (DFCI), PHS, BWH and The General. Under the joint venture, DFCI's licensed adult inpatient beds operate at BWH and DFCI provides adult oncology outpatient services to its patients and those of BWH. The General Hospital continues to provide both inpatient and outpatient oncology care. Basic research continues to be conducted separately.

## **II. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE**

### **A. Partners Consolidated Financial Results**

Appendix B sets forth the audited consolidated financial statements of Partners for the two years ended September 30, 2005 and 2006, together with the independent auditors' report thereon.

### **Summary of Revenues and Expenses**

The following summary of the Statements of Operations for the three years ended September 30, 2006 and Balance Sheets as of September 30, 2004, 2005, and 2006 was derived from the financial statements of Partners audited by PricewaterhouseCoopers LLP, independent auditors. Consolidated balance sheets as of September 30, 2006 and 2005 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended and notes thereto appear at Appendix B in this Official Statement. The summary of the unaudited Statements of Operations for the six months ended March 31, 2006 and 2007 and the Balance Sheet as of March 31, 2007 reflect in the opinion of Partners, all adjustments which are of a normal recurring nature

necessary for a fair statement of the results as of and for such periods. The unaudited Statements of Operations for the six months ended March 31, 2007 should not be regarded as indicative of results for the full year.

**Partners HealthCare System, Inc. and Affiliates**  
Consolidated Statements of Operations  
(In Thousands)

	Year Ended September 30,			Six Months Ended	
	2004	2005	2006	March 31,	2007
<b>Operating revenue</b>					
Net patient service revenue	\$3,678,103	\$4,006,022	\$4,471,640	\$2,194,216	\$2,408,697
Direct academic and research revenue	684,019	722,344	803,727	399,423	393,752
Indirect academic and research revenue	231,137	240,443	264,289	129,847	131,756
Other revenue	<u>327,829</u>	<u>370,090</u>	<u>397,682</u>	<u>195,153</u>	<u>213,501</u>
<b>Total operating revenue</b>	<u>4,921,088</u>	<u>5,338,899</u>	<u>5,937,338</u>	<u>2,918,639</u>	<u>3,147,706</u>
<b>Operating expenses</b>					
Employee compensation and benefits	2,580,482	2,831,217	3,123,457	1,516,844	1,704,519
Supplies and other expenses	1,242,891	1,332,482	1,472,533	727,846	777,404
Direct academic and research expenses	684,019	722,344	803,727	399,423	393,752
Depreciation and amortization	223,513	225,077	243,520	122,594	129,674
Provision for bad debts	107,923	95,326	101,881	50,593	58,593
Interest	<u>46,478</u>	<u>56,474</u>	<u>59,349</u>	<u>29,943</u>	<u>30,633</u>
<b>Total operating expenses</b>	<u>4,885,306</u>	<u>5,262,920</u>	<u>5,804,467</u>	<u>2,847,243</u>	<u>3,094,575</u>
<b>Income from operations</b>	<u>35,782</u>	<u>75,979</u>	<u>132,871</u>	<u>71,396</u>	<u>53,131</u>
<b>Nonoperating gains</b>					
Income from investments	110,432	128,750	212,261	149,229	84,813
Change in net unrealized gains (losses) on equity method investments	-	37,439	(20,989)	31,694	10,061
Gifts and other	1,410	116	182,570	(7,283)	(7,970)
Academic and research gifts, net of expenses	<u>84,619</u>	<u>81,437</u>	<u>118,232</u>	<u>91,889</u>	<u>49,390</u>
<b>Total nonoperating gains, net</b>	<u>196,461</u>	<u>247,742</u>	<u>492,074</u>	<u>265,529</u>	<u>136,294</u>
<b>Excess of revenues over expenses</b>	<u>232,243</u>	<u>323,721</u>	<u>624,945</u>	<u>336,925</u>	<u>189,425</u>
<b>Other changes in net assets</b>					
Change in net unrealized gains (losses) on marketable investments	111,184	24,742	(76,006)	(56,900)	73,923
Funds utilized for property and equipment	11,530	75,221	10,102	(558)	14,052
Investment valuation	-	(60,801)	-	-	-
Other	(3,742)	38,481	7,450	26,753	40,106
Cumulative effect of accounting changes	<u>-</u>	<u>-</u>	<u>72,552</u>	<u>138,217</u>	<u>-</u>
<b>Increase in unrestricted net assets</b>	<u>\$351,215</u>	<u>\$401,364</u>	<u>\$639,043</u>	<u>\$444,437</u>	<u>\$317,506</u>

**Partners HealthCare System, Inc. and Affiliates**  
Consolidated Balance Sheets  
(In Thousands)

	September 30,			March 31,
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Assets</b>				
Current assets				
Cash and equivalents	\$1,137,517	\$1,151,361	\$1,271,890	\$1,368,470
Collateral held under securities lending arrangements	-	-	517,024	618,028
Current portion of investments limited as to use	638,138	851,375	776,976	768,165
Patient accounts receivable, net	504,741	503,526	573,465	605,578
Research grants receivable	118,694	128,580	78,640	90,148
Other current assets	158,529	160,798	172,170	193,798
Receivable for settlements with third-party payers	<u>10,290</u>	<u>7,727</u>	<u>19,209</u>	<u>18,061</u>
<b>Total current assets</b>	2,567,909	2,803,367	3,409,374	3,662,248
Investments limited as to use, less current portion	1,052,280	1,340,785	1,588,476	1,638,103
Long-term investments	719,355	770,526	855,150	997,213
Pledges receivable, net and contributions receivable from trusts, less current portion	84,969	102,919	113,107	131,057
Property and equipment, net	1,769,990	1,913,062	2,115,023	2,275,281
Other assets	<u>112,086</u>	<u>116,615</u>	<u>131,476</u>	<u>132,983</u>
<b>Total assets</b>	<u>\$6,306,589</u>	<u>\$7,047,274</u>	<u>\$8,212,606</u>	<u>\$8,836,885</u>
<b>Liabilities and net assets</b>				
Current liabilities				
Current portion of long-term obligations	\$46,310	\$43,345	\$44,504	\$43,235
Collateral due under securities lending agreements	-	-	517,024	618,028
Current portion of accrual for settlements with third-party payers	67,230	61,134	24,698	29,286
Other current liabilities	<u>793,030</u>	<u>862,248</u>	<u>813,099</u>	<u>832,829</u>
<b>Total current liabilities</b>	906,570	966,727	1,399,325	1,523,378
Other liabilities	374,266	454,523	555,600	554,743
Accrual for settlements with third-party payers, less current portion	177,864	69,971	18,387	25,830
Long-term obligations, less current portion	<u>1,227,880</u>	<u>1,525,863</u>	<u>1,480,722</u>	<u>1,483,517</u>
<b>Total liabilities</b>	<u>2,686,580</u>	<u>3,017,084</u>	<u>3,454,034</u>	<u>3,587,468</u>
Net Assets				
Unrestricted	2,711,335	3,112,699	3,751,742	4,069,248
Temporarily restricted	694,021	693,654	770,430	905,757
Permanently restricted	<u>214,653</u>	<u>223,837</u>	<u>236,400</u>	<u>274,412</u>
<b>Total net assets</b>	<u>3,620,009</u>	<u>4,030,190</u>	<u>4,758,572</u>	<u>5,249,417</u>
<b>Total liabilities and net assets</b>	<u>\$6,306,589</u>	<u>\$7,047,274</u>	<u>\$8,212,606</u>	<u>\$8,836,885</u>

The following tables set forth selected inpatient and outpatient utilization data for the Acute Care and the Rehabilitation and Psychiatric Care Sectors for the three years ended September 30, 2006 and for the six months ended March 31, 2006 and 2007.

**ACUTE CARE SECTOR<sup>(1)</sup>**

	<u>Year Ended September 30,</u>			<u>Six Months Ended</u> <u>March 31,</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
INPATIENT:					
Discharges	146,936	148,894	150,303	73,991	75,034
% Change		1.3%	0.9%		1.4%
Discharge Days <sup>(2)</sup>	751,437	754,198	761,862	379,196	386,232
% Change		0.4%	1.0%		1.9%
Average Length of Stay (Days)	5.11	5.07	5.07	5.12	5.15
% Change		-0.8%	-0.1%		0.6%
Patient Days	700,880	703,351	715,280	356,378	360,846
% Change		0.4%	1.7%		1.3%
Births	17,191	17,047	16,716	8,119	8,165
% Change		-0.8%	-1.9%		0.6%
OUTPATIENT:					
Observations <sup>(3)</sup>	18,345	19,790	21,570	10,443	11,648
% Change		7.9%	9.0%		11.5%
Day Surgery <sup>(4)</sup>	62,365	62,588	62,152	31,079	30,930
% Change		0.4%	-0.7%		-0.5%
Routine Visits <sup>(5)</sup>	1,040,891	1,055,698	1,046,346	530,305	542,232
% Change		1.4%	-0.9%		2.2%
Emergency Room Visits	279,160	281,594	281,454	130,709	136,501
% Change		0.9%	0.0%		4.4%
Significant Procedures <sup>(6)</sup>	74,864	80,272	83,114	44,652	44,384
% Change		7.2%	3.5%		-0.6%
Major Imaging <sup>(7)</sup>	259,475	281,178	281,850	133,058	144,565
% Change		8.4%	0.2%		8.6%
Minor Imaging <sup>(8)</sup>	731,473	789,524	821,723	403,376	422,227
% Change		7.9%	4.1%		4.7%
Treatments <sup>(9)</sup>	412,141	397,100	422,908	209,059	224,397
% Change		-3.6%	6.5%		7.3%
Minor Procedures <sup>(10)</sup>	171,375	182,552	194,394	91,248	259,801
% Change		6.5%	6.5%		184.7%
Therapies <sup>(11)</sup>	309,722	311,598	323,794	188,612	202,431
% Change		0.6%	3.9%		7.3%
Psychiatric Services <sup>(12)</sup>	210,151	213,814	211,806	104,242	105,712
% Change		1.7%	-0.9%		1.4%
Laboratory Services	8,802,232	9,319,346	9,845,800	4,808,338	5,139,085
% Change		5.9%	5.6%		6.9%

(1) Includes data from BWH, Faulkner, The General, NWH, NSMC and North End Health Center; excludes MVH and NCH.

(2) The total number of days each discharged patient occupied a bed during the duration of their hospital stay.

(3) Patients admitted under observation status and generally discharged within 24 hours.

(4) Surgical procedures performed on an outpatient basis.

- (5) Includes office/outpatient services, office consults, confirmatory consults and preventive medicine.
- (6) Includes pacemaker/defibrillators/electrophysiology, ablations, coronary stents, angioplasty, peripheral vascular studies, percutaneous valvuloplasty, atherectomy, cardiac catheterizations, endovascular repair of abdominal aortic aneurysm and gastrointestinal endoscopy procedures.
- (7) Includes magnetic resonance imaging, computerized tomography scan, nuclear medicine and positron emission tomography scan.
- (8) Includes radiology diagnostic, ultrasound and mammography.
- (9) Includes chemotherapy, radiation therapy, non chemotherapy infusions, dialysis and electroconvulsive therapy.
- (10) Includes procedures performed in physician offices and hospital clinics, such as lesion removal, in-vitro fertilization, pain management injections, insertion of venous catheters, photopheresis and castings. Beginning in 2007, this statistic was updated to include procedures that were not previously reported.
- (11) Includes respiratory therapy, physical therapy, occupational therapy and speech language pathology.
- (12) Includes rehabilitation, partial hospitalizations, individual therapy, group therapy, family therapy, residential days, night care and other therapies.

## REHABILITATION AND PSYCHIATRIC CARE SECTOR

	<u>Year Ended September 30,</u>			<u>Six Months Ended</u> <u>March 31,</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
<b>REHABILITATION<sup>(1)</sup></b>					
<b>INPATIENT:</b>					
Discharges	7,256	6,541	5,856	3,076	2,828
% Change		-9.9%	-10.5%		-8.1%
Discharge Days <sup>(2)</sup>	155,044	149,586	134,734	69,893	65,018
% Change		-3.5%	-9.9%		-7.0%
Average Length of Stay (Days)	21.37	22.87	23.01	22.72	22.99
% Change		7.0%	0.6%		1.2%
Patient Days	155,495	148,831	134,962	70,482	62,150
% Change		-4.3%	-9.3%		-11.8%
<b>OUTPATIENT:</b>					
Routine Visits <sup>(3)</sup>	28,141	33,972	36,627	18,381	16,525
% Change		20.7%	7.8%		-10.1%
Home Health <sup>(4)</sup>	715,881	690,461	732,833	348,690	383,430
% Change		-3.6%	6.1%		10.0%
Therapies <sup>(5)</sup>	209,814	222,094	230,545	112,403	112,145
% Change		5.9%	3.8%		-0.2%
<b>PSYCHIATRIC</b>					
<b>INPATIENT:</b>					
Discharges	5,074	5,483	5,583	2,666	2,654
% Change		8.1%	1.8%		-0.5%
Discharge Days <sup>(2)</sup>	53,349	53,571	54,949	26,504	26,660
% Change		0.4%	2.6%		0.6%
Average Length of Stay (Days)	10.51	9.77	9.84	9.94	10.05
% Change		-7.0%	0.7%		1.1%
Patient Days	53,418	53,211	55,130	26,923	26,949
% Change		-0.4%	3.6%		0.1%
<b>OUTPATIENT:</b>					
Psychiatric Visits	300,249	320,315	350,689	140,313	145,233
% Change		6.7%	9.5%		3.5%

(1) Rehabilitation includes Spaulding, Shaughnessy-Kaplan, RHCI and PHC.

(2) The total number of days each discharged patient occupied a bed during the duration of their hospital stay.

(3) Includes office/outpatient services, office consults, confirmatory consults and preventive medicine.

(4) Nurse visits, aide visits, physical therapy, occupational therapy, speech language pathology, registered dietitian, medical social work and private duty converted hours.

(5) Includes respiratory therapy, physical therapy, occupational therapy and speech language pathology.



## **B. Forward Looking Statements**

This discussion contains disclosures which include “forward-looking statements.” Forward-looking statements comprise all statements that do not relate solely to historical or current fact and can be identified by use of words like “pro forma,” “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” or “continue.” These forward-looking statements are based on management’s current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control, that could significantly affect current plans and expectations and Partners future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) changes in federal, state or local laws or regulations affecting the health care industry, (v) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vi) liabilities and other claims asserted against Partners, including any pending and any future litigation, (vii) changes in accounting standards and practices, (viii) changes in general economic conditions, (ix) future divestitures or acquisitions which may result in additional charges, (x) changes in revenue mix, (xi) the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future plans and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments as a result of state budget constraints, (xv) failure of any commercial insurer to make payment due to financial difficulty, (xvi) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvii) the ability to monitor, maintain and comply with appropriate laws, regulations, policies and procedures affecting Partners business, operations, or finances, including those relating to its continuing qualification as a tax exempt organization, to the requirements of the Medicare and Medicaid programs, and to legislation and regulations relating to access to and the use of patient-related information, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xvix) changes in the level of research funding, (xx) changes in regulations governing reimbursement of direct and indirect research expenditures, and (xxi) the level of investment returns. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of Partners. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement, including Appendix A.

Information provided for interim reporting periods should not be taken as indicative of full year results for many or all of the reasons set forth above.

## **C. Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management considers critical accounting policies to be those that require significant judgments and estimates to be made when preparing the financial statements, and include the following:

## Statement of Operations

All activities of Partners deemed by management to be ongoing, major and central to the provision of healthcare services, training and research activities are reported as operating revenue and expenses. Other activities are deemed to be nonoperating and include unrestricted gifts (net of fundraising expenses), net change in unexpended academic and research gifts, change in net unrealized gains and losses on equity method investments, and substantially all investment income (including realized gains and losses). Academic and research gifts largely consist of donor contributions to the entity (and the related investment income including realized gains and losses) designated to support the clinical, teaching or research efforts of a physician or department as directed by the donor.

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include changes in unrealized gains and losses on marketable investments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for acquisition of such assets).

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify and assess the materiality of financial statement misstatements. Although the SAB is directly applicable to public companies, Partners elected to follow the prescribed guidance.

Traditionally, there have been two accepted methods for quantifying and assessing the materiality of the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The rollover method focuses primarily on the impact of a misstatement on the statement of operations - including the reversing effect of prior year misstatements - but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year misstatements on the statement of operations. Prior to the application of SAB 108, Partners used the rollover method for quantifying and assessing the materiality of financial statement misstatements.

SAB 108 establishes an approach that requires quantification and assessment of the materiality of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification and assessment of the materiality of misstatements under both the iron curtain and the rollover methods. SAB 108 permits companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of unrestricted net assets. Partners elected to record the effects of applying SAB 108 using the cumulative effect transition method.

Prior to fiscal 2006, Partners recorded estimated accruals for settlements with third-party payers and certain other liabilities above specific accrual amounts. In addition, changes in third-party

payer settlement estimates were generally amortized into income over a period not to exceed five years rather than recorded in total in the year of the change in estimate. The net impact of the amortization policy was to increase net patient service revenue by \$21.7 million in 2004 and \$25.6 million in 2005. The impact of the change in other assets and other liabilities was to decrease operating expense by \$11.2 million in 2004 and \$18.4 million in 2005. The adoption of SAB 108 as of October 1, 2005 resulted in a decrease in accruals for settlements with third-party payers of \$74.1 million and a decrease in accounts payable and accrued expenses of \$94.4 million. Adjustment of other differences resulted in a decrease in property and equipment of \$25.0 million and other balance sheet accounts by \$5.3 million. These adjustments resulted in a net increase of \$138.2 million in unrestricted net assets. For the year ended September 30, 2006, adjustments to prior year estimates resulted in an increase to income from operations of \$33.8 million.

### **Net Patient Service Revenue and Accrual for Settlements with Third-Party Payers**

Partners maintains agreements with the Centers for Medicare and Medicaid Services (CMS) of the United States Department of Health and Human Services (DHHS) under the Medicare Program, the Commonwealth under the Medical Assistance Program (Medicaid) and various managed care payers that govern payment to Partners for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care. Certain "pay for performance" contracts also provide for payments that are contingent upon meeting agreed upon quality and efficiency measures.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, 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 the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Contracts, laws and regulations governing the Medicare and Medicaid programs and the Massachusetts Statewide Uncompensated Care Pool (See "Sources of Patient Service Revenue - Free Care and Uncompensated Care") and managed care payer arrangements are complex and 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. A portion of the accrual for settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year.

### **Patient Accounts Receivable**

Partners receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care payers, commercial insurance companies, and patients. Patient accounts receivable are reported net of contractual allowances and reserves for denials, uncompensated care, and doubtful accounts. The level of reserves is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer health care coverage and other collection indicators.

## **Uncompensated Care**

Partners provides either full or partial charity care to patients who cannot afford to pay for their medical services based on income and family size. Charity care is generally available to qualifying patients for medically necessary services. Partners reports certain bad debts related to emergency services as charity care. Charity care is reported at gross charges with an offsetting allowance, as there is no expectation of collection. Accordingly, there is no net patient service revenue related to charity care.

## **Provision for Bad Debts**

Besides providing free care and receiving inadequate funding from Medicaid, Partners incurs significant losses related to self-pay patients who fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement. The provision for bad debts represents revenues for services provided that are deemed to be uncollectible. The provision is generally estimated as a percentage of revenue, supplemented with periodic assessments of the collectibility of patient accounts receivable. The cost of these bad debts was approximately \$42.5 million, \$35.1 million and \$38.4 million for 2004, 2005 and 2006, respectively.

## **Pension and Postretirement Benefits**

Substantially all employees of Partners are covered under various noncontributory defined benefit pension plans and various defined contribution pension plans. In addition, certain affiliates provide subsidized healthcare benefits for retired employees on a self-insured basis, with the benefit obligation being partially funded. These benefits are administered through an insurance company and are accounted for on the accrual basis, which includes an estimate of future payments for claims incurred. Partners policy is to fund annual contributions to its defined benefit pension plans at a level equal to the greater of the Employee Retirement Income Security Act (ERISA) minimum or the expense determined under generally accepted accounting principles. Contributions to the various defined contribution plans are generally based upon percentages of annual compensation as defined in the various agreements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. Partners elected to early adopt the balance sheet recognition provisions of SFAS 158 as of September 30, 2006. The impact of adoption resulted in a net decrease of \$34.9 million in unrestricted net assets, which was recorded as a cumulative effect of a change in accounting principle, reflecting the net underfunded status of all defined benefit plans as of September 30, 2006. None of the changes prescribed by SFAS 158 had an impact on Partners results of operations or cash flows in 2006.

SFAS 158 will also require companies to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes, thus eliminating the opportunity to use a measurement date up to 90 days prior to the balance sheet date. The effective date for this change is 2009. Partners currently

uses a June 30 measurement date and will adopt a September 30 measurement date in 2009 as required. Converting to the new measurement date will require a one-time adjustment to unrestricted net assets per the transition guidance in SFAS 158. See Appendix B, Consolidated Financial Statements of Partners HealthCare System, Inc. and Affiliates for the years ended September 30, 2005 and 2006.

### **Professional Liability Insurance**

Partners insures substantially all of its professional and general liability risk on a claims-made basis in cooperation with other organizations in the Greater Boston area through a captive insurance company, Controlled Risk Insurance Company Ltd. (CRICO), of which PHS is a 10% owner. The policy covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy, except for certain tail liabilities which CRICO has assumed on an occurrence basis through December 31, 2006. Management intends to renew its coverage on a claims-made basis and has no reason to believe that it will be prevented from such renewal.

Partners follows the accounting policy of establishing reserves to cover all professional liability claims incurred but not reported to the insurance company as of the end of the year (tail liability), excluding the tail liability assumed by CRICO. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 5.75% at September 30, 2006. The cost of Partners professional liability insurance program was less than 1.0% of total operating revenue in 2004, 2005 and 2006. Management is not aware of any claims against Partners or factors affecting CRICO that would cause the expense for professional liability risks to vary materially from the amount provided. See "Insurance."

### **Investment Valuation**

In 2005, Partners modified its policy regarding investment valuation. Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) are measured at fair value based on quoted market prices. The change in net unrealized gains and losses on these marketable investments is excluded from excess of revenues over expenses. Investments in hedge funds, private partnerships, and other investments, for which Partners owns more than 5% of the overall investment (equity method investments), are generally recorded at their reported fair value. The change in net unrealized gains and losses on equity method investments is included in excess of revenues over expenses. All other investments are recorded at cost. The impact of this policy modification was to increase excess of revenues over expenses by \$37.4 million and to reduce unrestricted and temporarily restricted net assets by \$150.0 million and \$58.4 million, respectively, for the year ended September 30, 2005.

### **Other-Than-Temporary Impairment**

A write-down in the cost basis of investments is recorded when the decline in fair value of certain investments has been judged to be other than temporary. Depending upon any donor-imposed restrictions on the underlying investments, the amount of the write down is reported as a realized loss in either temporarily restricted net assets or in excess of revenues over expenses, with no adjustment in the cost basis for subsequent recoveries in fair value.

## **Securities Loaned**

Investments that have been loaned to another institution are reported as pledged assets in the consolidated financial statements. Cash or investments received as collateral on the securities lending transaction are also reported as assets on the balance sheet. Because the collateral must be returned in the future, a corresponding liability is also reported in the consolidated financial statements.

## **Derivative Instruments**

All derivatives are recognized on the balance sheet at fair value. Partners designates at inception whether the derivative contract is considered hedging or nonhedging for accounting purposes in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. For SFAS 133 hedges, Partners formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. Partners uses its derivatives designated as hedging for accounting purposes as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions caused by changes in interest rates. Changes in the fair value of derivatives designated for hedging activities that are highly effective as hedges are recorded as a component of other changes in net assets. Hedge ineffectiveness, if any, is recorded in excess of revenues over expenses. For non-SFAS 133 hedges, changes in the fair value of derivatives are recorded in excess of revenues over expenses.

## **Asset Retirement Obligations**

Asset retirement obligations, reported in accrued other, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Partners records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Partners reduces these liabilities when the related obligations are settled.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies that the term conditional asset retirement obligations as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists.

Partners implemented FIN 47 at September 30, 2006 and recorded conditional asset retirement obligations of approximately \$36.3 million. These conditional asset retirement obligations relate to certain materials requiring specific remediation efforts and contractual obligations to remove leasehold improvements thereby restoring leased space to its original condition. Upon implementation of FIN 47, Partners recorded a \$30.8 million reduction in unrestricted net assets

which was recorded as a cumulative effect of a change in accounting principle, as well as an increase to assets of \$5.5 million.

#### **D. Revenue Trends**

Partners revenues depend upon inpatient activity, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and services, the complexity and severity of the inpatient and outpatient services rendered (case mix), and the charge and negotiated payment rates for such services.

The following table sets forth the distribution of inpatient discharges of Partners acute care hospitals by payer source for the three years ended September 30, 2006 and for the six months ended March 31, 2007. This table should be read in conjunction with the consolidated financial statements and related notes and the report of independent auditors included in Appendix B.

	<u>Year Ended September 30,</u>			<u>Six Months Ended</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>March 31, 2007</u>
Medicare	30.9%	31.8%	32.0%	32.3%
Medicaid	11.5%	12.5%	13.1%	13.7%
Managed Care <sup>(1)</sup>	37.4%	37.5%	37.5%	37.4%
Blue Cross and Blue Shield of Massachusetts <sup>(2)</sup>	5.4%	5.0%	5.4%	5.5%
Workers' Compensation, Self Pay and Commercial	<u>14.8%</u>	<u>13.2%</u>	<u>12.0%</u>	<u>11.1%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

<sup>(1)</sup> Includes Medicare managed care.

<sup>(2)</sup> Indemnity product only.

Partners receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes, and from managed care organizations. Future legislation or other changes or interpretation of government health programs could have adverse effects on reimbursement. See "Sources of Patient Service Revenue" and "Bondowners' Risks."

#### **E. Consolidated Partners Financial Review**

Partners groups its affiliates into the following sectors for internal financial analysis and reporting:

1. Acute Care Sector – BWH, The General, Faulkner, MVH, NCH, NSMC and NWH;
2. Rehabilitation and Psychiatric Care Sector – Rehabilitation: RHCI, Shaughnessy-Kaplan, Spaulding, FRC, Inc., and PHC; Psychiatric: McLean;
3. Network Sector – BWPO, Charter, MGPO, PCHI and other affiliates that do not have a material amount of assets or revenues; and
4. Corporate and Other – BW/F, IHP, MGH, PHS and other affiliates that do not have a material amount of assets or revenues.

The following table sets forth the approximate contribution to income from operations for 2004, 2005 and 2006 for BWH, The General, the acute care community hospitals, the Acute Care

Sector, the Rehabilitation and Psychiatric Care Sector, the Network Sector and the Corporate and Other Sector:

	(\$millions)		
	<u>Years Ended September 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
BWH	\$ 33.9	\$ 69.3	\$ 66.6
The General	68.0	91.5	108.5
Community Hospitals	<u>(1.7)</u>	<u>(27.1)</u>	<u>10.4</u>
Total Acute Care Sector	100.2	133.7	185.5
Rehabilitation and Psychiatric Care Sector	2.7	5.8	1.7
Network Sector	15.8	27.7	41.3
Corporate and Other Sector	<u>(82.9)</u>	<u>(91.2)</u>	<u>(95.6)</u>
Total	<u>\$35.8</u>	<u>\$76.0</u>	<u>\$132.9</u>

Excludes data for MVH and NCH.

The Acute Care Sector comprised 76.0% of Partners total revenue for the year ended September 30, 2006 and 45.3% of its total assets as of September 30, 2006. For BWH and The General, the improved operating performance from 2004 to 2006 was primarily attributable to an increase in net patient service revenue, reflecting increases in discharges, utilization of certain outpatient services, complexity and severity of cases, and payment rates from non-governmental third-party payers. Increased royalty payments also contributed to The General's operating income from 2004 to 2006. The increases in revenue offset expense increases, particularly in the areas of salaries, health benefits, pensions, and rent.

In response to capacity concerns at BWH and The General, Partners continues to pursue opportunities to shift volume to its Boston-area community hospitals (Faulkner, NWH and NSMC) and to non-acute or outpatient settings. BWH has successfully moved certain programs to Faulkner, resulting in additional capacity at BWH for more complex cases. Collaborations have been implemented between The General and NSMC, including the establishment of a cardiac surgery program, and between BWH, The General and NWH in obstetrics, gynecology and pediatric services. In addition, The General and NSMC are developing a multi-specialty ambulatory care center in Danvers for the delivery of sophisticated outpatient services.

The 2005 operating results for the community hospitals reflect a loss of \$26.0 million at NSMC, which was negatively impacted by increases in estimated settlements to third-party payers, inadequate reimbursements from Medicaid and the Uncompensated Care Pool, and increases in salaries and other employee-related expenses. In 2006, NSMC's operating loss decreased to \$0.7 million, reflecting favorable changes to prior year estimates and continued cost control efforts; however, NSMC continues to experience losses attributable to its payer mix and uncompensated care.

The Rehabilitation and Psychiatric Care Sector's performance deteriorated in 2006, largely due to Spaulding's operating loss of \$6.0 million. The loss reflects decreases in volume and certain nonrecurring expenses in connection with Spaulding's transition from a long-term acute care hospital to an inpatient rehabilitation facility and associated reductions in beds and staffing levels. McLean generated operating income of \$6.6 million, offsetting Spaulding's loss, largely due to an increase in



net patient service revenue, reflecting increases in volume and payment rates from non-governmental third-party payers.

The favorable trend in the Network Sector's results reflects continued increases in volume and improved collection rates. While a significant amount of assets are in the Corporate and Other sector, they are primarily investments that generate nonoperating income. The Corporate and Other Sector's operating losses are largely due to the inclusion of intercompany expenses, which are reported as nonoperating expenses on each affiliate's financial statements and classified as operating expenses in consolidation.

On March 1, 2007, MVH and NCH became affiliates of MGH and Partners. The affiliations are aimed at strengthening and expanding clinical relationships as well as ensuring the financial security of the island hospitals so they can continue to serve the health care needs of the Martha's Vineyard and Nantucket communities. The affiliation has been accounted for similar to a pooling of interests; however, prior period financial statements have not been restated as the impact of the affiliations on Partners consolidated financial statements is not considered to be material. Summarized financial data for MVH and NCH as of September 30, 2004, 2005 and 2006 and for the years then ended is as follows:

	(\$000s)		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
MVH <sup>1</sup>			
Total operating revenue	\$34,886	\$37,932	\$44,363
Total operating expenses	34,599	37,217	42,789
Income from operations	287	715	1,574
Excess of revenues over expenses	2,083	2,185	2,781
Increase in unrestricted net assets	2,378	2,216	3,539
Current assets	9,598	10,329	12,315
Total assets	28,008	32,181	50,021
Current liabilities	5,834	5,066	5,899
Total liabilities	9,204	8,013	9,218
Unrestricted net assets	12,056	14,272	17,811
NCH			
Total operating revenue	\$19,254	\$22,494	\$25,861
Total operating expenses	22,171	26,868	27,686
(Loss) from operations	(2,917)	(4,374)	(1,825)
Excess/(Deficit) of revenues over expenses	(2,060)	(3,424)	292
Increase/(Decrease) in unrestricted net assets	(1,535)	(2,415)	472
Current assets	5,611	5,010	6,937
Total assets	49,439	51,872	55,123
Current liabilities	3,893	8,319	9,172
Total liabilities	5,416	9,795	10,831
Unrestricted net assets	17,287	12,372	12,844

<sup>1</sup> Amounts include the results of MVH's affiliate, WNR, Inc., a not-for-profit skilled nursing facility. MVH maintains March 31 as its fiscal year-end and WNR maintains December 31 as its fiscal year-end. The amounts above for MVH are as of March 31, 2004, 2005 and 2006 and for the years then ended and for WNR as of December 31, 2003, 2004 and 2005 and for the years then ended.

**Results of Operations – Six Months Ended March 31, 2007 Compared with Six Months Ended March 31, 2006.**

Partners reported income from operations of \$53.1 million (1.7% operating margin) for the six months ended March 31, 2007 compared to \$71.4 million (2.4% operating margin) in the comparable prior year period. Total operating revenue increased \$229.1 million (7.8%) to \$3,147.7 million for the six months ended March 31, 2007 from \$2,918.6 million in the prior year period. Continued increases in the complexity and severity of inpatient cases, growth in system-wide inpatient volume, and greater utilization of certain outpatient services contributed to net patient service revenue of \$2,408.7 million, an increase of \$214.5 million (9.8%) from the six months ended March 31, 2006. Academic and research revenue declined \$3.8 million (-0.7%) to \$525.5 million for the six months ended March 31, 2007 from \$529.3 million in the comparable 2006 period. Other revenue increased \$18.3 million (9.4%) to \$213.5 million for the six months ended March 31, 2007 from \$195.2 million in the comparable 2006 period.

Total operating expenses increased \$247.4 million (8.7%) to \$3,094.6 million for the six months ended March 31, 2007 from the comparable prior year period. Higher labor costs, largely attributable to increased wage and employee health and pension costs, contributed to an employee compensation and benefits expense increase of \$187.7 million (12.4%) to \$1,704.5 million for the six months ended March 31, 2007. Supplies and other expenses grew by \$49.6 million (6.8%) to \$777.4 million in the 2007 period from \$727.8 million in the six months ended March 31, 2006, reflecting increased volume, the costs of improved clinical technologies, and medical research. Provision for bad debts was \$58.6 million for the six months ended March 31, 2007 and represented 2.4% of net patient service revenue. In the comparable 2006 period, provision for bad debts was \$50.6 million and represented 2.3% of net patient service revenue.

For the six months ended March 31, 2007, Partners hospitals, community health centers, and physicians covered \$117.0 million in Medicaid and Uncompensated Care Pool shortfalls due to government reimbursements that failed to pay the full cost of providing care to low-income and uninsured patients. The shortfall covered by Partners in the comparable 2006 period was \$123.3 million.

Partners nonoperating gains were \$136.3 million for the six months ended March 31, 2007 and \$265.5 million in the comparable 2006 period, reflecting investment results, which can vary significantly from year to year, and philanthropy trends. Overall, Partners reported an excess of revenues over expenses of \$189.4 million for the six months ended March 31, 2007 compared to \$336.9 million in the comparable 2006 period.

The unaudited consolidated financial results as of and for the six months ended March 31, 2007, include the results of operations for MVH and NCH from March 1, 2007, the effective date of their affiliations with MGH and Partners.

In April 2007, The General sold its future right to receive royalties on the sale of the drug ENBREL® outside North America for approximately \$213 million in net proceeds.

### **Results of Operations – 2006 - 2004.**

Income from operations was \$132.9 million (2.2% operating margin) in 2006, \$76.0 million in 2005 (1.4%) and \$35.8 million in 2004 (0.7%).

Total operating revenue increased 8.5% from \$4,921.1 million in 2004 to \$5,338.9 million in 2005 and 11.2% to \$5,937.3 million in 2006. Net patient service revenue grew 8.9% from \$3,678.1 million in 2004 to \$4,006.0 million in 2005 and 11.6% to \$4,471.6 million in 2006. Net patient service revenue was favorably impacted by continued increases in the complexity and severity of inpatient cases and growth in acute care discharges and certain outpatient and physician services. Modest payment rate increases, primarily from non-governmental payers, were partially offset by lower rates of increase in reimbursement from Medicaid and the Uncompensated Care Pool at the state level and from Medicare at the federal level. Prior to 2006, changes in third party payer settlement estimates were generally amortized into income over a period not to exceed five years. The net impact of the amortization policy was to increase net patient service revenue by \$21.7 million and \$25.6 million in 2004 and 2005, respectively. With the adoption of SAB 108 in 2006, changes in estimates are now recorded in total in the year of the change in estimate. For 2006, adjustments to prior year estimates resulted in an increase in net patient service revenue of \$33.8 million. These adjustments have no impact on the current year cash flows as the amounts were received in prior years.

Operating results reflect costs related to patients for which Partners receives either partial or no reimbursement for healthcare services provided. The volume of uninsured patient discharges increased approximately 2.0% from 2004 to 2006. Partners hospitals, community health centers and physicians treated more than 100,000 Medicaid and uninsured patients in 2004, 2005 and 2006 with unreimbursed costs of \$230.5 million, \$229.9 million and \$253.7 million, respectively.

Direct and indirect academic and research revenue grew 5.2% from \$915.1 million in 2004 to \$962.8 million in 2005 and 10.9% to \$1,068.0 million in 2006, reflecting continued increases in funding from NIH and other federal sponsors. The effective overhead recovery rate declined to 35.0% in 2006 from 35.2% in 2005 and 35.6% in 2004, reflecting the shift toward research sponsors that provide either partial or no recovery of overhead. As of September 30, 2006, committed research funding approximated \$2.0 billion.

Other revenue increased 12.9% from \$327.8 million in 2004 to \$370.1 million in 2005 and 7.5% to \$397.7 million in 2006, reflecting growth in royalties, contract revenue and fees for supervisory and training support provided to third parties.

Total operating expenses increased 7.7% from \$4,885.3 million in 2004 to \$5,262.9 million in 2005 and 10.3% to \$5,804.5 million in 2006. Over the three-year period, Partners has pursued cost-containment and expense reduction through aggressive contract negotiations in areas such as cardiac and other medical supplies, office supplies and equipment rentals; however, these efforts were partially offset by increases in employee compensation and benefits and supplies and other expenses.

Higher labor costs for clinical services (attributable to wage gains for nurses and continued use of temporary and overtime staffing arising from shortages in the availability of nurses and medical technicians) and higher employee health and pension costs contributed to employee compensation and benefits expense increases of \$250.7 million (9.7%) in 2005 and \$292.2 million

(10.3%) in 2006. Pension costs increased \$16.7 million (13.7%) to \$137.7 million in 2005 and \$22.7 million (16.5%) to \$160.4 million in 2006, as costs related to both the defined benefit plans and the defined contribution plans increased.

Supplies and other expenses increased 7.2% from \$1,242.9 million in 2004 to \$1,332.5 million in 2005 and 10.5% to \$1,472.5 million in 2006. Principal factors contributing to the higher expenses include increased costs for clinical technologies, pharmaceuticals, medical research, and rental expense for additional medical research space. Rent expense for research, clinical and administrative purposes was \$181.7 million in 2004, \$202.1 million in 2005 and \$231.7 million in 2006.

Depreciation and amortization expense increased 0.7% from \$223.5 million in 2004 to \$225.1 million in 2005 and 8.2% to \$243.5 million in 2006. Interest expense increased 21.5% from \$46.5 million in 2004 to \$56.5 million in 2005 and 5.0% to \$59.3 million in 2006, due to higher variable rates and the cessation of capitalizing interest due to the completion of certain capital projects.

Provision for bad debts was \$107.9 million in 2004 and represented 2.9% of net patient service revenue. Management's attention to collection efforts contributed to a reduction in the provision for bad debts to \$95.3 million in 2005, equivalent to 2.4% of net patient service revenue. In 2006, provision for bad debts was \$101.9 million, equivalent to 2.3% of net patient service revenue.

Partners reported total nonoperating gains of \$196.5 million in 2004, \$247.7 million in 2005 and \$492.1 million in 2006. Nonoperating activity is largely influenced by external factors, such as investment markets which may vary significantly from year to year, and philanthropy trends. During 2006, The General reached settlement of a licensing dispute concerning the drug ENBREL®, to which a company has North American sales rights. The settlement involved a onetime payment that eliminates any royalty payments on sales of ENBREL® in North America going forward. The General received approximately \$186.0 million in net proceeds from the settlement, which was recorded as a nonoperating gain.

Partners reported an excess of revenues over expenses of \$232.2 million in 2004, \$323.7 million in 2005 and \$624.9 million in 2006.

## **F. Liquidity and Capital Resources**

### **Balance Sheet**

The following table sets forth Partners total unrestricted cash, unrestricted days cash on hand, patient accounts receivable, days revenue in receivables, amounts accrued for settlements with third-party payers (less amounts receivable for settlements), working capital and investments as of September 30, 2004, 2005 and 2006 and March 31, 2007.

	(\$000s) As of September 30,			As of March 31,
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Unrestricted cash <sup>(1)</sup>	\$ 2,594,032	\$ 2,951,466	\$ 3,341,439	\$3,533,817
Unrestricted days cash on hand <sup>(2)</sup>	203.7 days	213.8 days	219.3 days	216.9 days
Patient accounts receivable	\$ 504,741	\$ 503,526	\$ 573,465	\$ 605,578
Days revenue in receivables <sup>(3)</sup>	50.2 days	45.9 days	46.8 days	47.2 days
Amounts accrued for settlements with third-party payers, less amounts receivable	\$ 234,804	\$ 123,378	\$ 23,876	\$ 37,055
Working Capital <sup>(4)</sup>	\$ 2,618,063	\$ 2,962,795	\$ 3,471,682	\$3,723,376
Investments included in Working Capital	\$ 2,533,540	\$ 2,819,671	\$ 3,215,970	\$3,448,961
Long-term investments (market value) <sup>(5)</sup>	\$ 719,355	\$ 770,526	\$ 855,150	\$ 997,213

(1) Comprised of cash, equivalents and investments and the current and non-current portions of investments limited as to use, less externally limited funds.

(2) Unrestricted cash divided by total operating expenses, net of depreciation and amortization, and multiplied by number of days in year.

(3) Net patient accounts receivable divided by net patient service revenue and multiplied by number of days in year.

(4) Current assets plus board designated funds less current liabilities.

(5) Long-term investments are restricted to donor designated use.

The following table sets forth Partners net cash provided by operating activities (other than changes in working capital), net cash used for changes in working capital, net cash provided by operating activities, net cash (used for) investing activities (other than purchases of and proceeds from sales of investments), net cash provided by (used for) financing activities, the total increase (decrease) in net cash (before purchases of and proceeds from sales of investments) and capital expenditures for the three years ended September 30, 2006 and for the six months ended March 31, 2006 and 2007.

	(\$000s) Year Ended September 30,			Six Months Ended March 31,	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
Net cash provided by:					
Operating activities	\$467,180	\$455,946	\$536,414	\$281,176	\$275,511
Changes in working capital	<u>(137,018)</u>	<u>(42,675)</u>	<u>(64,732)</u>	<u>(40,251)</u>	<u>(115,571)</u>
Net operating activities	330,162	413,271	471,682	240,925	159,940
Investing activities (other than purchases of and proceeds from sales of investments)	(347,132)	(367,131)	(282,372)	(237,410)	(252,571)
Financing activities	<u>(55,293)</u>	<u>324,913</u>	<u>(5,309)</u>	<u>16,357</u>	<u>42,291</u>
Total increase (decrease) in net cash (before purchases of and proceeds from sales of investments)	<u><u>\$(72,263)</u></u>	<u><u>\$371,053</u></u>	<u><u>\$184,001</u></u>	<u><u>\$19,872</u></u>	<u><u>\$ (50,340)</u></u>
Capital expenditures	\$311,597	\$372,297	\$467,001	\$233,845	\$ 259,040

## G. Capitalization

As of March 31, 2007, Partners balance sheet included total indebtedness of \$1,526.8 million, unrestricted net assets of \$4,069.2 million and consolidated net assets of \$5,249.4 million. The following table sets forth the capitalization of Partners (i) as of March 31, 2007, and (ii) adjusted to reflect the issuance of the Authority's Revenue Bonds, Partners HealthCare System Issue, Series G-1 to G-6 (Series G Bonds), the Partners HealthCare System, Inc. Taxable Bonds, Series 2007 (the "PHS

Taxable Bonds”) to be issued on or about the same date as the Series G Bonds to fund a portion of the Project and the refunding and redemption of certain indebtedness outstanding as of March 31, 2007. The discussion immediately following the table also reflects the effect of the issuance of the Series G Bonds and the PHS Taxable Bonds. This table should be read in conjunction with (a) the audited Consolidated Financial Statements of Partners in Appendix B of this Official Statement; (b) the Consolidated Statements of Operations for Partners for 2004, 2005 and 2006 in this Appendix A; (c) “Management’s Discussion and Analysis of Financial Condition and Results of Operations;” and (d) the forepart of this Official Statement.

Outstanding Long Term Indebtedness (including Current Portion)	As of March 31, 2007 (\$000s)	
	<u>Actual</u> <sup>(1)</sup>	<u>Pro Forma</u> <sup>(1)</sup>
<b>PHS</b>		
Authority Series A Bonds, average interest rate of 5.33%, final maturity date of 2024	\$ 152,676	\$ 132,086
Authority Series B Bonds, average interest rate of 5.20%, final maturity date of 2029	181,765	181,765
Authority Series C Bonds, average interest rate of 5.74%, final maturity date of 2032	162,467	59,427
Authority Series D Bonds variable rate, final maturity date of 2038	315,515	315,515
Authority Series E Bonds, average interest rate of 4.99%, final maturity date of 2023	48,522	48,522
Authority Series F Bonds, fixed and variable rate, final maturity date of 2040	408,875	408,875
Authority Series G Bonds	---	700,000
Authority, Capital Asset Program, Series P Loans, variable rate, final maturity date of 2027 <sup>(2)</sup>	150,000	150,000
Partners Series 2007 Taxable Bonds	---	100,000
Total PHS Debt	<u>\$1,419,820</u>	<u>\$2,096,190</u>
<b>Other</b>		
The General and MGH- Authority Series F, average interest rate of 6.25%, final maturity date of 2012	48,125	48,125
NWH - Authority Series F, variable rate, final maturity date of 2025	20,900	20,900
NWH - Authority Series G, average interest rate of 5.96%, final maturity date of 2015 <sup>(3)</sup>	21,980	1,995
Capital lease obligations	4,301	4,301
Other obligations	<u>11,626</u>	<u>11,626</u>
Total Other	<u>106,932</u>	<u>86,947</u>
Total Indebtedness	<u>\$1,526,752</u>	<u>\$2,183,137</u>
<b>Consolidated Net Assets</b>		
Unrestricted	\$4,069,248	\$4,057,550
Temporarily restricted	905,757	905,757
Permanently restricted	<u>274,412</u>	<u>274,412</u>
Total Net Assets	<u>\$5,249,417</u>	<u>\$5,237,719</u>
Total Capitalization	\$6,776,169	\$7,420,856
Total Indebtedness	\$1,526,752	\$2,183,137
Debt-to-Capitalization	22.5%	29.4%

(1) Certain bond amounts are presented net of unamortized discount and premium.

(2) Consists of \$144.7 million loan commitment to PHS, \$1.9 million loan commitment to BWH and \$3.4 million loan commitment to The General as of March 31, 2007.

(3) \$1,995 represents the July 1, 2007 maturity.

The Series A, B, C, D, E and F Bonds are, and the Series G Bonds (the Bonds) and the PHS Taxable Bonds will be, unsecured general obligations of PHS. The Series P Loans to PHS and BWH are unsecured general obligations of PHS and BWH. Indebtedness of The General and MGH, including the Series P Loan to The General, is collateralized by a lien on the unrestricted gross receipts of The General and MGH. Indebtedness of NWH is an unsecured general obligation of NWH.

PHS has issued guaranties that support the obligations of (i) BWH on the Series P Loan that BWH has received; (ii) The General on the Series P Loan that The General has received; and (iii) NWH pursuant to the NWH Series F and G Bonds (the NWH Bonds). BWH, The General and MGH have issued joint and several guaranties that support the obligations of (i) PHS on the Series P Loan that PHS has received and certain related obligations; (ii) PHS pursuant to the PHS Series A, B, C, D, E and F Bonds; and (iii) PHS pursuant to its guaranties of the obligations of NWH under the NWH Bonds, respectively (the Prior Guaranties). Effective October 1, 2005, BWH and The General transferred investments totaling \$384.9 million and \$1,026.7 million to BW/F and MGH, respectively. Accordingly, to further secure performance of PHS' obligations under the Prior Guaranties, BW/F will guaranty those obligations. In addition, BWH, BW/F, The General, and MGH will issue joint and several guaranties that support the obligations of PHS pursuant to the Series G Bonds and the PHS Taxable Bonds.

The guaranties of PHS and BWH are, and the guaranties of BW/F will be, unsecured general obligations of each institution. The guaranties of MGH and The General are equally and ratably secured with its senior Indebtedness. These guaranties, excluding those issued in support of the obligations of NWH and those issued by PHS in support of the obligations of BWH and The General, may be suspended under certain conditions that were met in 2002. None of PHS, BW/F, BWH, MGH or The General, however, has any present intention of exercising such a right of suspension.

## **H. Contractual Obligations and Off-Balance Sheet Arrangements**

Partners has non-cancelable operating leases for certain buildings and equipment. Future operating lease commitments were \$1,614.3 million at September 30, 2006, of which approximately \$1 billion is committed for research space. Included in this total is office and research space leased from Massachusetts Biomedical Research Corporation (MBRC) and the Massachusetts College of Pharmacy and Allied Health Sciences (MCP). MBRC is a membership corporation governed by three trustees: the president of the MGH, or his designee, ex-officio; an appointee of the Dean of the Harvard Medical School; and the third appointed by the other two. MBRC leases three office and research buildings to The General in the former United States Navy Yard in the Charlestown area of Boston (the Charlestown Navy Yard) known as Building 149, Building 114 and Building 75. MGH guarantees the payment by The General of obligations under the lease for Building 149 through 2010, but not thereafter, which were \$39.9 million in 2006, will be \$40.3 million in 2007, and thereafter will aggregate \$271.2 million through 2014. The Building 149 lease expires in 2016 and The General and MBRC are in the process of establishing fair market rental rates for 2015 and 2016. The General's obligations under the lease for Building 114, which are not guaranteed by MGH, were \$4.8 million in 2006, will be \$4.8 million in 2007, and thereafter will aggregate \$65.3 million through the expiration date of the lease term in 2020. The General's obligations under the lease for Building 75, which are not guaranteed by MGH, were \$0.02 million in 2006, will be \$1.2 million in 2007, and thereafter will aggregate \$22.5 million through the expiration date of the lease term in 2026. See "Research Activities."



MCP leases a portion of one of its buildings to BWH for research use. The MCP lease obligations were \$2.9 million in 2006, are expected to be \$2.9 million in 2007, and thereafter are expected to aggregate approximately \$43.2 million through 2021. BWH is obligated to make lease and certain other payments, but is not directly obligated on certain commercial paper notes issued by MCP, payment of interest and principal on which is expected to be made from payments received by MCP pursuant to the MCP lease.

### **Pension and Postretirement Benefits**

PHS and its affiliates use a measurement date of June 30 for their defined benefit and postretirement healthcare benefit plans. For the years ended September 30, 2004, 2005 and 2006, total expense for these plans consisted of the following:

	(\$000s)		
	Years Ended September 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Defined benefit plans	\$ 49,802	\$ 58,718	\$ 69,244
Defined contribution plans	67,218	73,437	83,761
Postretirement healthcare benefit plans	<u>3,974</u>	<u>5,505</u>	<u>7,353</u>
	<u>\$ 120,994</u>	<u>\$ 137,660</u>	<u>\$ 160,358</u>

For 2007, management estimates that defined benefit pension expense will be approximately \$94.6 million.

The funded status of the plans, reconciled to the amounts reported on the balance sheet, is as follows:

	(\$000s)			(\$000s)		
	Defined Benefit Plans			Postretirement Healthcare Benefit Plans		
	2004	2005	2006	2004	2005	2006
<b>End of Year</b>						
Fair value of plan assets at measurement date	\$ 1,393,843	\$ 1,605,893	\$ 1,848,892	\$ 5,358	\$ 7,086	\$ 9,487
Contributions received after measurement date	16,002	14,326	16,975	1,268	315	1,054
Benefit obligations	<u>(1,391,833)</u>	<u>(1,640,747)</u>	<u>(1,903,450)</u>	<u>(65,505)</u>	<u>(80,997)</u>	<u>(62,726)</u>
Funded status	18,012	(20,528)	(37,583)	(58,879)	(73,596)	(52,185)
Amounts not yet recognized						
Unrecognized actuarial net (gain) loss	(16,595)	11,667	-	17,560	31,491	-
Unrecognized prior service credit	(420)	(1,068)	-	(187)	(174)	-
Unrecognized net transition asset	<u>(997)</u>	<u>(305)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net amount recognized	<u>\$ -</u>	<u>\$ (10,234)</u>	<u>\$ (37,583)</u>	<u>\$ (41,506)</u>	<u>\$ (42,279)</u>	<u>\$ (52,185)</u>
<b>Amounts recognized in the balance sheet</b>						
Current assets	\$ -	\$ -	\$ -	\$ 940	\$ 846	\$ 116
Noncurrent assets	-	-	18,196	-	-	-
Current liabilities	-	-	-	-	-	(3,172)
Long-term liabilities	(1,993)	(12,044)	(55,779)	(42,446)	(43,125)	(49,129)
Unrestricted net assets	<u>1,993</u>	<u>1,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ (10,234)</u>	<u>\$ (37,583)</u>	<u>\$ (41,506)</u>	<u>\$ (42,279)</u>	<u>\$ (52,185)</u>
<b>Amounts recognized in unrestricted net assets</b>						
Actuarial net loss	-	-	\$ 26,741	-	-	\$ 9,027
Prior service credit	<u>-</u>	<u>-</u>	<u>(735)</u>	<u>-</u>	<u>-</u>	<u>(160)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,867</u>
Decrease in minimum liability included in unrestricted net assets	\$ (2,207)	\$ (183)	\$ (1,810)	N/A	N/A	N/A

The incremental effect of applying SFAS 158 on individual line items in the balance sheet as of September 30, 2006 is as follows:

	Before Application of SFAS 158	Defined Benefit Plan Adjustments	Postretirement Healthcare Benefit Plan Adjustments	After Application of SFAS 158
Other current assets	\$ 173,263	\$ -	\$ (1,093)	\$ 172,170
Other assets	113,280	18,196	-	131,476
Total assets	8,195,503	18,196	(1,093)	8,212,606
Accrued compensation and benefits	333,274	-	3,172	336,446
Accrued employee benefits	214,085	44,202	4,602	262,889
Total liabilities	3,402,058	44,202	7,774	3,454,034
Unrestricted net assets	3,786,615	(26,006)	(8,867)	3,751,742

At September 30, 2004, 2005 and 2006, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets were as follows:

	(\$000s)		
	Accumulated Benefit Obligation In Excess of Plan Assets		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Projected benefit obligation	\$ 43,205	\$60,244	\$10,772
Accumulated benefit obligation	37,584	48,522	5,995
Fair value of plan assets	31,170	41,202	-

The determination of the adequacy of funding for defined benefit pension plans and postretirement healthcare benefit plans involves significant judgments about appropriate assumptions to be used when calculating the benefit obligations of these plans and determining net periodic pension and postretirement costs. Additional information concerning these assumptions is set forth in the Consolidated Financial Statements of Partners in Appendix B. The assumptions used for these purposes for 2004, 2005 and 2006 are as follows:

	Defined Benefit Plans			Postretirement Healthcare Benefit Plans		
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Discount rate – obligation	6.25%	5.75%	6.25%	6.25%	5.75%	6.25%
Discount rate – cost	6.25%	6.25%	5.75%	6.25%	6.25%	5.75%
Expected return on plan assets	8.25%	8.25%	8.25%	7.50%	7.50%	7.50%
Rate of compensation increase						
Professional staff	6.02%	6.02%	6.02%	N/A	N/A	N/A
Other than professional staff	5.00-5.10%	5.00-5.10%	5.00-5.10%	N/A	N/A	N/A
Healthcare cost trend rate for next year	N/A	N/A	N/A	10.00%	9.00%	10.00%
Rate to which the cost trend rate is to decline	N/A	N/A	N/A	5.00%	5.00%	5.00%
Year that rate reaches ultimate trend rate	N/A	N/A	N/A	2009	2009	2011

## I. Market Risk

The following table sets forth Partners fixed and variable rate long term debt balances, interest rate swaps, average interest rates and the impact of a 1.0% change in interest rates as of September 30, 2004, 2005 and 2006, March 31, 2007 and pro forma:

	(\$000s) As of September 30,			As of March 31,	
	2004	2005	2006	2007	Pro forma
Underlying long term debt:					
Fixed rate	\$ 772,935	\$715,378	\$681,211	\$682,737	\$959,122
Variable rate	<u>501,255</u>	<u>853,830</u>	<u>844,015</u>	<u>844,015</u>	<u>1,224,015</u>
Total long term debt	1,274,190	1,569,208	1,525,226	1,526,752	2,183,137
Interest rate swaps <sup>(1)</sup> :					
Variable-to-fixed rate	177,900	397,600	395,100	395,100	545,100
Long term debt inclusive of swaps:					
Fixed rate	950,835	1,112,978	1,076,311	1,077,837	1,504,222
Variable rate	<u>323,355</u>	<u>456,230</u>	<u>448,915</u>	<u>448,915</u>	<u>678,915</u>
Total long term debt	1,274,190	1,569,208	1,525,226	1,526,752	\$2,183,137
Average interest rate:					
Fixed rate	5.50%	5.44%	5.44%	5.44%	5.29%
Variable rate <sup>(2)</sup>	<u>1.03%</u>	<u>2.17%</u>	<u>3.22%</u>	<u>3.53%</u>	<u>3.53%</u>
Total debt	3.74%	3.66%	4.21%	4.38%	4.30%
Impact of 1.0% change in rates on variable rate debt	+/- \$5,013	+/- \$8,538	+/- \$8,440	+/- \$8,440	+/- \$12,240

<sup>(1)</sup> March 31, 2007 pro forma interest rate swaps exclude \$300 million in forward starting swaps effective July 1, 2009 through July 1, 2015.

<sup>(2)</sup> Variable rate reflects average interest rate for 2004, 2005 and 2006 and six months ended March 31, 2007.

Partners uses derivative financial instruments to manage interest rate risk and has entered into derivatives to lock-in fixed rates for anticipated issuance and future refunding of debt. These agreements involve the exchange of fixed rate payments by Partners for variable rate payments from five counterparties, based on a percentage of the London Interbank Offered Rate (LIBOR). As of March 31, 2007, the total notional amount of the derivative financial instruments for currently outstanding debt entered into by Partners was \$395.1 million. Partners has also entered into forward starting swaps in a notional amount of \$450.0 million for a portion of the debt expected to be issued in 2007 through 2015, of which \$150.0 million will be used in connection with a portion of the Series G Bonds. Expiration dates of the derivative contracts range between July 1, 2015 and July 1, 2042.

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either Partners or the counterparty could terminate the contract in accordance with its terms. Termination results in the payment of a termination amount by one party that attempts to compensate the other party for its economic losses. The cost of termination would depend, in major part, on then current interest rate levels, and if interest rate levels were then lower than those specified in the derivative contract, the cost of termination to Partners could be substantial.

The fair value of these derivatives was \$35.4 million as of September 30, 2004, \$44.8 million as of September 30, 2005, \$37.2 million as of September 30, 2006, and \$28.9 million at March 31, 2007 and has been reflected as a net liability on the balance sheet. The impact of the change in fair

value has been to increase (reduce) net assets by (\$4.9) million, (\$7.3) million and \$4.4 million as of September 30, 2004, 2005 and 2006, respectively, and \$6.1 million as of March 31, 2007, and to increase (reduce) excess of revenue over expenses by \$4.8 million, (\$2.0) million, \$3.2 million and \$2.2 million for the years ended September 30, 2004, 2005 and 2006 and the six months ended March 31, 2007, respectively.

Partners also enters into foreign currency options and futures primarily as hedges on securities and indices. Forward contracts are used as currency hedges. These agreements are limited in use and generally do not exceed one year.

## **J. Historic and Projected Capital Expenditures**

Partners utilizes a centralized operating and capital budgeting process. Capital investments are made within parameters established by management and approved by the PHS Board to enable the system to maintain its financial balance. Management employs a financial framework to quantify net cash available for discretionary spending initiatives, subject to maintenance of certain key financial ratios, including days cash on hand, debt to capitalization and debt service coverage, and to ensure that Partners capital investment needs are deployed appropriately throughout the organization. Funds allocated pursuant to the financial framework are principally used to support affiliate capital expenditures, but may also be used to fund certain investments that are considered to have system-wide benefits.

Partners invests in information technology, such as computer order entry and the electronic medical record, and in other capital projects to improve the quality and efficiency of patient care. In addition, certain investments in facilities are required to ensure sufficient capacity for patient care, particularly for outpatient procedures and visits, and for research activities. For the three years ended September 30, 2006, Partners total capital expenditures were \$311.6 million, \$372.3 million and \$467.0 million, respectively. Partners capital budget for 2007 is \$728.7 million, including current year appropriations of \$334.4 million and \$394.3 million for anticipated expenditures from prior year commitments. Management estimates that Partners capital expenditures for the three years through 2009 will aggregate approximately \$2.5 billion for existing operations, subject to the ongoing evaluation of potential projects and the availability of internally generated funds based upon the financial framework employed by management.

Major capital projects under construction, expected to begin construction by 2009 or in process of acquisition include the following:

BWH began construction in 2005 of a cardiovascular center on its campus comprising approximately 420,000 gross square feet and consisting of inpatient beds, operating rooms, outpatient procedure and clinic areas, and ancillary support departments. Occupancy is currently anticipated in Spring 2008. The budget for BWH's cardiovascular center is approximately \$383 million and it is expected to comprise approximately \$289 million of Partners total capital expenditures over the three years through 2009.

In addition, BWH has entered into a letter of intent with a developer to construct a 12-story, 376,000 gross square foot research, clinical and office building. A master planning and permitting process is currently underway. Construction is anticipated to begin in the spring of 2008 and occupancy is currently estimated for November 2011. The total project budget is expected to be

approximately \$268 million, of which approximately \$72 million is expected to be incurred over the three years through 2009.

In November 2006 The General began planning construction of a building on its campus comprising approximately 500,000 gross square feet to house a relocated and expanded radiation oncology department, expanded emergency services, three levels of operating and procedure suites, neurosciences and medical oncology intensive care units and acute patient rooms aggregating 150 beds, a new sterile processing department and a new central receiving dock. Occupancy is currently anticipated in 2011. The budget for The General's new building is approximately \$579 million and it is expected to comprise approximately \$292 million of Partners total capital expenditures over the three years through 2009.

MGH has entered into an agreement to acquire one or more condominium units comprised of approximately 293,000 gross square feet and 1,004 parking spaces at the property known as Charles River Plaza in Boston, a mixed use facility adjacent to The General's campus and comprised of administrative, clinical and retail space as well as parking. The General currently occupies approximately 60% of the space to be acquired, which it uses for administration and clinical care, and currently uses approximately 75% of the parking spaces; the rest of the space is fully leased to third party tenants. The acquisition for approximately \$241 million is expected to close in 2007. The PHS Taxable Bonds will fund a portion of this acquisition.

Spaulding is planning to construct a 150-bed rehabilitation hospital in the Charlestown Navy Yard that will replace its existing facility. A planning and permitting process is currently underway. Spaulding's new facility is expected to comprise approximately \$147 million of Partners total capital expenditures over the three years through 2009.

Partners expects to fund these expenditures from internally generated funds, from fundraising, from the proceeds of the Series G Bonds and, if deemed appropriate by management, from future borrowings.

#### **K. Investments and Investment Policy**

Cash and investments of Partners are managed centrally by the PHS treasury office under policies developed by the Investment Committee and overseen by the Finance Committee. Whenever possible, funds are commingled and are assigned to one or more of four investment pools which have been structured to provide a range of risk profiles and rates of return appropriate for Partners assets. Funds are assigned to pools based on expected liquidity needs, restrictions and management judgment. The four pools are organized as a general partnership among all participating entities (the Partnership) and operate much like mutual funds. The Money Market Pool is managed internally by PHS Treasury. The Short Term Fixed Income, Intermediate and Long Term Pools are managed by professional investment management firms selected by the Investment Committee consistent with approved policies. Manager performance is reviewed on a monthly basis and is compared to appropriate benchmarks.

The following table sets forth the composition of Partners investments and investments limited as to use as of September 30, 2004, 2005 and 2006 and March 31, 2007:

	(\$000s) As of September 30,			As of
	2004	2005	2006	March 31, 2007
Pooled investments				
Invested cash equivalents	\$ 233,845	\$ 280,863	\$ 371,787	\$ 223,869
Equities	1,052,884	1,241,099	1,227,633	1,411,654
U.S. Government, domestic and foreign fixed income securities	821,980	752,336	799,500	821,833
Private partnerships and other	980,277	1,292,240	1,704,566	1,978,228
Accrued interest and dividends	<u>7,803</u>	<u>6,265</u>	<u>9,407</u>	<u>10,124</u>
	<u>3,096,789</u>	<u>3,572,803</u>	<u>4,112,893</u>	<u>4,445,708</u>
Separately invested				
Invested cash equivalents	106,949	258,578	148,614	98,258
Equities	89,535	110,963	100,540	143,103
U.S. Government and domestic fixed income securities	53,921	46,297	51,168	73,287
Other	1,042	24,732	51,847	72,239
Accrued interest and dividends	<u>215</u>	<u>126</u>	<u>26</u>	<u>-</u>
	<u>251,662</u>	<u>440,696</u>	<u>352,195</u>	<u>386,887</u>
	3,348,451	4,013,499	4,465,088	4,832,595
Less valuation adjustment	<u>-</u>	<u>208,672</u>	<u>267,125</u>	<u>332,824</u>
Total investments	<u>\$ 3,348,451</u>	<u>\$ 3,804,827</u>	<u>\$ 4,197,963</u>	<u>\$ 4,499,771</u>

Partners Investment Policy allows Partners and selected managers to employ derivatives, short selling and leverage to achieve their desired investment objective. The use of leverage is capped to preclude net market exposure from exceeding aggregate capital allocation. At March 31, 2007, approximately 22% of Partners pooled investments were invested in a variety of long / short equity, value oriented multi-strategy and absolute return hedge funds, which in the aggregate, have achieved the desired dual effect of reducing Long Term Pool volatility (risk) and generating consistently positive returns. Partners investments include over 50 private partnership funds, encompassing private equity, private debt and various hedge funds. At March 31, 2007, these partnerships represented approximately 32% of cash and invested funds of which the largest single partnership investment was less than 3.5% of total cash and investments.

The fair value and gross unrealized losses of investments and investments limited as to use, with a fair value less than cost, that are not deemed to be other-than-temporarily impaired at September 30, 2006 are as follows:

	Less than 12 Months		12 Months or Greater	
	Fair	Gross	Fair	Gross
	<u>Value</u>	<u>Unrealized</u> <u>Losses</u>	<u>Value</u>	<u>Unrealized</u> <u>Losses</u>
Pooled investments				
Equities	\$150,794	\$(11,880)	\$16,846	\$(2,397)
U.S. Government, domestic and foreign fixed income securities	160,643	(5,825)	79,345	(4,730)
Private partnerships and other	<u>61,680</u>	<u>(752)</u>	<u>45</u>	<u>(1)</u>
	373,117	(18,457)	96,236	(7,128)
Separately invested				
Equities	<u>-</u>	<u>-</u>	<u>8,095</u>	<u>(123)</u>
	<u>\$373,117</u>	<u>\$(18,457)</u>	<u>\$104,331</u>	<u>\$(7,251)</u>

Securities with unrealized losses are reviewed each quarter to determine whether these investments are other-than-temporarily impaired. This review considers factors including the anticipated holding period for the investment and the extent and duration of below cost valuation. For specific securities, these factors include evidence of continuing debt service payments and prospects for principal repayment (fixed income), the age of investment relative to historical valuation patterns (private equity), and historical market volatility, prospects and price trends of individual securities relative to industry peers (equity). Based on management's evaluation of investments with a fair value less than cost at September 30, 2006, no other-than-temporary impairment was determined to have occurred.

Partners uses a portion of the Money Market and Short Term Fixed Income Pools as sources of funds in the event of a failed remarketing of a portion of the Series D bonds. As of March 31, 2007, \$41.8 million of the Series D bonds were supported by Partners liquidity, the market value of the Money Market and Short Term Fixed Income Pools was \$848.0 million, and the market value of the portion intended to support self liquidity obligations on the Series D bonds was \$570.0 million. Of the latter amount, \$89.9 million was comprised of same day available funds, including \$67.5 million in US Treasuries, and the remainder, \$480.1 million, was comprised of agencies, mortgage and asset-backed securities, corporate bonds and high-grade commercial paper, of which \$132.0 million was rated Aaa by Moody's Investors Service or AAA by Standard & Poor's Ratings Services.

The Partnership may lend securities to qualified financial institutions through a program administered by the Partnership custodian. All loans are callable at any time and are fully collateralized. Income is earned based on the collateral held and invested during the period of lending. Cash collateral requirements are 102% and 105% for domestic and foreign securities, respectively. The custodian continually monitors borrowers' credit-worthiness and fully indemnifies Partners against borrower default. If a borrower fails to return a loaned security whose market value has increased over the amount in collateral, the custodian will cover the difference. The custodian will also cover operational losses, such as for the failure of the borrower to make substitute dividend payments to the lender.

The fair value of loaned securities and related collateral at September 30, 2006 and March 31, 2007 is as follows:

	(\$000s)			
	As of September 30, 2006		As of March 31, 2007	
	Loaned Securities	Collateral	Loaned Securities	Collateral
Equities	\$ 170,358	\$ 177,704	\$ 248,825	\$ 258,881
U.S. government, domestic and foreign fixed income securities	<u>332,566</u>	<u>339,320</u>	<u>351,987</u>	<u>359,147</u>
Total	<u>\$ 502,924</u>	<u>\$ 517,024</u>	<u>\$ 600,812</u>	<u>\$ 618,028</u>

Income generated by the Partnership from securities lending arrangements was \$0.5 million for the year ended September 30, 2006 and \$0.3 million for the six months ended March 31, 2007.

## **L. Fundraising**

Partners depends extensively on private fundraising to support its mission of excellence in patient care, research and education. Partners Development Office coordinates fundraising efforts



for the following programs: Center for Integration of Medicine & Innovative Technology, Dana-Farber/Partners CancerCare, Harvard-Partners Center for Genetics and Genomics, Partners AIDS Research Center, Partners Community Benefits, Partners Radiology, Partners Asthma Center, Partners Department of Orthopedic Surgery, Partners Neurology, Partners Center for Connected Health, and the Research Accelerator Program. Total Partners-wide gifts and pledges were \$148.6 million in 2004, \$207.5 million in 2005, \$209.2 million in 2006 and \$165.5 million for the six months ended March 31, 2007. Support for individual hospitals is coordinated through affiliate development offices.

Total gifts and pledges for The General were \$78.9 million in 2004, \$112.9 million in 2005, \$117.2 million in 2006 and \$102.5 million for the six months ended March 31, 2007. In 2004, The General completed a four-year capital campaign that raised \$342.5 million to support clinical facilities and continued innovation in clinical care, research and education, of which \$71.5 million was used toward the development of the Yawkey Center for Outpatient Care.

The General is currently soliciting contributions for a new clinical facility on its main campus, the Building for the Third Century (B3C). As of March 31, 2007, The General had raised \$86 million in gifts and pledges toward its fundraising target of \$165 million for B3C. Included in that amount is a \$15 million gift from longtime MGH supporters James M. and Ruth P. Clark for the Radiation Oncology Center in B3C.

In May 2007, The General received a \$35 million gift, the largest single gift to the hospital in its history, from Sumner M. Redstone. A significant portion of these funds will be used to reconfigure and enhance The General's emergency department, which will be relocated to B3C when completed. The gift will also be used to create The Sumner M. Redstone Burn and Trauma Service, an endowed fund to advance burn and trauma care and to support research and training in the Sumner Redstone Burn Center, which will be relocated and expanded.

Total gifts and pledges for BWH were \$40.7 million in 2004, \$60.8 million in 2005, \$62.0 million in 2006 and \$42.2 million for the six months ended March 31, 2007. In December 2006, the BWH Board of Trustees approved a \$500 million capital campaign for a number of hospital strategic objectives encompassing patient care, research, and medical education, including, cardiovascular medicine, women's health, the neurosciences, cancer care, biomedical research, patient safety, community health and global health. The cardiovascular center now under construction, named the Carl J. and Ruth Shapiro Cardiovascular Center in acknowledgement of a \$25 million gift from the Carl and Ruth Shapiro Family Foundation, is a cornerstone project for the campaign. As of March 31, 2007, \$77.7 million has been raised toward the \$500 million goal, including \$51 million for the cardiovascular center.

Spaulding began a \$20 million capital campaign, Your New Hospital, in 2005 to support construction of its new facility to be built in the Charlestown Navy Yard. As of March 31, 2007, Spaulding had received \$14.1 million in gifts and pledges toward this campaign.

NSMC launched a \$20 million capital campaign in October 2006, including \$15 million for the ambulatory care center to be constructed in Danvers and operated with The General and \$5 million for renovations at the Salem campus. As of March 31, 2007, NSMC had received \$2.6 million in gifts and pledges toward this campaign.

### III. ACUTE CARE SECTOR

#### A. Overview of the Acute Care Sector

Partners Acute Care Sector includes two of the most well respected academic medical centers in the United States, BWH and The General, and six acute care community hospitals: Faulkner, MVH, NCH, NWH and NSMC (Salem and Union Hospitals). Together these form the largest acute care delivery system in Eastern Massachusetts.

BWH and The General are renowned for their excellence in patient care, innovative and far-reaching research efforts and educational programs. Each was cited again in July 2006 among the nation's top medical centers by U.S. News & World Report. The two were the only Massachusetts acute care hospitals to make the elite Honor Roll list.<sup>1/</sup> In addition, The General has been ranked first nationally for psychiatric services by U.S. News & World Report for the past eleven years.<sup>2/</sup>

BWH and The General serve both as community hospitals for portions of Metropolitan Boston and as providers of tertiary and quaternary services, primarily to eastern Massachusetts and adjacent portions of contiguous states, but also to the remainder of Massachusetts, New England, other parts of the United States and other nations. Since a significant part of the primary service areas of The General and BWH do not overlap, both BWH and The General continue to provide many of the same tertiary and secondary services. See "Competitive Environment."

Among the tertiary services that Partners offers through BWH and The General are all forms of organ transplants, including heart, lung, heart-lung, liver, kidney, bone marrow, small bowel and pancreas transplants. The Burn and Level I Trauma units (for treatment of the most serious cases) at BWH and The General represent two of only three such units in Massachusetts and are among the largest in New England.

*Cardiac Services.* Cardiac services offered by BWH and The General reflect both the large volumes of procedures and the scope of services characteristic of tertiary institutions. In 2006 the two hospitals performed 2,764 cardiac surgical procedures, including coronary artery and valve surgery, thoracic aorta surgery, surgery for cardiac rhythm disorders, and heart transplants. Complementing these surgical procedures were 9,683 cardiac catheterizations and 38,016 cardiac ultrasound examinations. In addition, in 2006, NSMC performed 572 cardiac surgical procedures, 1,811 cardiac catheterizations and 7,225 cardiac ultrasound examinations.

*Women's Health Services.* Partners is New England's largest provider of women's health care services, providing a full range of tertiary services, including reproductive endocrinology, gynecologic oncology, urogynecology, laser treatment of endometriosis, and pelvic reconstructive surgery. Partners operates one of two level three Maternal/Newborn Services in the metropolitan

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<sup>1/</sup> *America's Best Hospitals Honor Roll*, U.S. News & World Report, July 10, 2006, at <http://www.usnews.com/usnews/nycu/health/hosptl/honorroll.htm>. U.S. News ranks 176 medical centers in 16 specialties. To be considered, a hospital first must meet one of three standards: membership in the Council of Teaching Hospitals, affiliation with a medical school, or availability of at least nine of 16 specified items of medical technology. In each specialty, a hospital must perform a given number of procedures or be cited by at least one physician in the past three years of *U.S. News* surveys. These hospitals received a score that equally weighs reputation, mortality, and a group of care-related factors such as nursing. Each specialty's 50 highest-scoring hospitals are listed. The General, for example, scored 21 points in 11 specialties, and BWH scored 12 points in 9 specialties.

<sup>2/</sup> *Id.*

Boston area for treatment of the most serious cases, thereby allowing it to serve as a resource for high risk obstetrical and neonatal patients. Its neonatal intensive care center at BWH is the largest in Massachusetts.

*Minimally Invasive Surgical Techniques.* Surgeons at BWH and The General perform an array of minimally invasive surgical techniques. Minimally invasive heart surgery, for example, enables surgeons to repair the heart through small incisions in the chest wall. This technique can reduce the complication rates, required rehabilitation and length of hospital stay typically associated with heart surgery.

Partners was the first in the world to use a dedicated interventional Magnetic Resonance Imaging (MRI) system for use in minimally invasive surgery and other procedures in 1994. Intraoperative MRI guidance allows accurate localization and targeting by using new types of imaging methods and by utilizing advanced computer technology. Near real-time monitoring and constantly updated image volumes provide information not available for preoperative MRI. BWH pioneered the use of MRI-guided technology for several applications, including open brain surgery, prostate brachytherapy and thermal ablation (cryotherapy). Currently, planning is underway at BWH for a new Advanced Multimodality Image Guided Operating (AMIGO) suite. The goal of image guided therapy is to integrate all the accessible anatomical and physiological information from both preoperative and intraoperative imaging into a single, complete operational therapy delivery system. BWH's AMIGO system will be comprised of an MRI scanner, positron emission tomography/computerized tomography scanner, Fluoro X-ray C-arm, navigation system, surgical microscope, and a sophisticated surgical table that moves the patient between stations.

Robotic assistance represents the newest application of minimally invasive surgery. In 2001, BWH became the first hospital in New England to perform a complete operation on a patient with a surgeon directed, computer assisted robot, a technique that aims to make surgery substantially less invasive than ever before, minimizing trauma to the body and hastening patients' recovery. Robotic operations are currently being done at The General as part of a trial sponsored by the United States Food and Drug Administration for selected patients undergoing single-vessel coronary artery bypass graft.

The Center for Integration of Medicine & Innovative Technology (CIMIT) is a consortium of BWH, The General, Massachusetts Institute of Technology, Draper Laboratory and Beth Israel Deaconess Medical Center. It brings together scientists, engineers, and clinicians to improve patient care by catalyzing development of innovative technology, emphasizing minimally invasive diagnosis and therapy. Through one of CIMIT's programs, The General became the first hospital in New England to perform laparoscopic nephrectomy (minimally invasive kidney donation surgery for kidney transplantation). CIMIT is concentrating its research on four key clinical areas: cardiovascular, cancer, stroke and trauma/critical care. At The General, clinicians and CIMIT staff have developed an operating room of the future, which opened for use in 2002. See "Research Activities" for a further description of CIMIT.

*Simulation.* With the opening in 2004 of The STRATUS Center (Simulation, Training, Resuscitation and Technology Utilization System) within the Department of Emergency Medicine, BWH became the only civilian medical center in the world to create a medical simulation program that combines high fidelity human patient simulators with sophisticated micro-computer human physiology simulators and a laboratory for advanced skills training within a single functional unit.

The STRATUS Center is an interdisciplinary, state-of-the-art facility that 1) improves patient care by providing clinicians opportunities to gain competence in clinical skills prior to entering the real patient environment, and 2) employs medical simulation in the development and implementation of new medical technologies and procedures. It is capable of training physicians, nurses, paramedics, police and firefighters to respond to the full spectrum of patient emergencies, ranging from trauma and cardiac arrest through bioterrorism or chemical warfare incidents. The technology creates real-time case scenarios that are applicable to anesthesia, critical care, trauma, emergency medicine, and pre-hospital care. Immediate expansion plans for the STRATUS Center focus on the development of a simulated operating suite and the acquisition of state-of-the-art laparoscopic and endoscopic procedural simulators by July 2008. A second phase of the expansion will include the creation of a bioengineering research laboratory that develops and patents new technologies to be used by device manufacturers, simulation centers, and other participants in the health care field.

*Proton Therapy.* The Francis B. Burr Proton Therapy Center, located on The General's campus, is the only one of its kind in the Northeast and one of only five such hospital-based facilities in the country. Proton beam therapy concentrates the release of radiation in an area directly around a tumor, thereby limiting the damage to healthy tissues and organs that often occurs in standard radiation therapy. In 2006, 12,096 treatments were completed, an increase of 2,802 (30%) from 2005.

*Partners Center for Connected Health (PCCH).* Partners Telemedicine changed its name in 2007 to the Center for Connected Health in order to better reflect the broad range of work in telehealth, remote care and disease and lifestyle management programs under development at Partners. PCCH focuses on extending the care community beyond the traditional walls of healthcare institutions by bringing healthcare to the everyday surroundings of health consumers and their families. Using interactive computer, Internet and telecommunication technologies, PCCH is implementing a set of strategic initiatives that use communication technologies to develop new models of care. These models extend and enhance the patient-physician relationship and show measured improvements in access, quality and efficiency of care. These capabilities, management believes, will be important assets in ensuring cost effective and efficient clinical interaction and knowledge sharing across the entire continuum of care in an integrated delivery system. PCCH has utilized secure, encrypted and high speed technology to facilitate the provision of nearly 10,000 specialty consultations to clinicians in 56 countries since its inception in 1995. Annually, PCCH holds a two-day educational symposium at Harvard Medical School that attracts health professionals from around the world. It has also made important strides in integrating telemedicine solutions into the provision of home care through collaborations with PHC. These collaborations have included remote monitoring of congestive heart failure patients in their homes as well as innovative care of chronic wounds through digital imaging and cell phones. Other collaborations include work with CIMIT on sensor and monitoring technologies.

*Partners International Program (International Program).* By creating strategic relationships with United States and foreign partners, the International Program seeks to ensure Partners position as a world leader in patient care, medical education and biomedical research and to create revenue-generating opportunities for Partners. The International Program is responsible for international strategic planning, marketing, business development and relationship management services for Partners, specifically BWH, The General, Spaulding, McLean and DF/PCC.

The International Program has largely focused on marketing clinical services – inpatient and outpatient services and second opinions – to patients in the Middle East, Southern Europe, India,

Bermuda and South America, where Partners has developed a number of comprehensive relationships with government agencies, health care providers, insurers, and multi-national corporations. In addition, it has dedicated staff and resources to strengthen ties with Arab Gulf state embassies in Washington that have organized programs to facilitate access to high quality treatment for their citizens who require medical care outside their country. Partners saw a total of approximately 3,700 international patients in 2006, an increase of approximately 9.5% from 2005. In 2006, Partners international patients originated from the following regions: 29% from Europe, 22% from North America, 13% from South America, 18% from the Middle East, 9% from the Asia/Pacific region, 7% from the Caribbean, and 2% from Africa.

The International Program is pursuing a number of development strategies, including intensifying relationship-building activities in target markets (Bermuda, Kuwait, India, Korea), and exploring new markets (Canada, Qatar, Kazakhstan, United Kingdom). In 2006, Partners established PIMS as the entity through which it provides a broad array of training and consulting services to public and private organizations abroad. Since it established a formal international program in 1997, Partners has taken on more than 70 projects with 32 unique client organizations in 22 countries. Partners International Program has conducted international medical conferences and has also sponsored educational preceptorships for physicians, nurses and other health care professionals from 11 countries.

*Ambulatory Care.* Each of Partners eight acute care hospitals provides emergency, ambulatory and outpatient care across major specialties. Combined, they comprise the largest outpatient network in eastern Massachusetts.

In 2006, Partners acute care hospital based and non-hospital based ambulatory care programs resulted in approximately 1,100,000 routine visits, approximately 281,000 emergency services visits, and approximately 733,000 home health visits.

Partners acute care hospitals have established a number of satellite practices to broaden primary care, medical and surgical, obstetrics and gynecology, radiology and laboratory services, and to enhance the hospitals' accessibility to patients. In response to growth in demand for outpatient services, driven largely by changes in demographics and the evolution of medical technology for oncology services in particular, Partners has recently embarked upon a more comprehensive ambulatory care strategy. Ambulatory care initiatives that are currently underway include the following: (1) In 2006, BWPO entered into a lease for a portion of the space in a facility to be built at Milford Hospital where it will provide oncology services, (2) Partners is constructing a multi-specialty, ambulatory care center in Danvers to house the MGH/NSMC Cancer Center, eight day surgery suites, diagnostic imaging, diagnostic cardiology, laboratory services/phlebotomy, and a family/patient resource center, (3) BWH is planning to lease space in an integrated cancer center to be built on the campus of South Shore Hospital and (4) BWH and The General plan to lease space at a multi-specialty ambulatory care facility to be built in Foxborough.

BWH provides outpatient services, including primary care, specialty care, diagnostics, imaging and ambulatory procedures at 130 ambulatory practices in 20 locations: four main locations on the BWH distributed campus house the majority of practices and the remainder are in satellites located west, southwest and south of Boston. In addition, BWH operates two neighborhood health centers in the Jamaica Plain section of Boston near its hospital facilities and serves as a referral

facility for both health centers, which, in addition to providing services similar to those offered by satellite practices, offer dentistry, pediatrics, podiatry, nutrition and social services.

The General provides many of its ambulatory care services in the Yawkey Center for Outpatient Care, the Wang Ambulatory Care Center, the Emergency Services Department and the MGH Cancer Center, all located on its main campus; at MGH West, an ambulatory care facility in Waltham; and at off-campus health centers in Boston's North End and Back Bay and in Charlestown, Chelsea, and Revere. In addition, physicians practicing privately through the MGPO provide professional services in the MGH Professional Office Building, in space on The General's campus and in private offices adjacent to The General.

Partners community hospitals also offer a number of ambulatory care services. Faulkner offers an outpatient center in breast healthcare, and NWH provides many outpatient services, including a spine center, women's imaging center, breast center, minimally invasive gynecology center, assisted reproductive technology program, maternal fetal medicine program, joint reconstruction center, diabetes center, bariatric center, wound/ostomy program, multiple sclerosis clinic, and adult and pediatric sleep centers.

NSMC's ambulatory services include The North Shore Cancer Center in Peabody, which provides medical oncology and radiation treatments in collaboration with DF/PCC and will be relocated to the ambulatory facility to be constructed by Partners in Danvers, and The North Shore Women's Health Center in Danvers, which provides comprehensive services for women (including in-vitro fertilization and genetic counseling, as well as mammography) throughout their life-span. At Salem and Union, NSMC offers comprehensive imaging services and surgical suites designed exclusively for outpatient surgery and diagnostic endoscopic procedures.

## **B. Brigham and Women's Hospital**

BWH is the result of a 1975 merger of the Peter Bent Brigham Hospital, the Robert Breck Brigham Hospital and the Boston Hospital for Women, whose inpatient facilities were physically consolidated in 1980 with the opening of a 16-story inpatient building. Medical advances for which its predecessors were responsible include the first use of anesthesia in childbirth (1847); the first use of bichloride of mercury during childbirth, thereby reducing deaths from infection (1883); the first use of the Drinker respirator (iron lung) (1929); the first fertilization of a human ovum in a test tube (1944); and the world's first successful kidney transplant (1954). BWH or its predecessors were the first to use direct electric current to restore the rhythm of the heart (1962), the first to use fetal monitoring (1973), and the first to reset the internal body clock (Circadian Pacemaker) (1986). In 1988 a network epidemiology study conducted by BWH demonstrated that a regimen of low-dose aspirin reduces the risk of first heart attacks by nearly one-half in otherwise healthy men. Building on its first organ transplantation, BWH was the first hospital in New England to perform a heart transplant (1984), lung transplant (1990), and triple organ transplant from one donor to three recipients (1995) and was the first hospital in the nation to perform a quadruple organ transplant from one donor to four recipients (2000). In 2003, BWH became the first hospital in the world to open a center dedicated to treating benign tumors with focused ultrasound surgery and in 2004 it opened the STRATUS Center; performed the nation's first implant of a new dual-chamber implantable cardioverter-defibrillator; and performed the nation's first quintuple lung transplant from three donors to five recipients.

BWH is licensed by the Massachusetts Department of Public Health (DPH) to operate 720 beds, all of which were staffed as of March 31, 2007. As part of the DF/PCC joint venture, BWH operates an additional 27 beds, although they remain under DFCI's license. As of March 31, 2007, all of these beds were staffed. Beds are currently allocated among the following services:

<u>Services</u>	<u>Licensed Beds<sup>(1)</sup></u>
Medical/Surgical	490
Orthopedics	30
Obstetrics	95
Gynecology	25
Neurology	15
Neurosurgery	46
Neonatal Intensive Care Unit	<u>46</u>
Total	<u>747</u>

<sup>(1)</sup>Includes both BWH and DFCI licensed beds.

For the six months ended March 31, 2007, BWH's Medicare case mix index, a measure of the severity of illness, was 2.31.

### **Financial Information**

The following summary of the Statements of Operations for the three years ended September 30, 2006 was derived from financial statements of BWH audited by PricewaterhouseCoopers LLP, independent auditors. The summary of the unaudited Statements of Operations for the six months ended March 31, 2006 and 2007 reflects, in the opinion of BWH, all adjustments necessary for a fair statement of the results for such periods. The unaudited Statements of Operations for the six months ended March 31, 2007 should not be regarded as indicative of results for the full year.

**The Brigham and Women's Hospital, Inc.**  
**Statements of Operations**  
(In Thousands)

	Year Ended September 30,			Six Months Ended March 31,	
	2004	2005	2006	2006	2007
<b>Operating revenue</b>					
Net patient service revenue	\$968,617	\$1,081,456	\$1,167,498	\$573,943	\$616,752
Direct academic and research revenue	274,545	294,130	332,145	164,052	157,747
Indirect academic and research revenue	94,434	90,976	103,076	50,432	51,963
Other revenue	<u>31,068</u>	<u>36,178</u>	<u>37,259</u>	<u>19,086</u>	<u>17,380</u>
<b>Total operating revenue</b>	<u>1,368,664</u>	<u>1,502,740</u>	<u>1,639,978</u>	<u>807,513</u>	<u>843,842</u>
<b>Operating expenses</b>					
Employee compensation and benefits	510,096	554,932	609,892	297,416	320,695
Supplies and other expenses	442,622	474,904	516,779	256,627	272,772
Direct academic and research expenses	274,545	294,130	332,145	164,052	157,747
Depreciation and amortization	75,866	75,288	79,357	39,755	40,141
Provision for bad debts	16,678	17,031	15,726	8,497	10,531
Interest	<u>14,985</u>	<u>17,112</u>	<u>19,493</u>	<u>9,724</u>	<u>9,708</u>
<b>Total operating expenses</b>	<u>1,334,792</u>	<u>1,433,397</u>	<u>1,573,392</u>	<u>776,071</u>	<u>811,594</u>
<b>Income from operations</b>	<u>33,872</u>	<u>69,343</u>	<u>66,586</u>	<u>31,442</u>	<u>32,248</u>
<b>Nonoperating gains</b>					
Income from investments	12,676	20,795	2,102	599	1,250
Change in net unrealized gains (losses) on equity method investments	-	18,716	(618)	(462)	661
Gifts and other	(1,869)	(5,154)	-	(94)	2
Academic and research gifts, net of expenses	23,177	16,554	-	-	(2)
System development funding	<u>(25,148)</u>	<u>(26,686)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total nonoperating gains, net</b>	<u>8,836</u>	<u>24,225</u>	<u>1,484</u>	<u>43</u>	<u>1,911</u>
<b>Excess of revenues over expenses</b>	42,708	93,568	68,070	31,485	34,159
<b>Other changes in net assets</b>					
Change in net unrealized gains on marketable investments	17,647	53	-	71	-
Funds utilized for property and equipment	4,939	(1,242)	7,257	1,964	3,065
Transfers (to)/from affiliates, net <sup>(1)</sup>	3,028	5,186	(429,901)	(401,162)	(17,617)
Other	-	17,211	-	-	1,187
Cumulative effect of accounting changes	<u>-</u>	<u>-</u>	<u>45,359</u>	<u>28,253</u>	<u>-</u>
<b>Increase/(decrease) in unrestricted net assets</b>	<u>\$68,322</u>	<u>\$114,776</u>	<u>\$(309,215)</u>	<u>\$(339,389)</u>	<u>\$20,794</u>

<sup>(1)</sup> Effective October 1, 2005, the Board of Trustees of BWH approved the permanent transfer of substantially all unrestricted investments to its parent, BW/F. As a result, substantially all unrestricted investments, related investment income and gifts and expenses have been eliminated on BWH's financial statements as of and for the year ended September 30, 2006. Temporarily and permanently restricted investments, as well as externally limited investments, will continue to be included in the financial statements of BWH. BWH accounted for this transaction as a net asset transfer in 2006 and its impact was to reduce investments and unrestricted net assets by \$384.9 million. See "Management's Discussion and Analysis of Recent Financial Performance - Capitalization."



## Utilization

Summary inpatient, ancillary and outpatient service utilization data for BWH for the three years ended September 30, 2006 and for the six months ended March 31, 2006 and 2007 are presented in the following table:<sup>(1)</sup>

	Year Ended September 30,			Six Months Ended March 31,	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
Licensed beds <sup>(2)</sup>	733	738	747	741	747
Discharges:					
Medical	14,215	15,342	15,183	7,417	7,457
Surgical	9,067	9,670	9,830	4,826	4,953
Obstetrics	9,294	8,965	8,853	4,276	4,265
Gynecology	2,095	2,126	2,186	1,049	1,149
Orthopedics	2,775	2,915	3,059	1,501	1,574
Neurology	1,003	1,052	1,098	539	569
Neurosurgery	1,724	1,781	1,881	931	906
Urology	868	938	957	460	476
Nursery	8,170	7,762	7,610	3,679	3,667
NICU	851	886	792	426	469
DFCI	<u>937</u>	<u>949</u>	<u>1,036</u>	<u>521</u>	<u>504</u>
Total	50,999	52,386	52,485	25,625	25,989
Average length of stay (days)	4.93	4.95	5.03	5.14	5.12
Patient days	229,164	237,988	244,211	121,231	120,770
Average occupancy rate	85.4%	88.3%	89.6%	89.9%	88.8%
Total surgeries	30,016	30,059	30,736	15,280	15,286
Births	8,904	8,543	8,308	4,062	4,066
Outpatient Visits:					
Observations <sup>(3)</sup>	6,310	6,581	7,589	3,800	3,788
Day surgery	12,513	12,324	12,318	6,221	6,212
Routine visits	367,551	356,967	350,195	175,273	178,956
Emergency visits	53,635	54,438	55,465	26,767	27,915
Significant procedures	16,503	19,056	20,052	11,401	10,986
Major imaging	71,886	75,054	74,910	34,858	37,656
Minor imaging	188,061	201,971	210,583	102,914	109,265
Treatments	68,035	68,904	76,505	36,960	46,586
Minor Procedures	74,256	81,395	87,928	41,462	58,854
Therapies	66,133	66,536	77,946	43,397	48,176
Psychiatric services	28,624	34,997	34,058	17,336	16,606
Laboratory services	1,537,894	1,555,396	1,618,685	772,197	870,580

<sup>(1)</sup> See footnotes to Acute Care Sector utilization table in "Management's Discussion and Analysis of Recent Financial Performance."

<sup>(2)</sup> Includes DFCI licensed beds transferred as part of the DF/PCC joint venture.

<sup>(3)</sup> Patients admitted under observation status and discharged within 24 hours.

## Sources of Patient Service Revenue

The following table shows BWH's payer mix based on inpatient discharges for the three years ended September 30, 2006 and the six months ended March 31, 2007:

	<u>Year Ended September 30,</u>			<u>Six Months Ended</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>March 31, 2007</u>
Medicare	21.3%	22.7%	23.5%	23.8%
Medicaid	11.5%	11.9%	13.8%	14.7%
Managed Care <sup>(1)</sup>	46.4%	44.5%	44.3%	42.7%
Blue Cross and Blue Shield of Massachusetts <sup>(2)</sup>	6.4%	6.8%	6.2%	6.8%
Workers' Compensation, Self Pay and Commercial	<u>14.4%</u>	<u>14.1%</u>	<u>12.2%</u>	<u>12.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

<sup>(1)</sup> Includes Medicare managed care.

<sup>(2)</sup> Indemnity product only.

BWH participates in PCHI network-wide managed care contracts with Blue Cross and Blue Shield of Massachusetts (Blue Cross), Tufts Associated Health Plans, Inc. (TAHP) and Harvard Pilgrim Health Care (HPHC) and also contracts directly with numerous other managed care plans. Most of BWH's managed care contracts are reimbursed on a discounted fee for service, per diem or a per case payment basis. No individual health maintenance organization (HMO) accounts for more than 20% of total inpatient discharges at BWH. See "Sources of Patient Service Revenue – Managed Care Programs and Commercial Insurance."

## Medical Staff

As of March 14, 2007, the medical staff of BWH consisted of 6,035 physicians of which 1,532 were members of the Active Staff; 888 were members of the Research Staff; 193 were members of either the Adjunct, Courtesy or Honorary Staff; 734 were Affiliate Staff; 716 were House Staff; and 1,972 were residents, clinical fellows, research fellows and others. Active and Research Staff Members are required to have current Harvard University appointments. Of the 1,532 members of the Active Staff, approximately 84% were Board Certified in their specialty. BWPO delegates to PCHI the authority to enter into network-wide managed care contracts on behalf of BWPO's members.

The Medical Staff is organized into the following departments with the corresponding number of active staff as of March 14, 2007:

<u>Department</u>	<u>Number Active Staff</u>
Anesthesiology	117
Dermatology	22
Emergency Medicine	31
Medicine	684
Neurology	56
Neurosurgery	15
Newborn Medicine	31
Obstetrics/Gynecology	117
Orthopedic Surgery	36
Pathology	82
Psychiatry	73
Radiation Oncology	21
Radiology	126
Surgery	<u>121</u>
Total	<u>1,532</u>

Source: Hospital records

As of March 14, 2007, the average age of the Active Staff was approximately 47 years, with 48% being 45 years of age or younger, and with 4% being 65 years of age or older.

### **Licensure and Accreditation**

BWH is licensed by the DPH and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) following a survey in February 2007 for a three year period.

BWH is approved by the Accreditation Council for Graduate Medical Education (ACGME), with the next site visit due to occur in October 2009. BWH sponsors 15 residency programs and 28 fellowship programs accredited by ACGME in 11 services; the dental residency is integrated with The General and accredited by the American Dental Association. BWH serves as the sponsoring institution for 11 ACGME-accredited programs that are integrated with The General (BWH and The General co-sponsor 18 nationally-accredited programs). One of these programs is integrated with Boston Children's Hospital and three with DFCI. BWH also co-sponsors one ACGME-accredited program with Boston Children's Hospital and one with Beth Israel Deaconess Medical Center. Additionally, it offers 61 non-ACGME-accredited fellowship programs, five of which are nationally accredited by certifying bodies other than the ACGME.

### **C. The General Hospital**

Originally a division of MGH, which was founded by special act of the Massachusetts legislature in 1811, The General was separately incorporated as a subsidiary of MGH in 1980. The General Hospital admitted its first patient in 1821. It is

the third oldest general, non-military hospital in the United States and the oldest in New England. The first use of an anesthetic ether in surgery occurred at The General in 1846. In 1896 the first x-ray image in the United States was made at the hospital, and in 1905 The General established the first hospital-based social service department. Physicians at The General were the first to use proton beam therapy to treat certain tumors (1960), the first to successfully replant a severed human limb (1962), the first to create artificial skin from living cells (1981), and the first to use a laser to disintegrate kidney stones (1986). More recently, researchers from The General were the first to discover genes associated with several serious illnesses, including Huntington's disease, amyotrophic lateral sclerosis (Lou Gehrig's Disease), neurofibromatosis Type 2 and certain forms of inherited Alzheimer's disease. In 2004 The General opened the Yawkey Center for Outpatient Care, the largest ambulatory facility in New England.

The General Hospital is licensed by the DPH to operate 902 beds, all of which were staffed as of March 31, 2007. These are presently allocated among the following services:

<u>Services</u>	<u>Licensed Beds</u>
Medical/Surgical	624
Intensive Care	103
Coronary Care	36
Burn	8
Pediatric	52
Obstetrics	41
Neonatal Intensive Care Unit	14
Psychiatric	<u>24</u>
Total	<u>902</u>

For the six months ended March 31, 2007, The General's Medicare case mix index was 2.49

### **Financial Information**

The following summary of the Statements of Operations for the three years ended September 30, 2006 was derived from the financial statements of The General audited by PricewaterhouseCoopers LLP, independent auditors. The summary of the unaudited Statements of Operations for the six months ended March 31, 2006 and 2007 reflects, in the opinion of The General, all adjustments necessary for a fair statement of the results for such periods. The unaudited Statements of Operations for the six months ended March 31, 2007 should not be regarded as indicative of results for the full year.

**The General Hospital Corporation**  
**Statements of Operations**  
(In Thousands)

	Year Ended September 30,			Six Months Ended March 31,	
	2004	2005	2006	2006	2007
<b>Operating revenue</b>					
Net patient service revenue	\$1,196,346	\$1,309,091	\$1,486,702	\$722,135	\$795,600
Direct academic and research revenue	374,709	390,047	430,459	215,582	216,420
Indirect academic and research revenue	125,218	136,851	147,254	72,563	72,919
Other revenue	<u>64,738</u>	<u>74,214</u>	<u>83,699</u>	<u>43,165</u>	<u>42,383</u>
<b>Total operating revenue</b>	<u>1,761,011</u>	<u>1,910,203</u>	<u>2,148,114</u>	<u>1,053,445</u>	<u>1,127,322</u>
<b>Operating expenses</b>					
Employee compensation and benefits	639,361	708,748	794,664	379,175	439,303
Supplies and other expenses	563,460	596,570	671,736	333,113	356,786
Direct academic and research expenses	374,709	390,047	430,459	215,582	216,420
Depreciation and amortization	79,685	83,151	94,320	47,325	49,923
Provision for bad debts	22,559	22,125	28,947	11,958	16,765
Interest	<u>13,237</u>	<u>18,030</u>	<u>19,538</u>	<u>9,868</u>	<u>9,490</u>
<b>Total operating expenses</b>	<u>1,693,011</u>	<u>1,818,671</u>	<u>2,039,664</u>	<u>997,021</u>	<u>1,088,687</u>
<b>Income from operations</b>	<u>68,000</u>	<u>91,532</u>	<u>108,450</u>	<u>56,424</u>	<u>38,635</u>
<b>Nonoperating gains</b>					
Income from investments	46,454	66,528	1,175	376	677
Change in net unrealized gains (losses) on equity method investments	-	57,337	(871)	(519)	827
Gifts and other <sup>(1)</sup>	9,705	737	186,163	24	23
Academic and research gifts, net of expenses	59,842	61,565	-	-	-
System development funding	<u>(30,531)</u>	<u>(32,284)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total nonoperating gains, net</b>	<u>85,470</u>	<u>153,883</u>	<u>186,467</u>	<u>(119)</u>	<u>1,527</u>
<b>Excess of revenues over expenses</b>	153,470	245,415	294,917	56,305	40,162
<b>Other changes in net assets</b>					
Change in net unrealized gains on marketable investments	50,594	18	-	-	-
Funds utilized for property and equipment	1,215	(2,426)	14,886	6,071	6,427
Transfers (to)/from affiliates, net <sup>(2)</sup>	2,397	70,641	(1,479,522)	(1,228,195)	(14,598)
Other	-	23,387	-	-	-
Cumulative effect of accounting changes	<u>-</u>	<u>-</u>	<u>23,002</u>	<u>52,070</u>	<u>-</u>
<b>Increase/(decrease) in unrestricted net assets</b>	<u>\$207,676</u>	<u>\$337,035</u>	<u>\$(1,146,717)</u>	<u>\$(1,113,749)</u>	<u>\$31,991</u>

<sup>(1)</sup> During 2006, The General reached settlement of a licensing dispute concerning the drug ENBREL® and received approximately \$186.0 million in net proceeds and the amount was recorded in nonoperating gains as a component of gifts and other. See "Management's Discussion and Analysis of Recent Financial Performance."

<sup>(2)</sup> Effective October 1, 2005, the Board of Trustees of The General approved the permanent transfer of substantially all unrestricted investments to its parent, MGH. As a result, substantially all unrestricted investments, related investment income and gifts and expenses have been eliminated on The General's financial statements as of and for the year ended September 30, 2006. Temporarily and permanently restricted investments, as well as externally limited investments, will continue to be included in the financial statements of The General. The General accounted for this transaction as a net asset transfer in 2006 and its impact was to reduce investments and unrestricted net assets by \$1,026.7 million. See "Management's Discussion and Analysis of Recent Financial Performance - Capitalization."

## Utilization

Summary inpatient, ancillary and outpatient service utilization data for The General for the three years ended September 30, 2006 and for the six months ended March 31, 2006 and 2007 are presented in the following table:<sup>(1)</sup>

	<u>Year Ended September 30,</u>			<u>Six Months Ended March 31,</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
Licensed beds	898	899	902	902	902
Discharges					
Medicine	18,978	18,803	19,420	9,622	9,514
Surgical	8,915	8,824	9,317	4,550	4,624
Obstetrics	3,623	3,717	3,454	1,721	1,756
Gynecology	1,373	1,274	1,227	575	624
Pediatrics	3,009	2,315	2,401	1,226	1,317
Orthopedics	3,556	3,765	3,857	1,922	1,937
Neurology	1,604	1,887	2,095	999	1,018
Neurosurgery	2,401	2,323	2,179	1,090	1,104
Urology	1,236	1,275	1,232	580	655
Psychiatry	648	640	629	313	334
NICU/Nursery	3,266	3,909	3,593	1,796	1,830
Other	-	-	-	-	40
Total	48,609	48,732	49,404	24,394	24,753
Average length of stay (days)	5.90	5.76	5.71	5.74	5.80
Patient days	272,635	266,743	270,035	133,973	137,625
Average occupancy rate	83.0%	81.3%	82.0%	81.6%	83.8%
Total surgeries	34,072	34,952	35,098	17,461	17,884
Births	3,510	3,535	3,311	1,659	1,704
Outpatient visits:					
Observations <sup>(2)</sup>	5,507	6,009	6,783	2,829	4,175
Day surgery	15,444	15,998	16,365	8,090	8,529
Routine visits	540,943	559,787	554,421	277,498	283,142
Emergency visits	76,135	76,423	73,741	35,667	37,501
Significant procedures	23,424	27,515	28,415	14,359	14,444
Major imaging	105,210	115,960	117,296	55,315	61,145
Minor imaging	202,212	218,910	231,290	115,244	116,489
Treatments	204,894	191,786	206,061	107,605	116,882
Minor Procedures	64,409	70,788	76,192	35,592	64,456
Therapies	142,121	152,585	154,723	91,879	100,478
Psychiatric services	120,040	123,023	123,632	62,038	64,864
Laboratory services	2,467,847	2,557,852	2,630,491	1,274,350	1,358,255

<sup>(1)</sup> See footnotes to Acute Care Sector utilization table in "Management's Discussion and Analysis of Recent Financial Performance."

<sup>(2)</sup> Patients admitted under observation status and generally discharged within 24 hours.

## Sources of Patient Service Revenue

The following table shows The General's payer mix based on inpatient discharges for the three years ended September 30, 2006 and the six months ended March 31, 2007:

	<u>Year Ended September 30,</u>			<u>Six Months Ended</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>March 31, 2007</u>
Medicare	35.1%	35.8%	35.3%	35.4%
Medicaid	13.3%	13.8%	13.4%	14.0%
Managed Care <sup>(1)</sup>	32.1%	31.9%	33.1%	33.3%
Blue Cross <sup>(2)</sup>	5.4%	5.5%	5.4%	5.8%
Workers' Compensation, Self Pay and Commercial	<u>14.1%</u>	<u>13.0%</u>	<u>12.8%</u>	<u>11.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

<sup>(1)</sup> Includes Medicare managed care.

<sup>(2)</sup> Indemnity product only.

The General participates in PCHI network-wide managed care contracts with Blue Cross, TAHP and HPHC and also contracts directly with numerous other managed care plans. Most of The General's managed care contracts are reimbursed on a discounted fee for service, per diem or a per case payment basis. No individual HMO accounts for more than 20% of total inpatient discharges at The General. See "Sources of Patient Service Revenue – Managed Care Programs and Commercial Insurance."

## Professional Staff

As of December 31, 2006, the professional staff of The General numbered 5,908 including: 1,640 physicians and dentists comprising the active medical staff, 1,165 of whom had admitting privileges; 796 other staff physicians consisting of senior and honorary staff, clinical associates, clinical assistants, consultants, psychologists, podiatrists and graduate assistants, 211 of whom had admitting privileges; 1,018 non-clinical professional staff; and 2,454 residents, fellows and others.

Of the active staff physicians, approximately 89% are Board Certified in their specialty and approximately 91% also serve as members of the faculty of Harvard Medical School. Approximately 95% of the members of the active staff are participating clinicians of the MGPO, thus enabling the MGPO to contract on their behalf with managed care organizations and to implement medical management programs on a coordinated basis with The General. The MGPO delegates to PCHI the authority to enter into network-wide managed care contracts on behalf of the MGPO's members.

The General is organized into 17 major clinical services, plus the departments of Molecular Biology and Neurobiology, which do not provide clinical services. The number of active professional staff members by service as of December 31, 2006 was as follows:

<u>Department</u>	<u>Number Active Staff</u>
Anesthesia & Critical Care	140
Dermatology	24
Emergency Medicine	36
Medicine	531
Neurology	105
Neurosurgery	16
Obstetrics and Gynecology	49
Oral and Maxillofacial Surgery	17
Orthopedic Surgery	58
Pathology	58
Pediatrics	186
Physical Medicine and Rehabilitation	11
Psychiatry	159
Radiation Oncology	37
Radiology	106
Surgery	94
Urology	13
Total	<u>1,640</u>

As of December 31, 2006, the average age of the Active Staff was approximately 49 years, with 47% being 45 years of age or younger, and 9% being 65 years of age or older.

### **Licensure and Accreditation**

The General is licensed by the DPH and is accredited by JCAHO following a survey in December 2006 for a three year period.

The General is approved by ACGME, with the next institutional site visit expected in November 2007. The General sponsors 16 residency programs and 32 fellowship programs accredited by ACGME in eleven services. The General serves as the sponsoring institution for 7 ACGME-accredited programs that are integrated with BWH (The General and BWH co-sponsor 18 nationally-accredited programs). The General co-sponsors three ACGME-accredited programs with McLean and one with Beth Israel Deaconess Medical Center. The Department of Oral and Maxillofacial Surgery at The General sponsors a Harvard-wide residency program and co-sponsors a residency with the BWH in General Dental Practice, both accredited by the American Dental Association. Additionally, The General offers 53 fellowship programs, eight of which are nationally accredited by certifying bodies other than ACGME.



#### **D. Faulkner Hospital**

Faulkner is a 153-bed acute care community teaching hospital located in the Jamaica Plain area of Boston, approximately three miles from the BWH campus. Faulkner offers medical/surgical and psychiatric services, as well as specialized programs in breast cancer detection and treatment. Faulkner and BWH have worked to integrate certain programs, services and practices, including cardiology, psychiatry, pulmonary medicine and neurology. Additionally, Faulkner offers comprehensive services in orthopedics, radiology, emergency medicine and general surgery. Faulkner attracts patients primarily from the Jamaica Plain, West Roxbury, Roslindale, Hyde Park and Dedham communities, which are to the south and west of downtown Boston. As of December 31, 2006, Faulkner's active and courtesy medical staff totaled 811. Approximately 89% of Faulkner's 247 active medical staff members were Board Certified in their specialties. Faulkner serves as a teaching affiliate for Tufts, and it also provides integrated training programs in internal medicine, surgery and urology with BWH. In the 2006-2007 academic year, 24 medical residents, five surgical residents, and one urology resident rotated from BWH to Faulkner.

#### **E. Martha's Vineyard Hospital**

MVH is a 25-bed acute care community hospital located in Martha's Vineyard, an island approximately 75 miles south of Boston. MVH provides inpatient and outpatient medical/surgical, orthopedic, pediatric, geriatric, gynecological, emergency and rehabilitation services. MVH also operates the 81-bed Windemere Nursing & Rehabilitation Center, located on its main campus. MVH's active medical staff includes 12 primary care physicians, five internists, five family practitioners and two pediatricians. MVH has long-standing collaborations with The General in such specialties as cardiology, radiology, neurology, dermatology and emergency services and is connected to The General through telemedicine links.

#### **F. Nantucket Cottage Hospital**

NCH is a 19-bed acute care community hospital located in Nantucket, an island approximately 100 miles south of Boston. NCH offers medical/surgical, obstetrics, emergency and rehabilitation services. Specialized departments include community and home health care and hospice care. NCH's medical staff includes six full-time physicians, while more than 50 physicians, representing a variety of specialties, serve in a consulting capacity or schedule regular visits to the island. NCH has long-standing collaborations with The General in such specialties as cardiology, radiology, neurology, dermatology and emergency services and is connected to The General through telemedicine links.

#### **G. Newton-Wellesley Hospital**

NWH is a 246-bed acute care community teaching hospital located in Newton, approximately 10 miles west of Boston. NWH provides inpatient and outpatient medicine/surgery, obstetrics/gynecology, psychiatry and pediatric services. Specialized

services include minimally invasive gynecological surgery, a spine center in collaboration with The General, advanced imaging services for women, and a separate emergency department designed just for children. Through Partners, NWH has developed valuable collaborations with MassGeneral Hospital for Children and with BWH's obstetrics/gynecology specialists. NWH attracts patients primarily from Newton, Waltham, Wellesley, Needham, Natick, Weston, Medfield and Wayland.

As of December 31, 2006, NWH's medical staff totaled 1,006 active, provisional and courtesy staff members. Approximately 95% of NWH's 622 active staff physicians were Board Certified in their specialties. NWH is a teaching affiliate of Tufts and is a training site for physical medicine and rehabilitation residents of Spaulding, and orthopedics residents and infectious disease fellows of Tufts New England Medical Center Hospital. NWH also sponsors a transitional residency program in affiliation with The General.

#### **H. North Shore Medical Center**

NSMC operates two acute care community hospitals: Salem Hospital is licensed for 268 beds and is located in Salem, approximately 20 miles north of Boston; and Union Hospital is licensed for 147 beds and is located in Lynn, approximately 15 miles north of Boston.

As of December 31, 2006, NSMC's medical staff numbered 806, of which approximately 90% of the 522 active staff physicians were Board Certified in their specialties. NSMC's Salem Hospital is a teaching affiliate of Boston University School of Medicine, Tufts and University of New England - College of Osteopathic Medicine (Biddeford, ME). NSMC sponsors an internal medicine residency program with 21 residents. NSMC's Salem Hospital also serves as a training site for residency programs from BWH and The General in pediatrics, obstetrics and gynecology, orthopedics and surgery.

*Salem Hospital.* At Salem Hospital, NSMC provides adult medical/surgical, obstetrical, neonatal, gynecological, pediatric, psychiatry, emergency, ambulatory, and substance abuse services, and it is also a regional referral center for cardiology, oncology, neurosurgery, orthopedics, chest and vascular surgery services. Since 2003, NSMC, in collaboration with surgeons from The General, has provided open-heart surgical services for residents of the North Shore, who no longer have to travel to Boston for cardiac surgical care. Salem Hospital attracts patients primarily from Salem, Danvers, Lynn, Marblehead, Peabody and Swampscott.

*Union Hospital.* At Union Hospital, NSMC provides adult medical/surgical, intensive care, emergency and outpatient services, including outpatient surgery and diagnostic testing. Union attracts patients primarily from Lynn and its surrounding communities.

#### IV. REHABILITATION AND PSYCHIATRIC CARE SECTOR

PCC oversees the management, delivery and integration of rehabilitation, sub-acute and home health services throughout the Partners system. As of March 31, 2007, PCC was the sole member of Spaulding, RHCI, PHC, Shaughnessy-Kaplan, and the sole stockholder of FRC, Inc., which holds the license for two skilled nursing facilities.

##### A. Rehabilitation and Sub-Acute Services

*Spaulding Rehabilitation Hospital.* On October 1, 2006, Spaulding changed its Medicare certification from a long-term acute care hospital to an inpatient rehabilitation facility. Spaulding continues to offer outpatient services. It treats musculoskeletal, cardiac, stroke, spinal cord injury, brain injury, pulmonary/ventilator, orthopedic, amputee, and neurology patients.

Spaulding has eight outpatient rehabilitation centers in the Boston metropolitan area with each location offering a variety of speech, physical and occupational therapy and physiatry services. Spaulding is a consultant to rehabilitation sites in East Sandwich, Fall River, Fitchburg, Pittsfield and Springfield, Massachusetts; and Nashua, New Hampshire. In addition, Partners community-based physicians utilize Spaulding for their patients.

Spaulding is a teaching hospital of the Harvard Medical School. It is the principal training site for Harvard Medical School's Department of Physical Medicine and Rehabilitation and sponsors an ACGME-accredited residency program in Physical Medicine and Rehabilitation with approximately 18 residents; in Pain Medicine with one resident; and in Spinal Cord Injury with three residents. In July 2006, *U.S. News & World Report* ranked Spaulding 7<sup>th</sup> among the nation's rehabilitation hospitals, placing it on the list of the top 20 rehabilitation hospitals for the twelfth year in a row.<sup>3/</sup>

Spaulding/Youville Rehabilitation Services, LLC (Spaulding/Youville), a limited liability company owned equally by Spaulding and Youville Lifecare, Inc. oversees the operations of Youville Hospital and Rehabilitation Center, Inc. (Youville), a 180-bed long-term acute care hospital in Cambridge. Some services previously provided at Spaulding were shifted to this facility. In 2005, Partners purchased the development rights to certain parcels of land in the Charlestown Navy Yard, a portion of which is expected to be the future site of a new Spaulding hospital. Until the hospital is constructed Spaulding is currently operating 196 beds and is utilizing Youville and Shaughnessy-Kaplan for a portion of its requirements.

*Shaughnessy-Kaplan Rehabilitation Hospital.* Shaughnessy-Kaplan operates a long-term acute care hospital licensed for 160 beds, including a skilled nursing component of 40 beds, located adjacent to NSMC's Salem Hospital. Shaughnessy-

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<sup>3/</sup> *Id.* at <http://www.usnews.com/usnews/health/hosptl/rankings/specprepreha.htm>. To be ranked, a hospital had to be named by at least 3% of board-certified specialists in rehabilitation who answered *U.S. News* surveys in the past three years.

Kaplan also operates outpatient rehabilitation facilities in Salem, Lynn, Peabody, Marblehead, Middletown and North Andover. Specialty rehabilitation programs are available for neurology, neurosurgery, traumatic brain injury, young stroke, amputees, orthopedics, sports medicine, pulmonary and ventilator rehabilitation, oncology and cardiac rehabilitation, and transitional care. A full range of outpatient rehabilitation services, including physical therapy, occupational therapy and speech therapy, are provided at Shaughnessy-Kaplan's Therapy Centers.

*Rehabilitation Hospital of the Cape and Islands.* RHCI is a rehabilitation hospital licensed for 60 beds that is located in East Sandwich. It predominantly treats orthopedic, neurology and amputee patients. RHCI is the only facility providing comprehensive, hospital-level rehabilitation on Cape Cod. RHCI operates a pediatric facility in Sandwich and satellite facilities in Orleans, Yarmouth and Bourne serving residents of Cape Cod. RHCI provides inpatient care for more than 1,100 inpatients each year and has more than twenty specialty inpatient and outpatient programs to serve children and adults.

Spaulding attracts patients from the Boston metropolitan area and eastern Massachusetts, while Shaughnessy-Kaplan's and RHCI's patients come primarily from their surrounding communities. Patients typically are referred to all three facilities following their discharge from a general acute care hospital.

#### **B. Skilled Nursing Services**

Skilled nursing facilities (SNFs) constitute an important element of Partners continuum of patient care. Partners owns both hospital-based and free-standing SNFs to accommodate a limited number of both short term and longer term patient needs. Approximately 26% of patients discharged from Partners acute care hospitals in 2006 were discharged to SNF services, and about 17% of these patients were cared for at a Partners SNF facility.

Free-standing SNFs include The North End Rehabilitation and Nursing Center, The Boston Center for Rehabilitation and Sub-Acute Care, and The Clark House. The North End Rehabilitation and Nursing Center is a 140-bed SNF located in Boston's North End. The Boston Center for Rehabilitation and Sub-Acute Care is an 81-bed SNF located in Roslindale. MGH Health Services Corporation is a general partner in Fox Hill Village, a 357-unit retirement community in Westwood, which operates The Clark House, a 70-bed SNF.

#### **C. Home Care Services**

Home health care is an essential part of the continuum of care. It supports the transition of patients back into the community, promotes their independence, reduces the need for hospitalization and institutionalization and is a cost-effective alternative to inpatient care. In order to enhance patient care and increase efficiency and opportunities for growth, Partners hospitals are referring an increasing number of patients needing home health services; in 2006, 36% of all patients requiring home care received such

services from PHC. PHC serves a geographic area from Newburyport to the north of Boston, to Framingham in the west, and Plymouth in the south. With regional branch offices in Beverly, Waltham, and Rockland, PHC employs over 800 staff members and is one of the largest home health care providers in New England. PHC's Medicare-certified division is accredited by the JCAHO. PHC also operates a private services division, TLC Nursing, Inc., headquartered in Framingham. On November 1, 2006, PHC purchased HealthCare Dimensions Hospice from DFCI, which is now called Partners Hospice.

#### **D. Psychiatry and Mental Health Services**

McLean is a free-standing psychiatric hospital that provides a continuum of inpatient, residential, partial hospitalization and outpatient care. McLean offers both biological and psychosocial treatment and provides its services to children, adolescents, adults and geriatric patients. It is also a teaching affiliate of the Harvard Medical School. In July 2006, U.S. News & World Report ranked McLean fourth nationally for psychiatric services, and first among psychiatric hospitals.<sup>4/</sup>

McLean attracts patients primarily from the Boston metropolitan area and eastern Massachusetts but also draws patients nationally and internationally. These patients include: patients referred for treatment comparable to what is available at other psychiatric facilities or for treatment in several specialized areas; patients who need more sophisticated psychopharmacological and psychological diagnosis and treatment than is available in other facilities; patients with concurrent substance abuse or developmental disabilities; patients with psychiatric disorders requiring sustained management and treatment; and patients with psychiatric disorders combined with other medical disorders. McLean's referral sources include other Partners facilities; other hospitals, including other psychiatric hospitals; McLean and community clinicians, including primary care physicians; nursing homes; and a wide array of community mental health service agencies.

For each of the last ten years, McLean also has been the leading recipient of NIH research funding of any private psychiatric hospital in the country. McLean's research focus is on basic benchtop, preclinical, translational and clinical neuroscience. Technology available to support research includes a transgenic facility and a continuum of MRI capabilities -- ranging from a 9.4 Tesla preclinical research scanner due to be installed this summer, to three other existing scanners: a clinical (1.5 Tesla), a mixed use research and clinical (3.0 Tesla), and a 4.0 Tesla research scanner. All of McLean's active staff physicians and psychologists hold Harvard University appointments. McLean, in conjunction with The General, operates training programs for residents in adult, child and adolescent psychiatry. In addition, McLean offers programs for predoctoral and postdoctoral students in psychology and for fellows in geriatric psychiatry, substance abuse treatment, and neurology and neuropsychology.

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<sup>4/</sup> Id. at <http://www.usnews.com/usnews/health/hosptl/rankings/specpreppsy.htm>. To be ranked, a hospital had to be named by at least 3% of board-certified specialists in psychiatry who answered *U.S. News* surveys in the past three years.

McLean offers a number of additional programs, both on and off campus. On the main Belmont campus McLean operates a fully accredited high school, the Arlington School, for students with psychological disorders who cannot be taught in traditional settings, as well as the Pathways Academy, which offers specialized services for children and adolescents with neuro-integrative disabilities such as autism, Asperger's Disorder and nonverbal learning disabilities. Both schools have been approved by the Massachusetts Department of Education for special education funding. The McLean Ambulatory Treatment Center at Naukeag, a 22-bed residential and partial hospital facility in Ashburnham, offers drug and alcohol treatment. McLean SouthEast is a 25-bed inpatient general adult psychiatric facility with 20 beds for adolescent residential treatment located in Brockton. McLean also founded and manages the inpatient, partial hospital and acute residential services for children and adolescents at Franciscan Children's Hospital in Brighton. In 2006 a new self-pay residential program for substance abuse treatment opened at Fernside in Princeton.

Changes both in payment structures and in philosophies of care have resulted in shorter lengths of stay for patients who are admitted and have caused McLean's inpatient clinical revenue base and the utilization of its campus to decrease. In response, management obtained rezoning of its campus in Belmont to allow for clustered residential housing, a senior community and a 150,000 square foot research and development facility. In 2005, the parcel for the clustered residential housing was sold to a developer for \$14.4 million and certain land was donated to the town of Belmont. McLean expects to sell the land for the senior community in the fall of 2007, with the research and development parcel to follow.

## **V. NETWORK SECTOR**

Partners developed its provider network in order to foster an innovative approach to the delivery and management of quality health care through a model based on the excellence of the specialists from Partners academic institutions and on community-based primary care and specialty physicians located throughout eastern Massachusetts. Building on the foundation of BWH and The General and their respective medical staffs, Partners expanded the network by acquiring selected groups of community physicians and six community hospitals and by affiliating with physician hospital organizations (PHOs) in eastern Massachusetts and then working with these provider organizations to enhance their primary care and specialty care resources for managed care contracting. As of March 31, 2007, the network consisted of the eight Partners acute care hospitals and two acute care community hospitals affiliated with the network through physician hospital organizations and approximately 6,000 physicians, including 1,118 community and academically-based PCPs, 1,797 community-based specialists and 3,060 tertiary specialists.

Partners founded PCHI to develop a management services organization (MSO) that now provides a full range of contract management services for the network, including care management, provider enrollment, information systems, physician and office staff training and education, and practice management services for certain network

physician groups, including billing, group purchasing, staffing, planning and office management. PCHI employs approximately 1,400 professionals at its Needham headquarters and at various medical practice sites to effectively deliver quality care to its patients and to efficiently manage practice operations.

As the HMO market in eastern Massachusetts moved away from full risk contracts, Partners implemented a “next generation” network strategy which will enable it to continue to provide value to its patients, to the network providers and to the Partners system as a whole. At the center of this strategy is the concept of clinical integration in which network providers adopt and utilize shared clinical standards designed to improve both the quality and the efficiency of care so that the network can differentiate itself in the market. As an integral part of its “next generation” strategy, Partners adopted a “pay for performance” managed care contracting model in which specific portions of the network providers’ compensation are contingent upon achieving improvements in defined efficiency and quality of care targets rather than being measured against fully inclusive medical budgets. Partners currently has network-wide pay for performance contracts in effect with Blue Cross, TAHP and HPHC, covering approximately 463,000 lives as of March 31, 2007.

The new strategy has also involved a reorganization of the PCHI MSO to improve the delivery of PCHI’s programs and services. The reorganization seeks to enhance the ability of network providers to meet the quality and efficiency targets in the pay for performance contracts, particularly in areas such as inpatient services, radiology and pharmacy costs and high cost case management that account for a significant amount of overall health care costs. The implementation of an electronic medical record and other High Performance Medicine initiatives supports the network’s clinical integration goals and achievement of pay-for-performance targets. See “Partners Clinical Integration and High Performance Medicine.”

## **VI. PARTNERS CLINICAL INTEGRATION AND HIGH PERFORMANCE MEDICINE**

Partners clinical integration activities are focused on a long term goal that the quality of care, clinical outcomes and patient satisfaction will be uniform across the system. To further this goal, Partners adopted a series of initiatives in 2003 that are now referred to as High Performance Medicine.

Partners defines High Performance Medicine as going beyond the clinical excellence of individual physicians, nurses, and other caregivers and accepting responsibility not just to assert quality, but to demonstrate it; setting the goal of continuous quality improvement; taking responsibility for both improved quality and efficiency; and keeping the focus on each individual patient while also monitoring the care of key populations of patients over time.

Through its High Performance Medicine initiative, Partners seeks improvement in five key areas: (1) maximizing the use of new information technology; (2) increasing

patient safety and reducing medical errors; (3) making high quality uniform across the Partners system; (4) better coordinating care for the sickest and most expensive patients; and (5) improving efficiency in the use of high-cost drugs and radiology tests. Using computerized systems, including electronic medical records, provider order entry, and medication administration systems, Partners has made significant progress in each of these areas.

Electronic medical records (EMRs) consolidate and maintain all information about a patient obtained anywhere in the Partners system and allow physicians to electronically manage a patient's care. As of March 31, 2007, 88% of Partners academic medical center physicians were using EMRs and approximately 90% of Partners community-based PCPs were using EMRs or are in the process of implementation.

Computerized provider order entry (CPOE) is a process whereby physicians prescribe medications electronically. At Partners, CPOE systems also guide physicians to the safest drugs and most cost-effective tests. CPOE is fully implemented at Partners academic medical centers and at Faulkner and NWH, and will be fully implemented at NSMC and Partners rehabilitation hospitals by June 2007. In contrast, a study by (Kaushal R, *et al. Health Affairs* 2005;24:1281-1289) projects that CPOE will be implemented by approximately 37% of US hospitals with fewer than 300 beds and 53% of hospitals with more than 300 beds by 2010.

By 2010 Partners expects to have in place at its hospitals integrated clinical systems to improve the quality of care. With medication decision support software integrated into Partners CPOE system, physicians will be able to reconcile medications and identify possible adverse drug interactions and patient allergies electronically – before an order is placed. By scanning their own bar-coded staff identification, the patient's bar-coded identification and the patient's unit-dose bar-coded medication into the electronic medication administration records (eMAR) system, nurses will verify the accuracy of the medication administered and document the transaction electronically. Similarly, if the medication is intravenous, “smart intravenous pumps” will document the administration of these drugs in the eMAR system. Research at Partners hospitals and elsewhere has shown that such systems dramatically reduce medication errors by ensuring that the right patient gets the right drug at the right dose at the right time.

Partners has developed software that identifies and tracks certain patient populations, such as patients with acute myocardial infarction, heart failure, and diabetes, to ensure they have received all recommended interventions. By focusing on these patient populations, Partners has improved the reliability of care across the system for certain measures of diabetes care such as measurement of hemoglobin A1c and performance of eye examinations. Currently, Partners exceeds the national 90<sup>th</sup> percentile on certain diabetes care process measures (Massachusetts Health Quality Partners; 2007).

Because about 10% of certain patients account for approximately 70% of health care costs, Partners has focused on improving the effectiveness and efficiency of providing care to these very sick patients in three ways: using “smart” software to



identify in advance the small number of patients who are likely to become the most expensive; instituting and expanding a congestive heart failure management pilot program that has demonstrated an approximately 15% reduction in hospital readmissions in 2006; and, launching with the support of state officials a telephonic nurse coaching program for 1,500 high-risk Medicaid and uninsured patients to help reduce emergency department visits.

Partners has also developed decision support systems for physicians in prescription writing and in the use of certain radiology tests, two areas of high cost. For example, committees of physician experts, supported by pharmacists and other staff, developed color-coded guidelines for which medications and which tests should be used first. The system includes the previously described software to manage medication errors and helps the physician prescribe generic drugs or those with the lowest patient co-payments. Despite the fact that Partners academic medical centers handle highly complex cases, as evidenced by its case mix index, Partners believes that its physicians use high-cost radiology tests less often than other physicians in Eastern Massachusetts and in the United States as a whole.

## **VII. RESEARCH ACTIVITIES**

The conduct of biomedical research constitutes one of Partners core missions and activities and includes fundamental bench research in all of the life sciences disciplines, patient-centered research within the inpatient and outpatient services of Partners hospitals, clinical trials of new drugs, and devices and epidemiological research.

Each Partners affiliate with major research operations – The General, BWH and McLean – acts as a separate research grant recipient. However, Partners Research Management coordinates system-wide research activities and seeks synergies in obtaining funding and in the conduct of research across the system, including PCHI and other affiliates with limited or no current research. Partners has also developed a system-wide approach to the creation and enhancement of affiliations with pharmaceutical and biotechnology companies.

Partners has the largest non-university-based non-profit private medical research enterprise in the United States. In 2006, Partners total research expenditures were \$992 million. Of this total, approximately \$619 million (62%) was funded by NIH and other federal agencies. In addition, DFCI, Partners joint venture partner in DF/PCC, received \$123 million in NIH awards in 2006. Although DFCI is not a member of Partners, DF/PCC coordinates the DFCI and Partners clinical cancer research programs.

As of December 31, 2006, Partners had estimated future research funding of \$2.7 billion, of which \$2.0 billion is committed on active projects. Committed future NIH funding was \$1.4 billion as of December 31, 2006.

The following table sets forth total research expenditures by Partners affiliates by source of funding for the year ended September 30, 2006:

<u>Source</u>	<u>(\$000s)</u>
NIH and other federal agencies	\$618,728
Foundations	274,936
Corporations	<u>98,629</u>
Total	<u>\$992,293</u>

The following table sets forth research direct expense, research overhead recovery and total research expenditures by Partners for the three years ended September 30, 2006 and the six months ended March 31, 2007.

<u>Year</u>	<u>Research Direct Expense</u>	<u>(\$000s) Research Overhead Recovery</u>	<u>Research Total</u>
2004	\$636,111	\$226,010	\$862,121
2005	670,596	230,299	900,895
2006	743,844	248,449	992,293
Six months ended March 31, 2007	357,839	124,074	481,913

Major research project areas with future commitments by NIH encompass 20 awards within 8 departments. The total future commitments of \$136.6 million, set forth in the following table, represent only the awarded amounts going forward from fiscal year 2007 and do not include past expenditures from these obligations.

<u>Department</u>	<u>Future Funding (\$000s)</u>	<u>Number of Awards</u>
Medicine	\$49,651	8
Neuroscience	28,475	4
Radiology	26,264	3
Cancer Center	9,296	1
Radiation Oncology	6,678	1
Obstetrics/Gynecology	6,542	1
Pediatric Surgery	5,275	1
Pediatrics	<u>4,454</u>	<u>1</u>
Top 20 Total	<u>\$136,635</u>	<u>20</u>

Medicine: Eight separate awards aggregating almost \$50 million of future commitments through 2013 in five divisional units within the Department of Medicine. The Diabetes unit has \$10.5 million for Action in Health in Diabetes. The Cardiovascular Nutrition unit has \$9.5 million for Clinical Research Network for Treatments of ARDS. The Renal unit has \$8.1 million for Chronic Allograft Dysfunction. Preventive Medicine has two awards totaling \$8.7 million for continued follow-up of the Women's Health Study. The Channing Lab has three awards totaling \$12.9 million for the studies of Cancer and Asthma.

Neurology: Four separate awards aggregating \$28.5 million of future commitments through 2010 within the Department of Neurology. Awards include \$8.9 million for Drug Discovery in Neurodegeneration, \$8.2 million for ALS clinical trial, \$6.2 million for Huntington's Disease and \$5.1 million of future commitments for Optical Imaging of Neuropathology.

Radiology: Three separate awards aggregating \$26.3 million of future commitments through 2010 within the Department of Radiology. Awards include \$11.3 million for a Biomedical Research Network, \$11.0 million for Nanotechnology (TPEN) and \$4.0 million for a Neuroimaging Analysis Center.

Cancer Center/Radiation Oncology: Two separate awards aggregating \$16.0 million of future commitments through 2011. The Cancer Center has \$9.3 million for the study of Drosophila Proteome. The Department of Radiation Oncology has \$6.7 million for the study of Tumor Metastasis.

Obstetrics/Gynecology and Pediatrics: Three separate awards aggregating \$16.3 million of future commitments through 2011. The Obstetrics/Gynecology Department has \$6.5 million for the study of Ovarian Cancer. The Pediatric Surgery Department has \$5.3 million for the study of Human Diaphragmatic Hernia. The Department of Pediatrics has \$4.5 million for the study of immunotherapy of Marburg and Ebola Viruses.

Other federal agencies that provide research funding to Partners include the Department of Defense and the U.S. Air Force. The Department of Defense has provided approximately \$10 million per year in funding over the last nine years to support CIMIT. Research areas include trauma and casualty care, cardiovascular disease, tissue engineering, image guided therapy and minimally invasive surgery, neurotechnology and simulation. See "Acute Care Sector - Overview of the Acute Care Sector" The U.S. Air Force is supporting an \$18.9 million award over four years for laser research.

In 2006, Partners research institutions conducted over \$98 million of industry-sponsored research, including \$54 million in clinical trials and \$30 million in onsite industry/corporate sponsored laboratory research. Partners has also entered into collaborative agreements with several companies for the development of proteomics technology.

Since its establishment, Partners has made a major and visible commitment to clinical research. Both BWH and The General have created cohesive clinical trial centers and have coordinated Human Studies Committees with common standards. BWH and The General operate inpatient clinical research units of 11 beds and 8 beds, respectively, which are supported by approximately \$12 million per year in NIH funding. The DF/PCC joint venture has resulted in coordination of clinical research in oncology. In addition, the Partners Research and Education Program implements clinical trials that are led by investigators from BWH and The General, but enroll patients and collect data in the community setting. Because participants do not have to come into Boston, Partners

has been able to enroll larger numbers of patients in trials than would have been possible before the formation of Partners.

To realize the promise of genetics and genomics in research and in medical practice, Harvard Medical School and Partners established the Harvard Medical School-Partners HealthCare Center for Genetics and Genomics (HPCGG) in 2001. One of the important goals of the HPCGG is to translate the knowledge gained from genetics and genomics, in particular to apply such knowledge so that genetic and genomic testing becomes an integral part of diagnosis, prognosis and treatment of disease and in determining the appropriate drugs for individual patients served by the Partners institutions. HPCGG has assembled faculty, provides infrastructure for genetic and genomic research at all of the participating institutions, and has implemented several programs to translate genetic and genomic knowledge into clinical medicine. It works with Partners entities such as the information technology teams to make genetic knowledge a part of the electronic medical record and to demonstrate how this information can be used by physicians in making clinical decisions. It manages genetics clinics at BWH and The General, manages several genetics training programs leading to Board certification in Genetics, and has several public outreach activities.

Partners maintains offices to promote technology transfer by filing for patents, negotiating royalty and licensing agreements, and securing basic and clinical research contracts from industry. In 2006, its revenue from royalties and licensing agreements was approximately \$328 million, which includes a one time net payment received in settlement of a licensing dispute concerning the drug ENBREL®. See “Management’s Discussion and Analysis of Recent Financial Performance.”

As of March 31, 2007, approximately two-thirds of BWH’s and The General’s aggregate research space was leased. The steady growth in Partners research activities has resulted in the need for additional research space, particularly over the past several years. In May 2005, The General commenced occupancy of approximately 355,000 rentable square feet of leased space at Charles River Plaza, adjacent to its campus. This space houses four thematic research centers: the Center for Computational Biology; the Center for Regenerative Medicine and Technology; the Center for Human Genetic Research and the Center for Systems Biology. These centers are designed to be multidisciplinary, collaborative and multi-departmental and aim to advance biomedicine by focusing on biological processes as whole systems.

The following table sets forth Partners principal research leases as of March 31, 2007:

<u>Location</u>	<u>Tenant</u>	<u>Rentable Square Feet</u>	<u>Lease Termination Initial Term</u>	<u>2007 Base Rent</u>
Building 149, Charlestown Navy Yard <sup>(1)</sup>	The General	645,000	2014	\$40.3 million
Charles River Plaza 185 Cambridge Street, Boston	The General	355,000	2025	20.7 million
77 Avenue Louis Pasteur, Boston	BWH, Partners Genomics	160,000	2018	11.0 million
65 Lansdowne Street, Cambridge	BWH and The General	123,000	2011	5.8 million
Building 114, Charlestown Navy Yard <sup>(1)</sup>	The General	103,000	2020	4.8 million
1 Blackfan Circle, Boston	BWH	47,500	2014	3.2 million
181 Longwood Avenue, Boston	BWH	120,000	2021	3.0 million
65 Deaconess Road, Boston	BWH	37,000	2017	1.4 million
Building 75, Charlestown Navy Yard <sup>(1)</sup>	The General	<u>42,500</u>	<u>2026</u>	<u>1.1 million</u>
Total		<u>1,633,000</u>		<u>\$91.3 million</u>

<sup>(1)</sup> Leased from MBRC. See “Management’s Discussion and Analysis of Recent Financial Performance - Contractual Obligations and Off-Balance Sheet Arrangements.”

## VIII. COMPETITIVE ENVIRONMENT

Partners primary service area is similar for its Acute Care, Rehabilitation and Psychiatric Care and the Network Sectors and is comprised of the City of Boston and surrounding communities in eastern Massachusetts (generally described as those within Interstate 495 and the Cape and Islands). Individual Partners acute care hospitals primarily draw from discrete but overlapping portions of this primary service area while the Rehabilitation and Psychiatric Care and the Network Sectors attract patients that are more widely dispersed throughout this area.

The following table sets forth total 2005 discharges (the most recent year for which data are available) from Partners acute care hospitals (i) from within eastern Massachusetts; (ii) from elsewhere in Massachusetts; and (iii) from elsewhere in the United States and foreign countries.

	2005 Partners Discharges <sup>(1)(2)</sup>	% of Partners Discharges
Eastern Massachusetts	114,332	88.2%
Other Massachusetts	3,859	3.0
Outside of Massachusetts	<u>11,438</u>	<u>8.8</u>
Total	<u>129,629</u>	<u>100.0%</u>

<sup>(1)</sup> Source: Massachusetts State Database

<sup>(2)</sup> Discharge data exclude all newborns and include discharges from BWH, The General, Faulkner, NWH and NSMC.

The 2005 estimated population of the defined primary service area was approximately 4.8 million.

Within the metropolitan Boston area there are approximately 25 acute care, five psychiatric and five rehabilitation hospitals, including Partners affiliates. In addition, other acute care and specialty hospitals located outside the metropolitan Boston area compete with Partners to attract patients both from within this area and outside of it. Certain of these hospitals are owned by or are affiliated with other corporations, both for-profit and non-profit, some of which may have financial resources substantially greater than Partners. Nonetheless, Partners hospitals in the aggregate account for more discharges and generate more revenue than any other hospital or group of hospitals in eastern Massachusetts.

Partners principal competitors are five other academic medical centers located in the Boston area and their affiliated parent systems: Beth Israel Deaconess Medical Center (BIDMC), Boston Medical Center (BMC), Tufts New England Medical Center (NEMC), Lahey Clinic Medical Center (Lahey) and Caritas St. Elizabeth's Medical Center (St. Elizabeth's). BIDMC is the founding member of CareGroup, which also has three affiliated community hospitals. NEMC and Lahey are independent academic medical centers. BMC maintains an intensive clinical affiliation with Quincy Hospital, a 232-bed community hospital south of Boston. St. Elizabeth's is a member of Caritas Christi Healthcare, whose parent is the Roman Catholic Archdiocese of Boston and whose other affiliates include five community hospitals. In February 2007, The Archdiocese of Boston and Ascension Health, one of the largest multi-state hospital systems in the United States, agreed to engage in discussions pursuant to a non-binding Letter of Intent to explore a change in sponsorship of Caritas Christi Health Care. Ascension Health is currently conducting due diligence and the parties hope to reach a definitive agreement in 2007. Other principal competitors include Children's Hospital, a pediatric academic medical center located in the Longwood Medical Area of Boston, and Hallmark Health System, a system of two community hospitals located north of Boston.

Management believes the most relevant measure of Partners market position is inpatient acute care activity. The following table sets forth the shares of inpatient discharges of Partners and its principal competitors within this primary service area:

Percent of Eastern Massachusetts Inpatient Discharges  
Year Ended September 30,

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Partners	20.8%	21.1%	20.9%	21.2%	21.4%
Caritas Christi	11.2	11.0	11.1	11.3	11.1
CareGroup	10.0	9.9	9.7	9.2	9.2
BMC	5.8	6.0	6.1	6.1	6.1
Hallmark	3.0	2.9	2.8	2.8	2.7
Lahey	2.6	2.7	2.8	2.8	2.7
NEMC	2.6	2.6	2.6	2.6	2.6
Other	<u>44.0</u>	<u>43.8</u>	<u>44.0</u>	<u>44.0</u>	<u>44.2</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: State of Massachusetts Data Base  
PHS includes DFCI discharges at BWH

As the foregoing table indicates, Partners has increased its market share within its primary service area during the period 2001 to 2005; in 2005 this market share was nearly twice that of its nearest competitor. Over that same period, total discharges for this market increased 4.2%, while Partners total discharges increased 7.2%.

The following table sets forth admissions, patient days and outpatient visits for all adult Boston teaching hospitals for each of the three years ended September 30:

	<u>Year</u>	<u>Admissions</u>	<u>Patient Days</u>	<u>Outpatient Visits</u>
<b>Partners</b> <i>(BWH and The General combined)</i>	2004	87,541	484,589	1,492,647
	2005	89,083	485,948	1,582,314
	2006	90,349	496,217	1,516,644 <sup>(1)</sup>
<b>BMC</b>	2004	28,234	149,637	1,320,452
	2005	26,109	139,827	1,375,744
	2006	27,003	146,339	1,388,979
<b>CareGroup</b> <i>(BIDMC)</i>	2004	33,640	155,712	440,703
	2005	33,945	163,545	492,369
	2006	34,050	166,009	514,868
<b>Caritas Christi Health Care</b> <i>(St. Elizabeth's)</i>	2004	15,781	83,354	109,328
	2005	15,683	77,790	110,687
	2006	14,411	69,934	107,071
<b>NEMC</b>	2004	16,437	99,822	361,751
	2005	16,570	99,466	354,390
	2006	16,286	97,381	351,538
<b>Lahey</b>	2004	19,139	89,073	738,569
	2005	19,429	92,603	736,378
	2006	20,027	96,765	737,495

Source: Boston Organization of Teaching Hospitals Financial Officers. BWH inpatient data include DFCI licensed beds located at BWH.

<sup>(1)</sup> Reflects a 2006 change in the methodology of counting ambulatory visits at The General and not a reduction in outpatient volume.

## IX. EDUCATIONAL AFFILIATIONS AND PROGRAMS

The Partners hospitals have a long tradition of educating physicians, other health professionals and biomedical scientists. Approximately 1,362 residents and 790 clinical fellows in approximately 213 programs, in nearly all specialties and subspecialties of medicine, are appointed to the hospitals each year. Most of these are based at BWH and/or The General, but McLean, NWH, NSMC's Salem Hospital and Spaulding all sponsor graduate medical education programs. A number of training programs are integrated across the Partners hospitals, and several involve affiliations with other Harvard University or Tufts teaching hospitals. Graduate medical education utilizes both inpatient and ambulatory settings; the Partners affiliated community health centers play an important role in training healthcare professionals in the outpatient setting.

BWH and The General participate as major teaching affiliates of Harvard Medical School and Harvard Dental School. Most of the active clinical and research staff of BWH and The General hold Harvard Medical School appointments and actively participate in both the clinical and pre-clinical training of medical students. McLean and Spaulding are principal clinical teaching sites for Harvard Medical School students in psychiatry and rehabilitation, respectively.



Faulkner, NWH and Salem are teaching affiliates of Tufts and serve as training sites for residency programs from BWH and The General. Salem is also a teaching affiliate of Boston University School of Medicine and University of New England - College of Osteopathic Medicine. Many members of NWH's medical staff and the chiefs of its clinical departments hold Tufts faculty appointments. Faulkner participates as an affiliated teaching site for residency programs in medicine and surgery that are integrated with and sponsored by BWH.

The IHP grants master's degrees in clinical investigation, nursing, physical therapy and speech language pathology, a doctorate degree in physical therapy and a post-baccalaureate certificate in medical imaging. The IHP is accredited by the New England Association of Schools and Colleges and by discipline-specific accrediting organizations. It currently has 80 full-time and 137 adjunct faculty members and enrolls 415 full-time and 351 part-time students.

In addition, MGH sponsors programs in podiatry, psychology and general dentistry, and BWH conducts an accredited internship in dietetics.

Complementing the diversity of clinical training, approximately 1,600 scientists per year pursue research fellowships at Partners. These Ph.D. or M.D./Ph.D. scientists participate in mentored research experiences. Many also take part in one of the didactic programs aimed at basic, translational, or clinical and outcomes research that are offered within the Partners system.

## **X. COMMUNITY BENEFITS**

Partners is committed to improving the health of communities. BWH and The General have a long tradition of recognizing and supporting the essential role that community health centers (CHCs) play in preventing disease and providing accessible, high quality care for residents of Boston-area neighborhoods.

In 2006, Partners community benefit commitments exceeded \$159 million and included the provision of medical care to approximately 37,000 uninsured and 91,000 Medicaid patients; support for innovative community health partnerships to improve the health of children and adults; and efforts to strengthen CHCs throughout the Boston area.

Through community health partnerships, Partners is engaged in efforts to improve the health of low income pregnant and parenting women and their children; prevent alcohol and substance abuse and youth violence; help children and adults with asthma manage their disease and prevent debilitating asthma attacks; provide free breast and cervical cancer screening to uninsured women; offer support and advocacy for women experiencing domestic abuse; and improve the health and educational well-being of school children through school health clinics, science mentoring, and summer jobs.

In 2006, Partners licensed CHCs in Boston's Back Bay and North End, Charlestown, Chelsea, Everett, Jamaica Plain (2), and Revere served nearly 92,000

patients whose visits to these centers totaled more than 450,000. By collaborating with health centers in Dorchester, East Boston, Jamaica Plain, Lynn, Mattapan, Roxbury, Salem and South Boston, Partners hospitals have expanded medical services and hospital choices for an additional approximate 100,000 health center patients and provided financial support for health center renovations and expansions.

A fundamental value of Partners is its commitment to provide quality care for everyone regardless of their ability to pay. BWH and The General are among the largest providers of care to uninsured people statewide. In 2006, Partners institutions, CHCs, and doctors provided approximately \$576 million of uncompensated care and care for patients covered by Medicaid (based on the cost of care). Partners acute hospitals paid into the statewide Uncompensated Care Pool another \$43 million. Approximately \$365 million of the cost of this care was reimbursed, with a net cost to Partners of \$254 million.

## **XI. GOVERNANCE AND MANAGEMENT**

PHS is a charitable organization established as a membership corporation under Chapter 180 of the Massachusetts General Laws. It is exempt from federal income tax under Section 501(c)(3) of the Code.

PHS currently has 349 Members who serve staggered four year terms. At their annual meeting the Members fix the number of Members for the next year, elect individuals to fill any vacancies, and fix the number of and elect the Directors of PHS, who need not be Members. There are currently 13 Directors of PHS, including the Chief Executive Officer of PHS, the Chair of BW/F and the Chair of MGH who are ex officio members of the Board of Directors. The elected Directors serve staggered three year terms and, except for the Chairman of the Board and individuals who are both officers and employees of PHS, are limited to three consecutive three year terms with no term of service extending to or beyond a Director's seventy-first birthday.

The Board of Directors has responsibility for the overall direction and management of the affairs, funds and other properties of PHS and for the establishment of policies and procedures intended to ensure the development of the integrated health care network. The Board of Directors meets 9 times per year and also discharges its responsibilities through the following standing committees: Audit and Compliance; Compensation; Development; Executive; Finance; Information Systems; Investment; Nominating; Professional and Institutional Conduct; and Real Estate and Facilities.

The bylaws of certain of the affiliates of PHS, including The General and BWH, confer on their respective members certain reserve powers which are exercised by the Board of Directors of PHS and its committees. Such reserve powers include the power to appoint independent auditors of the financial affairs of such affiliates and to review and approve (i) all capital and operating budgets and all non-budgeted expenditures and construction projects in excess of specified dollar amounts, (ii) the incurrence of all new indebtedness, (iii) all significant new business ventures and (iv) each capital fundraising

campaign. The Board of Directors of PHS is also responsible for overseeing the investments of PHS and all of its affiliates, including the assets of their ERISA trusts.

The current Directors of PHS, their principal business affiliations and their year of initial election as a Director are as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Year Initially Elected</u>
William E. Caplan, M.D.	Medical Director Hawthorn Medical Associates	2001
James I. Cash, Jr., Ph.D.	Retired, James E. Robison Professor Harvard Business School	1998
Jack Connors, Jr. <i>Chairman</i>	Chairman Emeritus Hill, Holliday, Connors, Cosmopolos, Inc.	1995
Steven S. Fischman	President New England Development Company	1999
Michael A. Gimbrone, Jr., M.D.	Chair, Department of Pathology Brigham and Women's Hospital	2006
Arthur L. Goldstein	Retired, Former Chairman and Chief Executive Officer Ionics, Inc.	2000
Edward P. Lawrence, Esq.	Partner Ropes & Gray	1998
Jay O. Light, Ph.D.	Professor and Dean Harvard Business School	2004
James J. Mongan, M.D.	President and Chief Executive Officer Partners HealthCare System, Inc.	2003
G. Marshall Moriarty, Esq.	Partner Ropes and Gray	2003
Terrence Murray	Retired, Former Chairman Fleet Bank	1999
Gary A. Spiess, Esq.	Retired, Former Executive Vice President, General Counsel and Secretary FleetBoston Financial Corporation	2005
Katharine K. Treadway, M.D.	Primary Care Physician Internal Medicine Associates, The General Hospital	2006

### **Partners Senior Management**

Partners is managed by its President and Chief Executive Officer, assisted by a Chief Operating Officer, a number of Vice Presidents, including those listed below, and a

General Counsel. Biographical information on selected vice presidents, as well as on the Presidents and the Chief Financial Officers of BWH and The General, is set forth below.

**James J. Mongan, M.D.**, age 65, became President and Chief Executive Officer in 2003. Prior to that he was President of The General since 1996 and President of MGH since 1997. Before that, he was Dean of the University of Missouri-Kansas City School of Medicine (1987-1996) and Executive Director of the Truman Medical Center, Kansas City, Missouri (1981-1996). He received B.A. and M.D. degrees from Stanford University.

**Thomas P. Glynn, Ph.D.**, age 60, has been Chief Operating Officer since 1996. Previously, Dr. Glynn was Deputy Secretary of the U.S. Department of Labor (1993-1996), Senior Vice President for Finance and Administration, Brown University (1991-1993) and General Manager of the Massachusetts Bay Transportation Authority (1989-1991). He received a B.A. degree from Tufts University and a Ph.D. degree from Brandeis University. Dr. Glynn is a Trustee of Brandeis University and Chairman of the Board of Overseers of its Heller School and a Fellow of the National Academy of Public Administration.

**Dennis Colling**, age 59, has been Vice President for Human Resources and Organizational Effectiveness since 1994. Previously, he was Associate Vice President of Organizational Effectiveness and Human Resources at the University of Pennsylvania Health System (1993-1994) and Associate Vice President for Human Resources at the University of Pennsylvania Medical Center (1990-1993). He received A.B. and M.B.A. degrees from the University of Michigan.

**John P. Glaser, Ph.D.**, age 51, has been Vice President and Chief Information Officer since 1995. Previously, he was Vice President of Information Systems of BWH (1988-1995). Dr. Glaser received a B.A. degree from Duke University and a Ph.D. degree in biometry and health information systems from the University of Minnesota.

**Brent L. Henry**, age 59, has been Vice President and General Counsel since 2002. Previously, he served as Vice President and General Counsel for MedStar Health, Washington, D.C. (1985-2002). Mr. Henry received a B.A. degree from Princeton University and M.U.S. and J.D. degrees from Yale University. Mr. Henry is currently a Trustee of Princeton University and is a member of the Board of Directors of the New England Council, the New England Legal Foundation and the Public Welfare Foundation. He is also a member of the Council of the Boston Bar Association and the Boston Symphony Orchestra Board of Overseers and is a Past President of the American Health Lawyers Association.

**Thomas H. Lee, M.D., M.Sc.**, age 53, has been Network President and Chief Executive Officer of PCHI since 2004. He also currently serves as a Professor of Medicine at Harvard Medical School and Professor of Health Policy and Management at Harvard School of Public Health. Previously, he served as Chief Medical Officer of PCHI (1995-2004). Dr. Lee received B.A. and M.Sc. degrees from Harvard University,

and an M.D. degree from Cornell University. Dr. Lee is co-chair of the Committee for Performance Measures of the National Committee for Quality Assurance; Editor-in-Chief of *The Harvard Heart Letter*; and Associate Editor of *The New England Journal of Medicine*.

**Peter Markell**, age 52, has been Vice President for Finance since 1999. Previously, he served as interim Chief Financial Officer of MGH and The General (1995-1997) and was with Ernst & Young, LLP (1977-1999), where he had been a partner of the firm since 1988. He received a B.S.B.A. degree from Boston College and is also a certified public accountant. He is a Trustee of Boston College and a Director of Eastern Bank and Courier Corporation.

**Jay B. Pieper**, age 63, has been Vice President for Corporate Development and Treasury Affairs since 1995. He is also President of Partners International Medical Services. Previously, he was Senior Vice President and Chief Financial Officer of BWH (1986-1995). He received a B.A. degree from Cornell College and an M.B.A. degree from Washington University. He is a Director of Biopure Corporation, Eclipsys Corporation, Harvard Clinical Research Institute, Risk Management Foundation, CRICO, and WorldCare Ltd.

**Daniel K. Podolsky, M.D.**, age 53, has been Chief Academic Officer since 2005. He has also served as Faculty Dean for Academic Programs at Partners and Harvard Medical School since 2005. He has been Chief of Gastroenterology at The General since 1989 and Mallinckrodt Professor of Medicine at Harvard Medical School since 1998. Dr. Podolsky received A.B. and M.D. degrees from Harvard University. He has served as a member of the advisory council of The National Institute of Diabetes and Digestive Kidney Diseases, Editor-in-Chief of the journal *Gastroenterology* and Chair of the Executive Committee on Research at The General.

### **Brigham and Women's Hospital**

**Gary L. Gottlieb, M.D.**, age 51, has been President of BWH and BW/F since 2002. He also is a Professor of Psychiatry at the Harvard Medical School and the Chairman of Partners Psychiatry and Mental Health System. Previously, Dr. Gottlieb served as President of NSMC (2000-2002); Director and Chief Executive Officer of Friends Hospital, Philadelphia (1994-1998); Executive Vice Chair and Interim Chair of the University of Pennsylvania's Department of Psychiatry (1992-1994); and Associate Dean for Managed Care for the University of Pennsylvania Health System (1992-1994). Dr. Gottlieb received a B.S. degree from the Rensselaer Polytechnic Institute, an M.D. degree from Union University, and an M.B.A. degree from the University of Pennsylvania.

**Roger Deshaies**, age 57, has been Vice President for Finance of BWH since 1998. Previously, he was Chief Financial Officer of Parkview Health System, Fort Wayne, Indiana (1990 - 1998). Mr. Deshaies received B.A., M.A. and M.B.A. degrees from the University of Connecticut.

## **The General Hospital**

**Peter L. Slavin, M.D.**, age 49, has been President of The General and MGH since 2003. Previously, he was Chairman and Chief Executive Officer of the MGPO (1999-2002) and President, Barnes-Jewish Hospital, St. Louis, Missouri (1997-1999). He received A.B., M.D., and M.B.A. degrees from Harvard University.

**Sally Mason Boemer**, age 37, joined The General as an Administrative Fellow in 1993 and has been Vice President of Finance since 1999. She received a B.S. degree from Cornell University and an M.H.S.A. degree from the University of Michigan.

## **PHS Finance Committee**

The members of the PHS Finance Committee are PHS Directors Jack Connors, Jr., Arthur L. Goldstein, who serves as Chairman, Edward P. Lawrence, Jay O. Light, James J. Mongan, G. Marshall Moriarty and Gary A. Spiess and the following individuals, each of whom is a trustee of one or more of the affiliates of PHS:

<u>Name</u>	<u>Principal Business Affiliation</u>
Michael A. Bell	Managing Director Monitor Clipper Partners
Ferdinand Colloredo-Mansfeld	Chairman and Chief Executive Officer Cabot Properties, Inc.
Kathleen F. Feldstein, Ph.D.	President Economic Studies, Inc.
Albert A. Holman, III	Founder and Managing Partner Chestnut Partners, Inc.
Carol McMullen	President Eastern Investment Advisors
David Rosenbloom	Director Join Together
Ronald L. Skates	Retired; Former President and Chief Executive Officer Data General Corporation

## **PHS Investment Committee**

The members of the PHS Investment Committee are Dr. Light (Chairman) and the following individuals:

<u>Name</u>	<u>Principal Business Affiliation</u>
Howard E. Cox	Partner Greylock Management Company
Charles E. Haldeman, Jr.	Chief Executive Officer and President Putnam Investments
Jane L. Mendillo	Chief Investment Officer Wellesley College
Roger Scoville	Managing Director Seaward Management Company
Glenn P. Strehle	Treasurer Emeritus Massachusetts Institute of Technology
W. Nicholas Thorndike	Retired; Former Chairman and Managing Partner Wellington Management Company

## **XII. EMPLOYEES**

Partners is one of the largest non-governmental employers in Massachusetts. As of March 31, 2007 Partners employed approximately 37,200 FTEs. Of the total FTEs, approximately 23,600 were employed by BWH and The General. Approximately 5,600 Partners employees are members of organized labor unions.

The Massachusetts Nurses Association (MNA) represents approximately 4,600 registered nurses across the Partners system, including approximately 2,900 at BWH under a contract that expires on September 30, 2008, approximately 340 nurses at Faulkner under a contract that expired on October 6, 2006 and which is currently under negotiation, approximately 700 nurses at NWH under a contract that expires on November 30, 2007, approximately 600 nurses at NSMC under a contract that expired September 30, 2006 and which is currently under negotiation, approximately 35 nurses at MVH under a contract that expires on September 13, 2008, and approximately 37 nurses at NCH under a contract that expires on September 30, 2009.

In addition, Partners facilities have contracts with three other unions representing approximately 1,020 employees. The Area Trade Council represents approximately 65 employees at BWH under a contract that expired December 31, 2006 and which is currently under negotiation, approximately 15 employees at Faulkner under a contract

that expires in March, 2008, and approximately 12 employees at NSMC under a contract that expires in December, 2008. The Service Employees International Union 1199 represents approximately 385 employees at NSMC under two contracts, one of which expires in June 2007, and the other of which expires in October, 2007, approximately 62 employees at NCH under a contract that expires on November 30, 2009, and approximately 190 employees at MVH under a contract that expired in September, 2006, and which is currently under negotiation. The American Federation of State and County Municipal Employees represents approximately 290 employees at Shaughnessy-Kaplan under a contract that expires in December 2007.

### **XIII. FACILITIES**

#### **A. Partners HealthCare System, Inc. (Corporate)**

Partners main corporate office is located in approximately 24,500 gross square feet of leased space in the Prudential Building in Back Bay, Boston. In addition, PHS leases approximately 730,000 leased square feet in several locations in and around Boston, and owns a 20,000 gross square foot data center in Needham. In 2006, Partners purchased an approximately 300,000 gross square foot building on 49 acres in Danvers and is developing an approximately 122,000 gross square foot ambulatory care center on a portion of the site.

#### **B. Brigham and Women's Hospital**

The BWH campus is located in the Longwood Medical Area within the City of Boston and comprises approximately 12.3 acres and owned buildings aggregating approximately 2.4 million gross square feet, excluding garages. In addition, BWH leases approximately 1.1 million leased square feet in a number of locations in the Greater Boston area. The majority of these leased sites house ambulatory care, research and administrative activities.

#### **C. The General Hospital**

The main campus of The General consists of approximately 18 acres in the former West End area of the City of Boston. The total gross building area of the main campus, excluding garages, is approximately 3.5 million gross square feet.

The General also owns and leases property at other locations within the Greater Boston area comprising approximately 3.4 million gross square feet, of which approximately 1.0 million usable square feet is used for research. The balance of the remaining space is used for ambulatory clinics and administrative support offices.



**D. Faulkner Hospital**

The Faulkner campus consists of approximately 17 acres in the Jamaica Plain neighborhood of Boston with a total building area of approximately 519,000 gross square feet, excluding garages. In addition, Faulkner leases properties in West Roxbury, Hyde Park and Dedham comprising approximately 16,500 gross square feet.

**E. Martha's Vineyard Hospital**

MVH owns and occupies a site of approximately 8 acres in Martha's Vineyard with a total building area of approximately 146,000 gross square feet.

**F. Nantucket Cottage Hospital**

NCH owns and occupies a site of approximately 12 acres in Nantucket with a total building area of approximately 66,000 gross square feet.

**G. Newton-Wellesley Hospital**

NWH is located on an approximately 25 acre campus in the Newton Lower Falls neighborhood of Newton. The main hospital complex contains approximately 705,000 gross square feet; in addition, there are four buildings at the rear of the campus, primarily used by administration, and the boiler plant. Located next to the main hospital complex are three medical office buildings comprising approximately 144,000 gross square feet, of which NWH owns approximately 108,000 gross square feet. NWH also owns twelve residential houses in Newton and it owns one property and leases nine properties comprising approximately 92,000 gross square feet that are dedicated to medical office space in six service area communities.

**H. North Shore Medical Center**

Salem is located on a site comprising approximately 34 acres and includes North Shore Children's Hospital and two medical office buildings. Union is located on a site comprising approximately 14 acres and includes the hospital and three medical office buildings. In total, NSMC owns approximately 1.0 million gross square feet and leases an approximately 207,000 additional leased square feet for ambulatory care activities in communities surrounding Salem and Lynn.

**I. McLean Hospital**

McLean occupies a site of approximately 115 acres in Belmont with a total building area of approximately 750,000 gross square feet. McLean has three leased properties totaling approximately 41,000 gross square feet. In 2005, McLean completed the sale of a portion of its campus and donated certain land to the Town of Belmont as part of a collaborative agreement to allow for change in zoning as part of a long term

strategic plan. (See “Rehabilitation and Psychiatric Care Sector - Psychiatry and Mental Health Services.”)

## **J. Partners Continuing Care**

### **Spaulding Rehabilitation Hospital**

Spaulding’s principal site consists of approximately 2 acres in the City of Boston, approximately one-half mile from The General, with a total building area of approximately 220,000 gross square feet. Spaulding leases approximately 8,500 gross square feet at the Massachusetts Eye and Ear Infirmary, which is located adjacent to The General, for a 15-bed pediatric rehabilitation unit, and it leases approximately 41,000 leased square feet at several downtown Boston and suburban locations where it provides outpatient rehabilitation services. Spaulding owns an adjacent undeveloped site of approximately three acres presently used for parking by employees of Spaulding and The General.<sup>5/</sup> Partners recently acquired the development rights for two parcels of land in the Charlestown Navy Yard and is planning the relocation of Spaulding to a portion of this site.

### **Shaughnessy-Kaplan Rehabilitation Hospital**

Shaughnessy-Kaplan owns and occupies approximately 113,000 gross square feet on approximately 5.3 acres of land adjacent to Salem Hospital. Shaughnessy-Kaplan leases seven properties in neighboring towns totaling approximately 23,000 leased square feet where it provides outpatient therapy services.

### **Rehabilitation Hospital of the Cape and Islands**

RHCI owns and occupies a site of approximately 40 acres in East Sandwich with a total building area of approximately 66,000 gross square feet. RHCI also leases approximately 15,000 gross square feet in five service area communities for outpatient clinics.

### **Partners Home Care**

Partners Home Care occupies approximately 58,000 gross square feet in the Greater Boston area.

### **Skilled Nursing Facilities**

The Boston Center for Rehabilitation and Sub-Acute Care occupies approximately 50,000 gross square feet in Roslindale, and The North End Rehabilitation

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<sup>5/</sup> Portions of this parking lot have been taken by eminent domain on both a permanent and temporary basis by the Commonwealth of Massachusetts for construction of the Central Artery Project.

and Nursing Center occupies approximately 59,000 gross square feet in Boston. The Clark House and Fox Hill Village are located on the 84-acre campus of the Fox Hill Village retirement community in Westwood.

**K. Partners Community HealthCare, Inc.**

PCHI owns no property or buildings but leases 42 sites totaling approximately 381,000 leased square feet.

**XIV. THE PROJECT**

**Existing Part of the Project**

The existing part of the Project involves the refinancing of all or a portion of the projects funded by The Authority's Revenue Bonds, Partners HealthCare System Issue, Series A; Partners HealthCare System Issue, Series C; and Newton-Wellesley Hospital Issue, Series G.

**New Part of the Project**

The new part of the Project involves financing the acquisition and installation of capital equipment and facilities and construction of improvements and renovations to various facilities for Partners and its affiliates, including BWH, The General, NSMC and Spaulding.

BWH is constructing a cardiovascular center of approximately 420,000 gross square feet at 70 Francis Street, Boston, consisting of inpatient beds, operating rooms, outpatient procedure and clinic areas, and ancillary support departments.

The General is constructing a building of approximately 500,000 gross square feet on its main campus to house a relocated and expanded radiation oncology department, an expanded emergency department, three levels of operating and procedure suites, 150 neurosciences and medical oncology intensive care unit and acute patient rooms, a new sterile processing department and a new central receiving dock. The General is also acquiring one or more condominium units at the property known as Charles River Plaza, a mixed use facility adjacent to its main campus. The General currently leases approximately 60% of the 293,000 total gross square feet for administration and clinical care, and currently uses approximately 75% of the 1,004 parking spaces. The remainder of the property is leased to office and retail tenants.

NSMC is renovating and improving inpatient clinical areas at its main campus. Spaulding is planning to construct a 150-bed rehabilitation hospital in the Charlestown Navy Yard. Partners is constructing a 122,000 gross square foot multi-specialty, ambulatory care center in Danvers to house the MGH/NSMC Cancer Center, eight day surgery suites, diagnostic imaging, diagnostic cardiology, laboratory

services/phlebotomy, and a family/patient resource center. It is also acquiring and installing a system-wide revenue management system.

## **XV. INSURANCE**

Comprehensive general and professional liability coverage for Partners is provided by Controlled Risk Insurance Company of Vermont, Inc. and Controlled Risk Insurance Company, Ltd. (Cayman Islands) (CRICO). The coverage is provided on a claims made basis for the 11 Greater Boston area founding institutions and sponsored organizations participating in the Harvard Medical Institution Insurance Program. The program also insures more than 10,000 physicians and dentists associated with those institutions. CRICO provides coverage of \$5 million per claim/\$10 million annual aggregate for professional liability for each individual insured and \$5 million per claim for general liability claims. Reinsurance is purchased by the program from multiple carriers which creates total coverage for professional and general liability of \$85 million per claim/\$85 million annual aggregate. Based on a December 2006 report by independent actuarial consultants, Partners has been advised that CRICO's reserves are adequate to cover CRICO's actuarially determined liabilities.

In addition, Partners has established actuarially determined reserves in its financial statements to cover professional liability claims incurred but not reported to CRICO as of the end of the year. A portion of these malpractice reserves has been funded through trust and board-designated funds.

The real and personal property of Partners is insured by an all risk policy which provides coverage up to \$1.25 billion for buildings, contents and business interruption with no specific aggregate loss limit but subject to deductible limits. Partners and its affiliates also maintain other appropriate coverages including, but not limited to, association, terrorism, crime, fiduciary and business auto insurance.

## **XVI. LITIGATION**

PHS, BW/F, BWH, MGH, The General and other Partners institutions are involved from time to time as both plaintiffs and defendants in a variety of litigation matters. Management considers such litigation to be a routine part of health care operations. Management believes that Partners has adequate insurance coverage for claims that are insured and that no uninsured claims, whether pending or threatened, would have a materially adverse effect on the ability of PHS, BW/F, BWH, MGH or The General to meet their respective obligations with respect to the Series G Bonds in the event of an adverse outcome.

In April, 2006, The General settled a dispute with Amgen, Inc. and its subsidiary, Immunex Corporation, involving a contract over certain royalties that Immunex was required to pay to The General on sales of the drug ENBREL® (etanercept) which is used to treat rheumatoid arthritis and other diseases of the immune system. This settlement involved a one-time payment that eliminates any future royalty payments to The General

on sales of ENBREL® in North America. The General received \$186 million in net proceeds from the settlement.

In 2005 the Internal Revenue Service commenced litigation against PHS, and subsequently added BWH and MGPO as parties, to recover refunds and credits related to FICA withholding from payments made to residents and clinical fellows. The central issue in this case is whether the patient care provided by the residents and fellows is educational in nature rather than a service rendered in exchange for payments made to them. In January 2006, the IRS filed a motion for summary judgment and on May 3, 2006 both parties appeared for oral argument before the judge. The judge has not yet issued a decision. Management believes that PHS, BWH and MGPO have a strong case on the merits and that an adverse outcome would not have a material adverse effect on the ability of PHS and BWH to meet their respective obligations with respect to the Series G Bonds.

For a description of certain other litigation and investigations in which one or more of the Partners institutions are currently or have recently been involved, see the “Antitrust” and the “Federal and State False Claims Act” sections under “Bondowners’ Risks and Matters Affecting the Health Care Industry.”

## **XVII. SOURCES OF PATIENT SERVICE REVENUE**

### **A. Overview**

Partners hospitals are participating providers in the federal Medicare program, administered by CMS, and maintain agreements with Blue Cross, HPHC, TAHP and other insurance carriers and managed care payers for the provision of services to patients covered by these payers. In addition, the hospitals maintain agreements with the Commonwealth under the Medicaid program. See “Management’s Discussion and Analysis of Recent Financial Performance - Net Patient Service Revenue and Accrual for Settlements with Third-Party Payers.”

### **B. Medicare**

Medicare reimburses acute care hospitals for services provided on an inpatient basis according to the inpatient prospective payment system (PPS). Under PPS, payments are based on a standard national amount (adjusted in the case of Partners hospitals for Boston area 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. Hospitals receive additional payment for cases that exceed DRG-specific cost thresholds, referred to as “outlier payments,” as well as the costs of organ procurement. 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). The update factor typically equals the percentage increase in the market basket, but from time to time Congress has set updates

legislatively that are less than the market basket. In addition, hospitals receive a predetermined amount per discharge for Medicare inpatient related capital costs.

The Prospective Payment System for inpatient psychiatric services (Psychiatric PPS) is being phased in over a three-year period, commencing January 1, 2005, so that full payment under Psychiatric PPS will begin in the fourth year. Payments for Psychiatric PPS are now made on a per diem basis with adjustments for area wage differences, intensity of service and exceptionally high costs. Inpatient services provided by rehabilitation and long term care hospitals also are now subject to a prospective payment system. These hospitals are paid on a per case basis with payments adjusted to reflect the level of care required by each patient, area wage differences and exceptionally high cost cases.

Hospitals receive Medicare payments for training physicians and other medical professionals (graduate medical education or GME payments), as well as for providing care to a high level of Medicaid and disabled patients (disproportionate share payments or DSH 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.

Hospital outpatient services also are reimbursed by Medicare according to a prospective payment system (OPPS). Under OPPS, most outpatient services are grouped into one of approximately 450 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). OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Outpatient services not covered by OPPS are reimbursed on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

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. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) altered Medicare’s reimbursement of acute care hospitals, including standardization of payment for rural and urban hospitals, increases to IME and GME funding, through 2007 and increases in Medicare DSH payments for hospitals not located in urban centers. The MMA also implemented a number of quality provisions. For 2005 through 2007, hospitals will receive their full market basket update only if they submit data on ten distinct hospital quality measures. If they do not submit the data, they will receive the update of market basket minus 0.4%. The MMA also decreased the labor-related share of the wage index (used in Medicare’s PPS for inpatient hospital services) from 71% to 62%, unless the revision would result in lower payments. The Deficit Reduction Act of

2005 was enacted to slow the growth of Medicare and Medicaid funding and contains some provisions that affect Medicare reimbursement for hospital services.

### **C. Medicaid**

Under Title XIX of the Social Security Act, the federal government reimburses a portion of the funds provided by the Commonwealth for medical assistance under the Medical Assistance Program (Medicaid). In the Commonwealth, Medicaid and the Children's Health Insurance Program are combined into one program called MassHealth, which is administered by the Division of Medical Assistance (DMA).

The Commonwealth has implemented MassHealth pursuant to a federal Medicaid waiver (the Section 1115 Waiver) which is currently in effect until June 30, 2008. The Section 1115 Waiver enabled MassHealth to offer Medicaid coverage to populations that were not otherwise eligible for Medicaid and to make supplemental funds available to support Medicaid managed care organizations and two hospitals in the Commonwealth, that provide a substantially disproportionate amount of care to Medicaid and uninsured patients.

In 2006, legislation was enacted reforming the manner in which Massachusetts provides health care to uninsured and underinsured residents through MassHealth and the Commonwealth's Uncompensated Care Pool (the Reform Law). This Reform Law provides for Medicaid rate increases for hospitals and physicians of \$90.0 million each year in state fiscal years 2007, 2008, and 2009, of which 15% of the total each year is allocated to physician payments. The extent to which these dollars are treated as incremental to what hospitals would have received using the Medicaid payment methodologies described below has been an issue of discussion between the hospitals and the new Administration and the Legislature. Further, in state fiscal years 2008 and 2009, at least a portion of these increases is to be contingent on the achievement of quality and performance measures, including a reduction of racial and ethnic disparities in the provision of health care, that are only now being developed by DMA. In addition MassHealth eligibility was extended to children in families earning up to 300% of the Federal Poverty Level (FPL) (up to \$38,000 a year for a family of two) from the current eligibility level of 200% FPL.

While the Reform Law authorizes the potentially substantial rate increases over this three year period as described above, the manner in which hospitals are reimbursed for care provided to Medicaid patients was unchanged. Specifically, Medicaid rates for acute hospitals are set by contracts between the hospitals and DMA. Under the typical provider contract, Medicaid pays for acute inpatient and outpatient hospital services prospectively on a per inpatient discharge or per outpatient visit basis. The standard payment amount per inpatient discharge (SPAD) and payment amount per outpatient episode is a standardized statewide average cost per discharge or per episode (for services provided on a single calendar day), adjusted by several factors, including the hospital-specific case mix index. With respect to inpatient payments, additional payments are provided for malpractice, capital and direct medical education costs. Hospitals are further

eligible for outlier payments and transfer per diem payments. These outlier payments currently allow for reimbursement of new technology drugs. With respect to outpatient payments, the per discharge or episode amount is established from payment data in a base year as submitted by all hospitals to the Massachusetts Division of Health Care Finance and Policy, updated for inflation and changes in case mix. Medicaid rates for physician services are set by the Massachusetts Division of Health Care Finance and Policy. In May 2007, CMS proposed new rules that would have the effect of eliminating Medicaid payment for graduate medical costs, but implementation of those proposed rules was delayed for at least a year by a subsequent Congressional enactment.

#### **D. State Health Insurance Mandate**

The Reform Law requires that, by July 1, 2007, all individuals who live in the Commonwealth obtain health insurance individually through various free or subsidized state programs, or through an employer-sponsored plan, or through accessing individual plans facilitated through the new Commonwealth Health Care Connector. Through the Connector, the statute also provides for the creation of new health insurance products to serve the currently uninsured and under-insured populations. The full impact of the new Massachusetts health care reform legislation will not be known for several years. The Connector has implemented the new free or subsidized products and is in the process of “rolling out” approved plans, without state subsidy, that can be accessed by otherwise uninsured or underinsured individuals.

#### **E. Free Care and Uncompensated Care**

Massachusetts currently operates an Uncompensated Care Pool (the “Pool”) to provide payments to assist hospitals in covering the costs of providing uncompensated care to low income and uninsured patients. The Pool is funded by payments from the Commonwealth (which are supported through federal matching funds), hospitals, employers and the insurance industry. Hospital payments into the Pool are based on a statewide rate applied to each hospital’s private sector patient care gross revenues. Total funding for the Pool is capped and the cap varies year to year. Since 2004 a hospital’s total payments from the Pool have been set prospectively (based in part on prior years’ uncompensated care costs) and are not dependent upon a hospital’s actual provision of free care services in the year provided. Nonetheless, there generally has been a shortfall in funding each year.

Effective October 1, 2007, the Reform Law eliminates the Pool and replaces it with the Health Safety Net Fund (the “Fund”), located within DMA. The purpose of the Fund remains, however, to maintain a health care safety net by reimbursing hospitals and community health centers for a portion of the cost of reimbursable services provided to low-income, uninsured or underinsured residents of the Commonwealth.

Acute Care hospitals must continue to contribute to the Fund, with each hospital’s liability to the Fund dependent on the ratio of its private sector charges as compared to all Commonwealth Acute Care hospitals’ private sector charges, multiplied by the total



liability established for all hospitals. Hospital and employer/insurer total liability for payments to the Fund will continue at the present level of \$160 million each. Payment to hospitals is to be on a claims basis using the Medicare payment methodology with adjustments for GME, disproportionate share, outliers, organ acquisitions, bad debt, new technology and capital, and the full amount of the Medicare market basket index, with modifications to account for differences with Medicare, including the extent and duration of the services covered and the differences in populations served. Grouper and DRG relative weights are to be used to produce rates no lower than Medicare, and rates going forward are to be no less than Medicare rates for comparable services, with the foregoing adjustments.

A goal of the Reform Law was to reduce free care over time through the implementation of changes to the Medicaid program and the creation of new insurance products. In part, as a result of these changes, there is no assurance as to the amount of future funding of the Pool (and beginning in October 2007, the Fund) or as to the methodology of determining a hospital's payment from the Pool or the Fund.

#### **F. General Trend in Government Payments**

Future actions by the federal government and the Commonwealth are generally expected to continue the trend toward more restrictive limits on payment for hospital services. There is no assurance that these payments are, or will continue to be, adequate.

#### **G. Managed Care Programs and Commercial Insurance**

Managed care organizations (MCOs), including HMOs and preferred provider organizations (PPOs), are organizations that provide insurance coverage and a network of providers of medical services to members for a fixed monthly premium. To control costs, these organizations typically contract with hospitals and physicians for discounted prices, review medical services to ensure that unnecessary services are not provided, and channel patients to contracted providers of health care services. MCOs also establish economic incentives directed at patients and physicians to ensure compliance with each plan's utilization criteria. Contracts include various reimbursement methodologies including per diem rates, per discharge rates and discounts from established charges.

There are currently 11 HMOs and 33 PPOs operating in Massachusetts. As of December 31, 2006, the three largest HMOs – Blue Cross' HMO Blue, TAHP and HPHC – accounted for approximately 81% of the total HMO enrollment in Massachusetts. As of that date, based on data from the Massachusetts Division of Insurance, HMO Blue had approximately 870,000 members, TAHP had approximately 284,000 members and HPHC had approximately 403,000 members.

#### **H. Accruals for Estimated Amounts Due to Third Party Payers**

Cost reports of hospitals are prepared annually for, and are subject to audit by, the Medicare program and by the Massachusetts Division of Health Care Finance Policy

(DHCFP) for the Medicaid program. In addition, certain agreements with third party payers contain provisions for retroactive settlements and dispute resolution related to issues such as allowable cost, utilization and charge structure. Changes occur periodically in the rules and regulations applicable to Medicare and Medicaid, as well as in the agreements of various private third party payers. Similarly, the data used to estimate amounts due to third parties often change. When appropriate, accruals for estimated amounts due to Medicare and other third party payers are established for unresolved items and incomplete data. Upon resolution, any such accruals that are no longer necessary are reversed (or amounts required in excess of accruals are recorded) and are reflected in the Statement of Operations. See “Management’s Discussion and Analysis of Recent Financial Performance - Critical Accounting Policies and Estimates.”

## **XVIII. BONDOWNERS’ RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY.**

Future revenues and expenses of Partners will be affected by events and conditions relating generally to, among other things, demand for the services of Partners providers (i.e., its hospitals and network physicians); the ability of Partners providers to provide the services required by patients; physicians’ relationships with the hospitals; NIH research grant funding and funding for research from non-governmental entities; management capabilities; the correctness of the design and success of Partners strategic plans; economic developments in Partners service area; Partners ability to control expenses and maintain relationships with NIH, corporate and other sponsors of research, HMOs and other MCOs and third-party payers; the level of investment returns; competition; rates; costs; third-party reimbursement; legislation; and government regulation. While Partners reasonably expects in the future to generate sufficient revenues to cover its expenses, third-party payments, statutes and regulations governing research grants, and contractual terms and provisions may change, and unanticipated events and circumstances may occur that cause variations from this expectation, and the variations may be material. Accordingly, there is no assurance that Partners will realize sufficient income from operations in future years to meet its obligations, including payments with respect to the Bonds. The following general factors, among others, could affect the level of revenues to Partners or its financial condition or otherwise result in risks for owners of the Bonds (Bondowners), in addition to the risks set forth in the Official Statement under “Bondowners’ Risks” in the forepart hereof.

### **A. Legislative, Regulatory and Contractual Matters Affecting Revenues**

The health care industry is heavily regulated by federal and state governments and is dependent on governmental sources for a substantial portion of revenues. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries (i.e., the non-governmental organizations or agencies that contract with the federal government to process Medicare claims) and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to providers of health care services. 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 providers. Many of these changes are implemented retroactively, resulting in significant prior year adjustments. There is reason to believe that substantial additional changes will occur in the future.

Legislation is periodically introduced in Congress and in the Massachusetts Legislature that could result in reductions in provider revenues, 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 maintain tax-exempt status. No assurance can be given 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 Partners cannot be predicted.

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 Partners cannot be predicted.

Partners providers also are subject to regulatory and administrative actions by CMS and DMA in the administration of the Medicare and Medicaid programs, DPH, the Massachusetts Department of Mental Health (DMH), DHCFP, the Massachusetts Division of Public Charities of the Department of the Attorney General, the United States Food and Drug Administration (FDA), the United States Department of Labor, the National Labor Relations Board, and other federal, state and local government agencies. In addition, Partners hospitals and certain of the services and educational programs which these hospitals offer are subject to accreditation by the JCAHO, ACGME, and other entities. While management believes that Partners providers are in substantial compliance with the standards of the aforementioned regulatory and accrediting bodies, there can be no assurance that a challenge or investigation will not occur in the future. An adverse finding by the organizations could materially adversely affect future operations or revenue of Partners providers.

Renewal and continuation of the operating licenses, certifications and accreditations of the Partners hospitals are based on inspections, surveys, investigations and other reviews, some of which may require or include affirmative action or response by the hospitals. These activities are conducted in the normal course of business of health facilities, both in connection with periodic renewals and in response to specific complaints, which may be made to governmental agencies, private agencies or the media by patients, ombudsmen or employees, among others.

Partners receives, from time to time, subpoenas, civil investigatory demands and other formal inquiries from state and federal governmental agencies or investigators. It is often impossible to determine the specific nature of the investigation or whether Partners might have any potential liability under a cause of action that might subsequently be asserted by the government. Moreover, Partners is generally not informed when such

investigations are resolved without the assertion of any claims. Management considers these investigations a routine part of operations in the current health care climate, and expects them to continue in the future.

## **B. Competition**

Many hospitals in eastern Massachusetts have consolidated into a few systems, increasing competition among these systems as well as between individual hospitals. Hospitals are expanding or reconfiguring their service lines to capture incremental market share, entering potentially lucrative service lines, or reducing or limiting unprofitable services. This may further increase competitive pressures on acute care hospitals. For example, several community hospitals have in the last several years opened invasive cardiac surgery programs that will compete directly for cardiac cases formerly performed exclusively at academic medical centers such as BWH and The General. Similarly, a number of hospitals have closed or materially reduced in size their psychiatric services, which generally produce revenue below costs, resulting in increasing the volume of psychiatric cases at hospitals that continue to provide such services.

The Partners hospitals face and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar health care services. In addition, alternative modes of health care delivery offering lower priced services to the same population, such as ambulatory surgery centers, private laboratories, private radiology services, skilled nursing facilities, and home care, compete with the hospitals.

Management believes that insurers will continue to encourage competition among hospitals and other providers on the basis of price and payment terms. To some degree, payers have used the threat of patient steerage, carve outs of certain services and network exclusion to drive provider prices lower. Insurers are also introducing network products that segregate hospitals and other providers into tiers that are based in part on the relative costs and quality of the providers and that provide financial incentives to subscribers who use the services of providers in the less costly and higher quality tiers. This may lead to increased competition among hospitals based on price.

Management believes that sustained growth in patient volume, together with firm cost controls, have been and will remain fundamental to Partners financial stability. There are many limitations on the ability of Partners hospitals 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 Partners will occur.

## **C. Workforce Shortages**

Workforce shortages are affecting health care organizations at the local, regional and national level, in part due to the fact that a smaller number of students are considering careers in nursing and the allied health professions than in the past. There can be no assurance that such workforce shortages will not continue or increase over time

and adversely affect Partners ability to maintain or expand service levels and to control costs.

**D. Determination of Need Restrictions: Limits on Reduction of “Essential Services”**

The Commonwealth maintains a Determination of Need (DON) program pursuant to which health care facilities, including acute care hospitals, are required to obtain state approval before expending funds in excess of a specified dollar threshold on capital projects or offering certain innovative services or new technologies. Without DON approval, acute care hospitals may not make major renovations or additions to units offering inpatient services if the cost exceeds a threshold amount that is currently approximately \$12 million, subject to annual indexing for inflation. In addition, an acute care hospital must seek DON approval to offer new technologies or innovative services, including air ambulance, extracorporeal membrane oxygenation, open heart surgery, neonatal intensive care units, organ transplantation, megavoltage radiation therapy, positron emission tomography (PET), MRI, and extracorporeal shock wave lithotripters. DON approval also is required for an acute care hospital to undertake freestanding ambulatory surgery services that are not provided under the hospital’s license or to convert beds to certain non-acute uses, such as rehabilitation, psychiatric or skilled nursing.

The existence of the DON program has several implications for providers. First, the program may limit a provider’s ability to respond on a timely basis to competitive programs offered by other providers who may not be subject to similar DON requirements. The time required for approval of a DON application is sometimes at least a year. Second, while the existence of the DON program may limit a provider’s ability to expand or add services needed to compete, the program has also, in certain instances, served as a barrier to entry that prevents would-be competitors from entering or expanding operations in a particular field of service, such as PET and MRI. A moratorium on the filing of new DON applications has been imposed on occasion, and in certain instances, the DPH has refused to accept or consider pending applications due to the absence of need for a particular program or service, as determined by the DPH.

Massachusetts legislation and regulations also limit the ability of an acute care hospital to terminate “essential services” without prior notice to DPH, a public hearing, and various remedial actions, including in certain circumstances financial payments to support or continue public access to such services through other means. To some extent, this law limits the flexibility of hospitals to reconfigure their service lines in pursuit of cost reduction initiatives or other goals.

These types of regulatory approvals required by the Commonwealth, and the changing interpretations concerning when such approvals are required, may impact the ability of Partners hospitals to undertake certain renovations, construction projects, changes in service, new equipment purchases or acquisitions, and other facility improvements.

#### **E. Reimbursement for Uncompensated Care and Medicaid**

As discussed under “Sources of Patient Service Revenue – Free Care and Uncompensated Care,” the Commonwealth operates an Uncompensated Care Pool, which is funded by payments from hospitals, insurance companies and the Commonwealth. The Reform Law restructured funding for the Pool, but many important details concerning the restructuring have yet to be established by regulation. Notwithstanding efforts over the last several years to shift reliance for coverage of the poor from the Pool to other programs administered by the Commonwealth, funding for the Pool continues to be inadequate and it is as yet unclear whether the restructuring will be successful. See “Sources of Patient Services Revenue – Free Care and Uncompensated Care.”

#### **F. Federal and State “Fraud and Abuse” Laws and Regulations**

There is an 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. These laws apply to a variety of 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 service or management contracts, and space or equipment rentals between hospitals and physicians.

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 providers, including the Partners providers). Criminal penalties may also be imposed. Much of this risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While Partners management 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.

One of the broadest prohibitions is the Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the “Anti-Kickback Law”), which makes it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in return for or to induce, business that may be paid for, in whole or in part, under a federal health care program including, but not limited to, the Medicare or Medicaid programs. “Safe harbor” regulations, published by the OIG, provide defenses from prosecution or administrative enforcement action for a limited scope of arrangements. The safe harbors described in the regulations are narrow and do not cover

a wide range of economic relations that many hospitals, physicians and other health care providers consider to be legitimate business arrangements. However, failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of the applicable statute.

Partners providers may have certain relationships with physicians and other referral sources that do not necessarily meet all of the requirements of applicable safe harbors. Nonetheless, management believes that Partners is presently in material compliance with the Anti-Kickback Law. However, 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 assurance that Partners providers will not be found to have violated the Anti-Kickback Law, and if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of Partners.

In addition, Massachusetts has both a Medicaid anti-kickback statute and an all payer anti-kickback statute. The all payer anti-kickback statute is broader than the federal Anti-Kickback Law because it applies to services covered by all payers, in addition to services covered by Medicare and Medicaid. Unlike the federal statute, both of the Massachusetts anti-kickback statutes lack an intent requirement and do not incorporate safe harbor provisions. Violations of the Massachusetts anti-kickback statutes may result in criminal and/or civil penalties. Management believes that Partners business arrangements are in material compliance with the Massachusetts anti-kickback statutes, but considering the lack of available defenses and general applicability, there can be no assurance that a third party reviewing such arrangements would not find a violation, and such a finding could have a material and adverse effect on Partners.

#### **G. Federal and State False Claims Acts**

The federal False Claims Act is another broad statute that the government often utilizes in fighting fraud and abuse. In a health care context, the most commonly used provisions under the False Claims Act prohibit a person from “knowingly” presenting or causing to be presented a false or fraudulent claim for payment or approval to the federal government and from “knowingly” making, using or causing to be made a false record or statement to get a false or fraudulent claim paid or approved by the federal government. These prohibitions extend to claims submitted to federal health care programs, including, but not limited to, Medicare or Medicaid.

The False Claims Act broadly defines the terms “knowing” and “knowingly.” Specifically, knowledge will have been proven for purposes of the False Claims Act if the person: (1) has actual knowledge of the information; (2) acts in deliberate ignorance of the truth or falsity of the information; or (3) acts in reckless disregard of the truth or falsity of the information. Moreover, the statute specifically provides that a specific intent to defraud is not required in order to prove that the law has been violated.

A person found to have violated this statute is liable for a per claim civil penalty of not less than \$5,500 and not more than \$11,000, plus three times the amount of damages

sustained by the federal government. In certain limited cases involving prompt disclosure of False Claims Act violations, the statute provides for double, rather than treble, damages. Private individuals may also bring suit under the qui tam provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions that arise in a variety of contexts in which hospitals and health care providers operate.

In September 2002, the United States of America filed a complaint under the False Claims Act against The General and BWH in the United States District Court in Boston. The principal allegation is that The General and BWH improperly submitted claims to the Medicare and Medicaid programs in connection with hospital procedures involving the use of certain cardiac devices that had not been approved by the FDA for marketing. The action arises from a case that was commenced under seal in 1994 in federal court in Seattle that named over one hundred teaching hospitals as defendants. Of the hospitals originally named, some have settled, some were dismissed, and forty, including The General and BWH, were sued in separate proceedings brought in the districts where the hospitals are located. In March 2003, the Joint Panel on Multi-District Litigation transferred the cases to the District of Connecticut for consolidated pretrial proceedings. The hospital defendants filed motions to dismiss, but the motions were denied in May 2004. The defendant hospitals then requested permission to file an interlocutory appeal and the district court granted certification on December 27, 2004. In November, 2006, the United States Court of Appeals for the Second Circuit issued a decision in favor of the hospital defendants by reversing the District Court's denial of the defendants' motion to dismiss the government's claims under the False Claims Act. In January, 2007, the government informed the Court that it would not seek reconsideration or rehearing of the dismissal.

Additionally, Massachusetts has a Medicaid False Claims Act that makes it a criminal violation for any person to "knowingly and willfully make or cause to be made any false statement or representation of a material fact in any application" for a Medicaid benefit. The Attorney General of Massachusetts may also seek civil remedies for violations of this law. Massachusetts has another False Claims Law that is identical to the Medicaid False Claims Act in every respect except that it applies to all health care benefits rather than just Medicaid benefits.

Partners conducts a variety of activities that pose varying degrees of risk under the federal and state False Claims Acts, and other fraud and abuse laws, rules and regulations. While management believes that Partners complies with these laws, there can be no assurance that a reviewing third party would not find some violation of the fraud and abuse laws that would justify the bringing of a federal or state False Claims Act suit. Such actions, if they result in an adverse outcome, could have a materially adverse effect on Partners.



## **H. Limitations on Certain Arrangements Imposed by Federal Ethics in Patient Referrals Act**

The Federal Ethics in Patient Referrals Act (commonly known as the “Stark Law”) prohibits a physician (or an immediate family member of such physician) with a financial relationship with an entity from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services and prohibits such entity from presenting or causing to be presented a claim for payment under the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services, durable medical equipment, parenteral and enteral nutrients (including equipment and supplies), orthotic and prosthetic devices, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services.

A financial relationship for purposes of the Stark Law is defined as either an ownership or investment interest in the entity or a compensation arrangement with the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services.

The Stark Law and regulations provide certain exceptions to these restrictions. Unlike the Anti-Kickback Law’s safe harbors discussed above (where the failure to meet a safe harbor does not necessarily mean the referral is prohibited), failure to satisfy an exception to the Stark provisions means that the referral itself is prohibited, and that the entity receiving the referral is prohibited from seeking payment for such service.

Violations of the Stark Law can result in denial of payment, substantial civil monetary penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the False Claims Act. Management believes that Partners is in compliance with the Stark law, but there can be no assurance that a third party reviewing the financial relationships between Partners providers and referring physicians would find full compliance. The failure of arrangements between the Partners provider involved and a referring physician to fall within one or more of these exceptions could have a materially adverse effect on Partners.

## **I. OIG Compliance Guidelines**

The OIG has encouraged all health care providers to adopt and implement programs to promote compliance with federal and state laws, including the False Claims Act, the Anti-Kickback Law and the Stark Law. In 1998, the OIG published Compliance Program Guidance (CPG) for the hospital industry. In recognition of the significant changes in the delivery and reimbursement for hospital services that have occurred since the CPG’s publication, the OIG published Supplemental Compliance Program Guidance

on January 31, 2005. These Publications (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 a health care provider will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that it will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs). Partners management believes that Partners providers have implemented effective compliance programs.

#### **J. Regulation of Patient Transfer**

Federal law requires 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 that 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 from delaying such screening or treatment in order to inquire about an individual's method of payment. In 1999, CMS and the OIG jointly issued a special advisory bulletin that reinforces EMTALA's obligations in the face of pressure on hospitals from managed care payers to discourage utilization of emergency department services.

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 Partners hospitals to meet their responsibilities under the law could adversely affect their financial condition. Management believes that Partners hospitals are in compliance with these requirements.

#### **K. Not-for-Profit Status**

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. Consequently, the Code and changes thereto could adversely affect Partners ability to finance its future capital needs and could have other adverse effects on Partners that cannot be predicted at this time. The Code also continues to subject unrelated business income of not-for-profit organizations to taxation.

As a tax-exempt organization, no part of the net earnings of Partners may inure to the benefit of any private individual. Accordingly, there are certain restrictions on the types of business arrangements that Partners may enter into without jeopardizing its tax-exempt status. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities. While management believes that Partners arrangements with private persons and entities are generally consistent with guidance by the 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 Partners.

The IRS has intensified its scrutiny of a broad variety of contractual relationships commonly entered into by tax-exempt hospitals with physicians and for-profit entities, such as income guarantees and joint ventures, and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status. Any suspension, limitation, or revocation of the tax-exempt status of Partners or assessment of significant tax liability could have a material adverse effect on Partners.

In certain instances, pursuant to the intermediate sanctions regulations, penalty excise taxes may be imposed in lieu of (and in certain situations, in addition to) revocation of tax-exempt status where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person," meaning that organization insiders have received some type of unreasonable compensation or excessive economic benefit from the organization. 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."

From time to time, Congress has introduced legislation affecting the tax-exempt status of not-for-profit organizations. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of such organizations, particularly where such authorities have been dissatisfied with the amount of service provided to indigents. Any legislation affecting the tax-exempt status of Partners or imposing increasing taxes related to its property and operations could have a material adverse effect on its future operations or financial condition.

Recently, a series of class action lawsuits were filed against non-profit hospitals on the judicially unprecedented theory that these hospitals breached contracts with federal and state governments by not providing sufficient public benefit to justify their

tax-exempt status. These claims target the practice of certain non-profit hospitals of charging uninsured patients more for services than insured patients and aggressively seeking payment from these uninsured patients for these services. To date, all proceedings in federal court have either been dismissed or remanded to state courts, where several cases are currently pending. To date, at the state court level, there has been only one case in which a written opinion has been issued that is favorable to these claims. In that case, an Illinois state court denied defendant hospitals' motions to dismiss and allowed these claims to proceed to resolve the factual issues underlying the challenged practices.

In 2004, CMS and the OIG provided guidance to hospitals on whether offering discounts to uninsured and underinsured patients is consistent with health care fraud and abuse laws, such as the Anti-Kickback Law, and Medicare reimbursement principles. In particular, the guidance made clear that the Anti-Kickback Law does not prohibit a hospital's offering of discounts to uninsured or underinsured patients, provided that the discount is not linked in any manner to the generation of business payable under a federal health care program. Furthermore, CMS strongly encouraged hospitals to offer discounts and cost-sharing waivers to uninsured and underinsured patients, including Medicare beneficiaries.

While Partners management is not aware of any challenge or investigation concerning Partners and its tax-exempt status, there can be no assurance that none will occur in the future. Such a challenge could have adverse consequences for Partners.

#### **L. Health Insurance Portability and Accountability Act**

Congress enacted The Health Insurance Portability and Accountability Act of 1996 (HIPAA) to mandate portability of health insurance and protect the use and disclosure of personal health information. Congress also 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.

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). The final privacy regulations now in effect address five basic privacy principles: (1) consumer control over health information, (2) boundaries on patient record use and release, (3) safeguards for personal health information, (4) accountability for patient record use and release, and (5) a balance between public responsibility and privacy protections. The final transaction standards regulations require covered entities to conduct certain electronic transactions in compliance with the applicable transactions and code sets standards published by DHHS, although individual payers are permitted temporarily to accept non-compliant claims. The final security regulations require covered entities to safeguard

access to protected health information by the use of encryption, passwords and other similar measures.

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 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. Partners is actively engaged in monitoring compliance with the HIPAA regulations and has a HIPAA Implementation Compliance Plan in place which it believes addresses these regulatory requirements.

#### **M. Affiliation, Merger, Acquisition and Divestiture**

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

#### **N. Antitrust**

Enforcement of the antitrust laws against health care providers 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. From time to time Partners may be involved with all of these types of activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm from allegedly anti-competitive behavior. Liability may be substantial, depending on the facts and circumstances of each case. In addition, if any provider with whom Partners is (or becomes) affiliated is determined to have violated the antitrust laws, Partners may be subject to liability as a joint actor.

A lawsuit filed in May 2002 in the United States District Court for the District of Columbia brought by three plaintiff residents purporting to represent a class of all persons employed as resident physicians in ACGME residency programs named as

defendants seven organizations and 29 institutional defendants, including The General. The complaint alleged that the National Resident Matching Program's match, accreditation standards and the exchange of data on resident compensation and other terms of employment constituted anti-competitive restraints on trade in violation of the antitrust laws. In 2004, Congress enacted a law entitled "Confirmation of Antitrust Status of Graduate Resident Matching Programs," (Match Legislation), and the United States District Court for the District of Columbia dismissed the case against The General and all other defendants on the basis of the Match Legislation and other grounds. The plaintiffs appealed that judgment, and in June, 2006 the United States Court of Appeals for the District of Columbia Circuit affirmed the dismissal. In January, 2007 the United States Supreme Court denied the plaintiffs' petition for certiorari, which ended the case.

While management believes that Partners is currently in compliance with relevant antitrust laws, there can be no assurance that a third party reviewing the activities of Partners would find such activities to be in full compliance with such laws.

#### **O. 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. Health care organizations such as Partners are subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated from, their properties or for the improper off-site disposal of such substances and the harm to persons or property that such release or disposal may cause. At the present time, Partners management is not aware of any pending or threatened environmental claim, investigation or enforcement action, which, if determined adversely to Partners, could have material adverse consequences.

#### **P. Malpractice Lawsuits**

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

#### **Q. Investment and Gift Matters**

Partners derives a substantial portion of its excess of revenues over expenses from income from investments and gifts. Any significant deterioration in the securities markets generally or adverse results in the specific investments which Partners has made, or in its ability to generate investment gains or receive gifts, would reduce its income and

cash flow and, therefore, could impair its ability to finance its operating and capital needs and future growth.

#### **R. Other Risk Factors**

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

- Unionization of additional employees at Partners hospitals that could result in an increased risk of employee strikes and other adverse labor actions and conditions, which in turn could result in a substantial reduction in revenues without a corresponding decrease in costs;
- Increased unemployment or other adverse economic conditions in Partners service area, which might increase the proportion of patients without health insurance benefits or who 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, terrorism and/or business interruption, automobile and comprehensive general liability, that Partners generally carries; and
- Acts of war or acts of so-called terrorists, including the use of weapons capable of mass destruction.

\* \* \*

This letter and the information contained herein are submitted to the Authority for inclusion in the Official Statement relating to the Series G Bonds.

Respectfully submitted,

PARTNERS HEALTHCARE SYSTEM, INC.

By: \_\_\_\_\_

Its: Deputy Treasurer



## **APPENDIX B**

### **Consolidated Financial Statements of Partners HealthCare System, Inc. and Affiliates**

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# **Partners HealthCare System, Inc. and Affiliates**

**Consolidated Financial Statements  
September 30, 2006 and 2005**

# Partners HealthCare System, Inc. and Affiliates

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September 30, 2006 and 2005

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## Report of Independent Auditors

To the Board of Directors of  
Partners HealthCare System, Inc. and Affiliates

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Partners HealthCare System, Inc. and its Affiliates at September 30, 2006 and 2005, and the results of their operations, their changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Partners HealthCare System, Inc. and Affiliates' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

As described in Notes 2, 5 and 8 to the consolidated financial statements in 2006, Partners HealthCare System, Inc. and its Affiliates adopted Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. In accordance with the transition provisions of these pronouncements, the 2006 consolidated financial statements include the cumulative effect of adopting these new pronouncements.



December 8, 2006

**Partners HealthCare System, Inc. and Affiliates**  
**Consolidated Balance Sheets**  
**September 30, 2006 and 2005**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets		
Cash and equivalents	\$ 294,529	\$ 309,220
Investments	977,361	842,141
Collateral held under securities lending arrangements	517,024	-
Current portion of investments limited as to use	776,976	851,375
Patient accounts receivable, net of allowance for bad debts		
2006 - \$85,212; 2005 - \$80,831	573,465	503,526
Research grants receivable	78,640	128,580
Other current assets	172,170	160,798
Receivable for settlements with third-party payers	19,209	7,727
Total current assets	<u>3,409,374</u>	<u>2,803,367</u>
Investments limited as to use, less current portion	1,588,476	1,340,785
Long-term investments	855,150	770,526
Pledges receivable, net and contributions receivable from trusts,		
less current portion	113,107	102,919
Property and equipment, net	2,115,023	1,913,062
Other assets	131,476	116,615
Total assets	<u>\$ 8,212,606</u>	<u>\$ 7,047,274</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term obligations	\$ 44,504	\$ 43,345
Accounts payable and accrued expenses	346,583	421,976
Accrued compensation and benefits	336,446	309,665
Collateral due under securities lending arrangements	517,024	-
Current portion of accrual for settlements with third-party payers	24,698	61,134
Unexpended funds on research grants	130,070	130,607
Total current liabilities	<u>1,399,325</u>	<u>966,727</u>
Other liabilities		
Accrual for settlements with third-party payers, less current portion	18,387	69,971
Accrued professional liability	58,601	54,358
Accrued employee benefits	262,889	204,532
Accrued other	234,110	195,633
	<u>573,987</u>	<u>524,494</u>
Long-term obligations, less current portion	<u>1,480,722</u>	<u>1,525,863</u>
Total liabilities	<u>3,454,034</u>	<u>3,017,084</u>
Commitments and contingencies		
Net assets		
Unrestricted	3,751,742	3,112,699
Temporarily restricted	770,430	693,654
Permanently restricted	236,400	223,837
Total net assets	<u>4,758,572</u>	<u>4,030,190</u>
Total liabilities and net assets	<u>\$ 8,212,606</u>	<u>\$ 7,047,274</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Partners HealthCare System, Inc. and Affiliates**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2006 and 2005**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
<b>Operating revenue</b>		
Net patient service revenue	\$ 4,471,640	\$ 4,006,022
Direct academic and research revenue	803,727	722,344
Indirect academic and research revenue	264,289	240,443
Other revenue	397,682	370,090
Total operating revenue	<u>5,937,338</u>	<u>5,338,899</u>
<b>Operating expenses</b>		
Employee compensation and benefits	3,123,457	2,831,217
Supplies and other expenses	1,472,533	1,332,482
Direct academic and research expenses	803,727	722,344
Depreciation and amortization	243,520	225,077
Provision for bad debts	101,881	95,326
Interest	59,349	56,474
Total operating expenses	<u>5,804,467</u>	<u>5,262,920</u>
Income from operations	<u>132,871</u>	<u>75,979</u>
Nonoperating gains (expenses)		
Income from investments	212,261	128,750
Change in net unrealized gains (losses) on equity method investments	(20,989)	37,439
Gifts and other	182,570	116
Academic and research gifts, net of expenses	118,232	81,437
Total nonoperating gains, net	<u>492,074</u>	<u>247,742</u>
Excess of revenues over expenses	624,945	323,721
Other changes in net assets		
Change in net unrealized gains (losses) on marketable investments	(76,006)	24,742
Funds utilized for property and equipment	10,102	75,221
Investment valuation	-	(60,801)
Other	7,450	38,481
Cumulative effect of accounting changes	72,552	-
Increase in unrestricted net assets	<u>\$ 639,043</u>	<u>\$ 401,364</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Partners HealthCare System, Inc. and Affiliates**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2006 and 2005**

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Net assets at October 1, 2004</b>	<u>\$ 2,711,335</u>	<u>\$ 694,021</u>	<u>\$ 214,653</u>	<u>\$ 3,620,009</u>
Increases (decreases)				
Income from operations	75,979	-	-	75,979
Income from investments	128,750	32,367	117	161,234
Gifts and other	116	33,846	12,176	46,138
Academic and research gifts, net of expenses	81,437	-	-	81,437
Change in net unrealized gains on investments				
Equity method investments	37,439	16,805	-	54,244
Marketable investments	24,742	13,884	-	38,626
Funds utilized for property and equipment	75,221	(71,043)	-	4,178
Investment valuation	(60,801)	(22,404)	-	(83,205)
Other	38,481	(3,822)	(3,109)	31,550
Change in net assets	<u>401,364</u>	<u>(367)</u>	<u>9,184</u>	<u>410,181</u>
<b>Net assets at September 30, 2005</b>	<u>3,112,699</u>	<u>693,654</u>	<u>223,837</u>	<u>4,030,190</u>
Increases (decreases)				
Income from operations	132,871	-	-	132,871
Income from investments	212,261	66,425	805	279,491
Gifts and other	182,570	41,800	11,685	236,055
Academic and research gifts, net of expenses	118,232	-	-	118,232
Change in net unrealized gains (losses) on investments				
Equity method investments	(20,989)	(4,554)	-	(25,543)
Marketable investments	(76,006)	(24,290)	-	(100,296)
Funds utilized for property and equipment	10,102	(3,189)	-	6,913
Other	7,450	584	73	8,107
Cumulative effect of accounting changes	72,552	-	-	72,552
Change in net assets	<u>639,043</u>	<u>76,776</u>	<u>12,563</u>	<u>728,382</u>
<b>Net assets at September 30, 2006</b>	<u>\$ 3,751,742</u>	<u>\$ 770,430</u>	<u>\$ 236,400</u>	<u>\$ 4,758,572</u>

The accompanying notes are an integral part of these consolidated financial statements.



**Partners HealthCare System, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2006 and 2005**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 728,382	\$ 410,181
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Cumulative effect of accounting changes	(72,552)	-
Loss on refunding of debt	-	3,578
Change in additional minimum pension liability	(1,810)	(183)
Change in fair value of derivatives	(7,598)	9,321
Depreciation and amortization	243,520	225,077
Provision for bad debts	101,881	95,326
Gain on sale of property	(1,023)	(10,567)
Gain on licensing settlement, net	(186,000)	-
Investment valuation	-	83,205
Net realized and change in unrealized (gains) losses on investments	(190,554)	(278,909)
Restricted contributions and investment income	(38,673)	(28,453)
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(171,820)	(94,111)
Other current assets	25,188	(20,364)
Pledges receivable and contributions receivable from trusts	(4,028)	(15,856)
Accounts payable and accrued expenses	6,079	26,467
Accrued compensation and benefits	34,751	25,680
Settlements with third-party payers	(9,977)	(31,808)
Unexpended funds on research grants	(537)	23,186
Accrued employee benefits and other	16,453	(8,499)
Net cash provided by operating activities	<u>471,682</u>	<u>413,271</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(467,001)	(372,297)
Proceeds from sale of property	1,216	14,376
Proceeds from licensing settlement, net	186,000	-
Purchase of investments	(1,918,950)	(1,194,889)
Proceeds from sales of investments	1,720,258	934,217
Increase in other assets	(2,587)	(9,210)
Net cash used for investing activities	<u>(481,064)</u>	<u>(627,803)</u>
<b>Cash flows from financing activities</b>		
Payments on long-term obligations	(43,982)	(46,270)
Proceeds from long-term obligations	-	411,566
Deposits into refunding trusts	-	(68,836)
Restricted contributions and investment income	38,673	28,453
Net cash provided by (used for) financing activities	<u>(5,309)</u>	<u>324,913</u>
Net increase (decrease) in cash and equivalents	(14,691)	110,381
Cash and equivalents at beginning of year	309,220	198,839
Cash and equivalents at end of year	<u>\$ 294,529</u>	<u>\$ 309,220</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2006 and 2005

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*(in thousands)*

#### **1. Organization and Community Benefit Commitments**

Partners HealthCare System, Inc. (PHS) is the sole member of The Massachusetts General Hospital (MGH), The Brigham and Women's/Faulkner Hospitals, Inc. (BW/F), The North Shore Medical Center, Inc. (NSMC), Newton-Wellesley Hospital (NWH) and Partners Continuing Care, Inc. (PCC). PHS appoints the two physicians who are the members of Partners Community HealthCare, Inc. (PCHI). PHS, together with all of its affiliates, is referred to as "Partners." Partners currently operates two tertiary and three community acute care hospitals in metropolitan Boston, one facility providing inpatient and outpatient mental health services and three facilities providing inpatient and outpatient services in rehabilitation medicine. Partners also operates physician organizations and practices, home health agencies, nursing homes, and a graduate level program for health professions. Partners provides healthcare services to patients primarily from the Greater Boston area as well as New England and beyond. In addition, Partners is a nonuniversity-based nonprofit private medical research enterprise and is a principal teaching affiliate of the medical and dental schools of Harvard University.

PHS is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Substantially all of PHS' affiliates (except for PCHI) are also tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes related to these entities has been made. PCHI is a taxable entity, and as of September 30, 2006, has available net operating loss carryforwards of approximately \$68,000 for income tax purposes, expiring in 2009 through 2021.

#### **Community Benefit**

Partners' community benefit programs include working with communities to address a number of public health issues including racial disparities, alcohol and substance abuse among young people, infant mortality, domestic violence and cancer. In addition, Partners wants to provide economic opportunity for low income Boston residents through its public school partnerships and workforce development programs helping people to advance into nursing and other health care careers. In addition, twenty-one community health centers are licensed or affiliated with Partners, providing patient access to Partners' hospitals. Partners invested in these health centers' infrastructure, programming and operation and also helped with relocation, renovation, and other capital requirements.

The Massachusetts Attorney General's Community Benefits Guidelines direct health maintenance organizations and nonprofit acute care hospitals to prepare annual reports documenting the status of their community benefit programs and initiatives. These annual reports serve the important purpose of providing the public with access to useful information about these programs and initiatives. Partners files its report annually with the Attorney General. The report summarizes community benefit activities on a systemwide basis. In addition, each of the acute care hospitals within Partners has a community benefit planning and service delivery structure and has filed separate community benefit reports. Partners' nonacute hospitals also file reports annually.

**Partners HealthCare System, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2006 and 2005**

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*(in thousands)*

As part of the health center initiatives, Partners has made conditional community benefit commitments to certain of the health centers. The total commitment approximated \$29,071, of which \$20,474 has been paid through September 30, 2006, with the remainder conditionally payable through 2010. In addition to annual commitments, certain payments made cover more than one year and are being amortized over the term of the commitments as conditions are met. The balance to be amortized is \$3,470 as of September 30, 2006.

**Uncompensated Care**

Partners provides care to all patients regardless of their ability to pay. The cost of providing that care is reflected in the statements of operations. The cost related to those patients, for which Partners receives either partial or no reimbursement for healthcare services provided, is summarized as follows:

**State Programs**

Free care services are partially reimbursed to acute hospitals through the statewide Uncompensated Care Pool (UC Pool). A portion of the funding for the UC Pool is paid by hospitals through a statewide hospital assessment levied each year by the Massachusetts Legislature. All acute care hospitals in the state are assessed their share of this total statewide hospital assessment amount (\$160,000 in 2006 and 2005) based on each hospital's charges for private sector payers. Partners' hospitals report this assessment as a deduction from net patient service revenue.

Hospitals are reimbursed for free care under a prospective, two-tiered reimbursement system whereby certain hospitals, with a high proportion of free care and government funding, are guaranteed 85% to 88% of their projected free care costs. All other hospitals, including all Partners' hospitals, received a pro rata share of the remaining funding. In aggregate, Partners hospitals' pro rata share of uncompensated care funding covered 53% of the cost of free care provided in 2006 and 57% of the cost in 2005, excluding the assessment.

In addition, payments received from Medicaid, reflected in net patient service revenue, do not cover the estimated cost of care provided.

	<b>Years Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Free Care and Medicaid		
Cost of services provided	\$ 576,339	\$ 520,885
Net assessment payment to UC Pool	43,118	41,078
Net reimbursement from UC Pool and Medicaid	<u>(365,751)</u>	<u>(332,060)</u>
Net cost of Free Care and loss on Medicaid	<u>\$ 253,706</u>	<u>\$ 229,903</u>

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2006 and 2005

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*(in thousands)*

The Massachusetts Health Care Reform Law enacted in April 2006 makes changes in the UC Pool's structure, administration and payment methodology, effective October 1, 2007. Services eligible for payment from the UC Pool may change as well, pending the promulgation of regulations. These changes include replacement of the current Uncompensated Care Trust Fund and UC Pool with the Health Safety Net Trust Fund ("HSNTF"); the establishment of the Health Safety Net Office, within the Office of Medicaid, to administer the HSNTF; and the replacement of the current two-tiered prospective "block grant" payment methodology with claims adjudication at Medicare rates of payment. The planned increases in health care coverage are expected to significantly reduce the number of uninsured and therefore, significantly reduce the demand on the HSNTF.

#### **Bad Debts**

In addition to free care and inadequate funding from Medicaid, there are significant losses related to self-pay patients who fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement. The provision for bad debts represents revenues for services provided that are deemed to be uncollectible. The estimated cost of providing these services was approximately \$38,401 and \$35,145 for 2006 and 2005, respectively.

## **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of PHS and its affiliates. Significant interaffiliate accounts and transactions have been eliminated.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable, investments, receivables and accruals for settlements with third-party payers, accrued professional liability, accrued compensation and employee benefits, and accrued other.

#### **Fair Value of Financial Instruments**

The fair value of financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and equivalents, investments, investments limited as to use, patient accounts receivable, pledges receivable, contributions receivable, and accounts payable, except for long-term obligations which is disclosed in Note 6.

#### **Cash and Equivalents**

Cash and equivalents represent money market and highly liquid debt instruments with a maturity at the date of purchase of three months or less.

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2006 and 2005

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(in thousands)

#### **Investments**

In 2005, Partners modified its policy regarding investment valuation. Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) are measured at fair value based on quoted market prices. The change in net unrealized gains and losses on these marketable investments is excluded from excess of revenues over expenses. Investments in hedge funds, private partnerships, and other investments, for which Partners owns more than 5% of the overall investment (equity method investments), are generally recorded at their reported fair value. The change in net unrealized gains and losses on equity method investments is included in excess of revenues over expenses. All other investments are recorded at cost. The impact of this policy modification was to increase excess of revenues over expenses by \$37,439 and to reduce unrestricted and temporarily restricted net assets by \$149,955 and \$58,435, respectively, for the year ended September 30, 2005.

Investment income or loss (including realized gains and losses, interest, dividends, and endowment income distributions) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Investment income or loss is reported net of investment-related expenses.

A write-down in the cost basis of investments is recorded when the decline in fair value of investments has been judged to be other than temporary. Depending on any donor-imposed restrictions on the underlying investments, the amount of the write down is reported as a realized loss in either temporarily restricted net assets or in excess of revenues over expenses, with no adjustment in the cost basis for subsequent recoveries in fair value.

Partners has an endowment spending policy for pooled endowment funds. A fixed distribution rate is determined each year for spending which will come from either income and/or net accumulated gains in market value.

#### **Investments Limited as to Use**

Investments limited as to use primarily include assets whose use is contractually limited by external parties and assets set aside by the boards (or management) for identified purposes, over which the boards (or management) retain control and may, at their discretion, subsequently use for other purposes. Certain investments corresponding to deferred compensation are accounted for such that all income and appreciation (depreciation) is recorded as a direct addition (reduction) to the asset balance and corresponding liability balance.

#### **Securities Loaned**

Investments that have been loaned to another institution are reported as pledged assets in the consolidated financial statements. Cash or investments received as collateral on the securities lending transaction are also reported as assets on the balance sheet. Because the collateral must be returned in the future, a corresponding liability is also reported in the consolidated financial statements.

#### **Derivative Instruments**

All derivatives are recognized on the balance sheet at fair value. Partners designates at inception whether the derivative contract is considered hedging or nonhedging for accounting purposes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. For SFAS 133 hedges, Partners formally

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2006 and 2005

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*(in thousands)*

documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. Partners uses its derivatives designated as hedging for accounting purposes as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions caused by changes in interest rates. Changes in the fair value of derivatives designated for hedging activities that are highly effective as hedges are recorded as a component of other changes in net assets. Hedge ineffectiveness, if any, is recorded in excess of revenues over expenses. For non-SFAS 133 hedges, changes in the fair value of derivatives are recorded in excess of revenues over expenses.

#### **Patient Accounts Receivable**

Partners receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care payers, commercial insurance companies, and patients. Patient accounts receivable are reported net of contractual allowances and reserves for denials, uncompensated care, and doubtful accounts. The level of reserves is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer health care coverage and other collection indicators.

#### **Property and Equipment**

Property and equipment is reported on the basis of cost less accumulated depreciation. Donated items are recorded at fair market value at the date of contribution. All research grants received for capital are recorded in the year of expenditure as a change in net assets. Property and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Depreciation of property and equipment is calculated by use of the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives, which generally range from three to forty years. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

#### **Other Assets**

Other assets consist of long-term receivables, deferred financing costs, intangible assets, and investments in healthcare related limited partnerships. Deferred financing costs are amortized over the terms of the related obligations.

The excess of the purchase price over the fair value of tangible assets of physician groups acquired is being amortized over periods ranging from five years to twenty years based on the estimated period of benefits from the acquisition. The carrying value of other assets is reviewed if the facts and circumstances suggest that it may be impaired.

#### **Compensated Absences**

In accordance with formal policies concerning vacation and other compensated absences, accruals of \$136,431 and \$122,653 were recorded as of September 30, 2006 and 2005, respectively.

#### **Unexpended Funds on Research Grants**

Research grants received in advance of corresponding grant expenditures are accounted for as a direct addition to investments limited as to use and unexpended funds on research grants.

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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#### **Asset Retirement Obligations**

Asset retirement obligations, reported in accrued other, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Partners records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Partners reduces these liabilities when the related obligations are settled.

#### **Self-Insurance Reserves**

Partners is generally self-insured for employee healthcare, disability, workers' compensation and certain other employee benefits. These costs are accounted for on an accrual basis to include estimates of future payments for claims incurred.

#### **Net Assets**

Permanently restricted net assets include only the historical dollar amounts of gifts which are required by donors to be permanently retained. Temporarily restricted net assets include gifts, and income and gains on permanently restricted net assets which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period).

Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or law. Unless permanently restricted by the donor, realized and unrealized net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by Partners in accordance with policies established by Partners and the Massachusetts Management of Institutional Funds Act. Net losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the market value exceeds book value. Unrestricted net assets include all the remaining net assets of Partners. See Note 11 for further information on the composition of restricted net assets.

#### **Gifts and Grants**

Unconditional promises to give cash and other assets to Partners are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts in the accompanying financial statements.

Gifts of long-lived assets with explicit restrictions that specify use of assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets if the assets are not placed in service during the year.

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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Grants and contracts are recognized as unrestricted revenues as the related expenditures are incurred. Partners recognizes indirect cost recoveries at predetermined rates for U.S. Government grants and contracts and negotiated rates for other grants and contracts.

#### **Statement of Operations**

All activities of Partners deemed by management to be ongoing, major and central to the provision of healthcare services, training and research activities are reported as operating revenue and expenses. Other activities are deemed to be nonoperating and include unrestricted gifts (net of fundraising expenses), net change in unexpended academic and research gifts, change in net unrealized gains and losses on equity method investments, and substantially all investment income (including realized gains and losses). Academic and research gifts largely consist of donor contributions to the entity (and the related investment income including realized gains and losses) designated to support the clinical, teaching or research efforts of a physician or department as directed by the donor.

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include changes in unrealized gains and losses on marketable investments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for acquisition of such assets). In 2005, Partners altered its practice of accruing for a certain nonvested employee benefit. This benefit will now be recognized on a pay-as-you-go basis. Accordingly, the liability previously recorded was eliminated and a \$40,600 adjustment was recorded as an increase to other changes in unrestricted net assets.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify and assess the materiality of financial statement misstatements. Although the SAB is directly applicable to public companies, Partners has elected to follow the prescribed guidance.

Traditionally, there have been two accepted methods for quantifying and assessing the materiality of the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The rollover method focuses primarily on the impact of a misstatement on the statement of operations - including the reversing effect of prior year misstatements - but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year misstatements on the statement of operations. Prior to the application of SAB 108, Partners used the rollover method for quantifying and assessing the materiality of financial statement misstatements.

SAB 108 establishes an approach that requires quantification and assessment of the materiality of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification and assessment of the materiality of misstatements under both the iron curtain and the rollover methods. SAB 108 permits companies to initially apply its provisions either by (i) restating prior financial statements



# Partners HealthCare System, Inc. and Affiliates

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as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of unrestricted net assets. Partners elected to record the effects of applying SAB 108 using the cumulative effect transition method.

Prior to fiscal 2006, Partners recorded estimated accruals for settlements with third-party payers and certain other liabilities above specific accrual amounts. In addition, changes in third-party payer settlement estimates were generally amortized into income over a period not to exceed five years rather than recorded in total in the year of the change in estimate. The net impact of the amortization policy was to increase net patient service revenue by \$25,580 in 2005. The impact of the change in other assets and other liabilities was to decrease operating expense by \$18,355 in 2005. The adoption of SAB 108 as of October 1, 2005 resulted in a decrease in accruals for settlements with third-party payers of \$74,144 and a decrease in accounts payable and accrued expenses of \$94,372. Adjustment of other differences resulted in a decrease in property and equipment of \$25,019 and other balance sheet accounts by \$5,280. The impact of these adjustments resulted in a net increase of \$138,217 in unrestricted net assets. For the year ended September 30, 2006, adjustments to prior year estimates resulted in an increase to income from operations of \$33,846.

#### **Net Patient Service Revenue**

Partners maintains agreements with the Centers for Medicare and Medicaid Services (CMS) of the United States Department of Health and Human Services (DHHS) under the Medicare Program, The Commonwealth of Massachusetts under the Medical Assistance Program (Medicaid) and various managed care payers that govern payment to Partners for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care. Certain "pay for performance" contracts also provide for payments that are contingent upon meeting agreed upon quality and efficiency measures.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, 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 the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Contracts, laws and regulations governing the Medicare, Medicaid, and the uncompensated care pool programs (Note 1) and managed care payer arrangements are complex and 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. A portion of the accrual for settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year.

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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#### **Charity Care**

Partners provides either full or partial charity care to patients who cannot afford to pay for their medical services based on income and family size. Charity care is generally available to qualifying patients for medically necessary services. Partners reports certain bad debts related to emergency services as charity care. Charity care is reported at gross charges with an offsetting allowance, as there is no expectation of collection. Accordingly, there is no net patient service revenue related to charity care.

#### **Other Revenue**

Other revenue includes institutional revenue (for example, billing for services provided to other healthcare providers), royalties and management services.

#### **Reclassifications**

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation. Research grants receivable is reflected separately from other current assets and is reported net of a reserve against uncollectible balances. The reserve was previously classified as a component of accounts payable and accrued expenses. Certain long-term liabilities have been reclassified from accrual for settlements with third-party payers to accrued other.

### **3. Investments and Investments Limited as to Use**

Investments are either separately invested or included in pooled investment funds. The Partners HealthCare System Pooled Investment Accounts (Partnership) is structured as a single general partnership composed of four investment pools, with PHS and substantially all of its affiliates participating in the pools as partners. Each partner's interest in the Partnership is based on its underlying investments in one or more of the four separate pools. Amounts included in the investment pools are accounted for using the market value method whereby each partner is assigned a number of units based on the market value of the assets of a pool at the time of entry of the funds into the pool. Current market value is used to determine the number of units allocated to additional amounts placed in a pool and to value withdrawals from a pool. Income from investments of the pools, including realized gains and losses, is allocated on a unitized basis to a partner based on the partner's share of units in a pool.

The Partnership invests in hedge funds and other private partnerships whose assets include equity, fixed income, and other investments. As of September 30, 2006, Partners has issued commitments of approximately \$339,000 to fund partnerships, of which approximately \$186,000 has been funded.

Certain private partnerships and other investments, where Partners' ownership interest is generally less than or equal to 5%, are reflected in the balance sheet at cost. The valuation adjustment was \$267,125 and \$208,672 as of September 30, 2006 and 2005, respectively.

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The composition of investments and investments limited as to use is as follows:

		<b>September 30, 2006</b>		
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Pooled investments				
Invested cash equivalents	\$ 371,787	\$ -	\$ -	\$ 371,787
Equities	969,777	272,133	(14,277)	1,227,633
U.S. Government, domestic and foreign fixed income securities	796,676	13,379	(10,555)	799,500
Private partnerships and other	1,393,249	312,070	(753)	1,704,566
Accrued interest and dividends	9,407	-	-	9,407
	<u>3,540,896</u>	<u>597,582</u>	<u>(25,585)</u>	<u>4,112,893</u>
Separately invested				
Invested cash equivalents	148,614	-	-	148,614
Equities	87,903	12,760	(123)	100,540
U.S. Government and domestic fixed income securities	51,125	43	-	51,168
Other	51,847	-	-	51,847
Accrued interest and dividends	26	-	-	26
	<u>339,515</u>	<u>12,803</u>	<u>(123)</u>	<u>352,195</u>
	<u>\$ 3,880,411</u>	<u>\$ 610,385</u>	<u>\$ (25,708)</u>	<u>4,465,088</u>
Less valuation adjustment				<u>267,125</u>
				<u>\$ 4,197,963</u>

		<b>September 30, 2005</b>		
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Pooled investments				
Invested cash equivalents	\$ 280,863	\$ -	\$ -	\$ 280,863
Equities	869,938	384,688	(13,527)	1,241,099
U.S. Government, domestic and foreign fixed income securities	747,559	14,095	(9,318)	752,336
Private partnerships and other	1,031,219	262,190	(1,169)	1,292,240
Accrued interest and dividends	6,265	-	-	6,265
	<u>2,935,844</u>	<u>660,973</u>	<u>(24,014)</u>	<u>3,572,803</u>
Separately invested				
Invested cash equivalents	258,578	-	-	258,578
Equities	98,286	12,718	(41)	110,963
U.S. Government and domestic fixed income securities	46,290	7	-	46,297
Other	24,732	-	-	24,732
Accrued interest and dividends	126	-	-	126
	<u>428,012</u>	<u>12,725</u>	<u>(41)</u>	<u>440,696</u>
	<u>\$ 3,363,856</u>	<u>\$ 673,698</u>	<u>\$ (24,055)</u>	<u>4,013,499</u>
Less valuation adjustment				<u>208,672</u>
				<u>\$ 3,804,827</u>

**Partners HealthCare System, Inc. and Affiliates**  
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The fair value and gross unrealized losses of investments and investments limited as to use, with a fair value less than cost, that are not deemed to be other-than-temporarily impaired at September 30, 2006 are as follows:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Pooled investments				
Equities	\$ 150,794	\$ (11,880)	\$ 16,846	\$ (2,397)
U.S. Government, domestic and foreign fixed income securities	160,643	(5,825)	79,345	(4,730)
Private partnerships and other	61,680	(752)	45	(1)
	<u>373,117</u>	<u>(18,457)</u>	<u>96,236</u>	<u>(7,128)</u>
Separately invested				
Equities	-	-	8,095	(123)
	<u>\$ 373,117</u>	<u>\$ (18,457)</u>	<u>\$ 104,331</u>	<u>\$ (7,251)</u>

Securities with unrealized losses are reviewed each quarter to determine whether these investments are other-than-temporarily impaired. This review considers factors including the anticipated holding period for the investment and the extent and duration of below cost valuation. For specific securities, these factors include evidence of continuing debt service payments and prospects for principal repayment (fixed income), the age of investment relative to historical valuation patterns (private equity), and historical market volatility, prospects and price trends of individual securities relative to industry peers (equity). Based on management's evaluation of investments with a fair value less than cost at September 30, 2006, no other-than-temporary impairment was determined to have occurred.

Investments and investments limited as to use are recorded in the balance sheet as follows:

	September 30,	
	2006	2005
Current assets		
Investments	\$ 977,361	\$ 842,141
Current portion of investments limited as to use	<u>776,976</u>	<u>851,375</u>
	1,754,337	1,693,516
Investments limited as to use, less current portion	1,588,476	1,340,785
Long-term investments	<u>855,150</u>	<u>770,526</u>
	<u>\$ 4,197,963</u>	<u>\$ 3,804,827</u>

**Partners HealthCare System, Inc. and Affiliates**  
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*(in thousands)*

Investments limited as to use consist of the following:

	<b>September 30, 2006</b>		<b>September 30, 2005</b>	
	<b>Current Portion</b>	<b>Long-Term Portion</b>	<b>Current Portion</b>	<b>Long-Term Portion</b>
Internally designated funds				
Reserved for capital expenditures	\$ 368,142	\$ -	\$ 364,979	\$ -
Unexpended academic and research gifts	-	1,204,976	-	876,739
Other	239,774	256,657	308,971	249,416
	<u>607,916</u>	<u>1,461,633</u>	<u>673,950</u>	<u>1,126,155</u>
Externally limited funds				
Unexpended funds on research	130,070	-	130,607	-
Contributions held for others	17,397	-	11,906	-
Professional liability trust fund	-	36,989	-	36,056
Held by trustees under debt and other agreements	21,593	89,854	34,912	178,574
	<u>169,060</u>	<u>126,843</u>	<u>177,425</u>	<u>214,630</u>
	<u>\$ 776,976</u>	<u>\$ 1,588,476</u>	<u>\$ 851,375</u>	<u>\$ 1,340,785</u>

**Partners HealthCare System, Inc. and Affiliates**  
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Investment income and gains (losses) from cash and equivalents, investments (including long-term) and investments limited as to use are comprised of the following:

	<b>Years Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Unrestricted		
Dividends, interest and other income	\$ 80,157	\$ 62,748
Endowment income distributions, net of reinvested gains	21,388	22,030
Net realized gains (losses) on investments		
Trading gains	232,965	139,937
Other than temporary impairment	(1,382)	(4,167)
Change in net unrealized gains (losses) on equity method investments, net of recoveries on endowment funds	(20,989)	37,439
Total investment activity included in excess of revenues over expenses	312,139	257,987
Change in net unrealized gains (losses) on marketable investments	(76,006)	24,742
Total unrestricted investment activity	236,133	282,729
Temporarily restricted		
Dividends and interest income	10,970	9,291
Endowment income distributions	(29,181)	(27,076)
Net realized gains (losses) on investments		
Trading gains	85,106	51,873
Other than temporary impairment	(470)	(1,721)
	66,425	32,367
Change in net unrealized gains (losses) on investments		
Equity method investments	(4,578)	16,805
Marketable investments	(24,290)	13,931
Recoveries on endowment funds	24	(47)
	(28,844)	30,689
Total temporarily restricted investment activity	37,581	63,056
Permanently restricted		
Dividends and interest income	631	-
Net realized gains on investments	174	117
Total permanently restricted investment activity	805	117
	<u>\$ 274,519</u>	<u>\$ 345,902</u>

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*(in thousands)*

Investment income included in operating results and excess of revenues over expenses are comprised of the following:

	<b>Years Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Investment income included in operations and reported in		
Other revenue	\$ 13,878	\$ 16,885
Investment income included in nonoperating gains (expenses) and reported in		
Income from investments	212,261	128,750
Change in net unrealized gains (losses) on equity method investments	(20,989)	37,439
Academic and research gifts, net of expenses	<u>106,989</u>	<u>74,913</u>
Total investment activity included in excess of revenues over expenses	<u>\$ 312,139</u>	<u>\$ 257,987</u>

**Securities Lending**

The Partnership may lend securities to qualified financial institutions through a program administered by the Partnership custodian. All loans are callable at any time and are fully collateralized. Income is earned based on the collateral held and invested during the period of lending. Cash collateral requirements are 102% and 105% for domestic and foreign securities, respectively. The custodian continually monitors borrowers' credit-worthiness and protects against borrower default through full indemnification. If a borrower failed to return a loaned security whose market value has increased over the amount in collateral, the custodian will cover the difference. The custodian will also cover operational losses, such as for the failure of the borrower to make substitute dividend payments to the lender.

The fair value of loaned securities and related collateral at September 30, 2006 is as follows:

	<b>2006</b>	
	<b>Loaned Securities</b>	<b>Collateral</b>
Equities	\$ 170,358	\$ 177,704
U.S. government, domestic and foreign fixed income securities	<u>332,566</u>	<u>339,320</u>
	<u>\$ 502,924</u>	<u>\$ 517,024</u>

Income generated by the Partnership from securities lending arrangements was \$506 for the year ended September 30, 2006.

**Partners HealthCare System, Inc. and Affiliates**  
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**4. Pledges Receivable and Contributions Receivable from Trusts**

Pledges receivable represent unconditional promises to give and are net of allowances for uncollectible amounts. Pledges are recorded at the present value of their estimated future cash flows. Pledges collectible within one year are classified as other current assets and total \$50,433 and \$56,593 as of September 30, 2006 and 2005, respectively. Estimated cash flows due after one year are discounted using published treasury bond and note yields that are commensurate with estimated collection risks. The blended discount rate was 4.6% and 4.2% for 2006 and 2005, respectively. Pledges are expected to be collected as follows:

	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Amounts due		
Within one year	\$ 61,544	\$ 63,587
In one to five years	93,109	88,302
In more than five years	16,072	10,873
Total pledges receivable	<u>170,725</u>	<u>162,762</u>
Less: Unamortized discount	15,644	12,880
	<u>155,081</u>	<u>149,882</u>
Less: Allowance for uncollectibles	14,069	11,257
Net pledges receivable	<u>141,012</u>	<u>138,625</u>
Contributions receivable from trusts	22,528	20,887
	<u>\$ 163,540</u>	<u>\$ 159,512</u>

**5. Property and Equipment**

Property and equipment consists of the following:

	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Land and land improvements	\$ 74,223	\$ 56,832
Buildings and building improvements	2,655,879	2,524,846
Equipment	890,330	1,004,360
Construction in progress	249,463	136,037
	<u>3,869,895</u>	<u>3,722,075</u>
Accumulated depreciation	(1,754,872)	(1,809,013)
Property and equipment, net	<u>\$ 2,115,023</u>	<u>\$ 1,913,062</u>

Depreciation expense for the years ended September 30, 2006 and 2005 was \$241,428 and \$222,798, respectively. Interest costs, net of interest earned, aggregating \$6,245 and \$2,788 were capitalized in 2006 and 2005, respectively.



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For the years ended September 30, 2006 and 2005, fully depreciated assets with an original cost of \$320,744 and \$175,829, respectively, were written off.

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies that the term conditional asset retirement obligations as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists.

Partners implemented FIN 47 at September 30, 2006 and recorded conditional asset retirement obligations of approximately \$36,282. These conditional asset retirement obligations relate to certain materials requiring specific remediation efforts and contractual obligations to remove leasehold improvements thereby restoring leased space to its original condition. Upon implementation of FIN 47, Partners recorded a \$30,792 reduction in unrestricted net assets which is recorded as a cumulative effect of a change in accounting principle, as well as an increase to assets of \$5,490.

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**6. Long-Term Obligations**

Long-term obligations issued by PHS and its affiliates consist of the following:

	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Massachusetts Health and Educational Facilities Authority Revenue Bonds		
Partners HealthCare System Series A, average interest rate of 5.33%, final maturity in 2024	\$ 152,625	\$ 157,870
Partners HealthCare System Series B, average interest rate of 5.21%, final maturity in 2029	181,763	187,509
Partners HealthCare System Series C, average interest rate of 5.75%, final maturity in 2032	162,445	165,212
Partners HealthCare System Series D, variable interest rate of 3.72% and 2.68% at September 30, 2006 and 2005, respectively, final maturity in 2038	315,515	322,930
Partners HealthCare System Series E, average interest rate of 4.99%, final maturity in 2023	48,650	53,381
Partners HealthCare System Series F, variable interest rate of 3.51% and 2.61% at September 30, 2006 and 2005, respectively, final maturity in 2040	408,954	411,513
Partners HealthCare System Series P, variable interest rate of 3.75% and 2.75% at September 30, 2006 and 2005, respectively, final maturity in 2027	150,000	150,000
Massachusetts General Hospital Series F, average interest rate of 6.25%, final maturity in 2012	48,092	54,398
Newton-Wellesley Hospital Series F, variable interest rate of 3.63% and 2.63% at September 30, 2006 and 2005, respectively, final maturity in 2025	20,900	20,900
Newton-Wellesley Hospital Series G, average interest rate of 5.96%, final maturity in 2015	21,980	23,880
North Shore Medical Center Series A, average interest rate of 5.30%, final maturity in 2006	-	2,035
Capital lease obligations	6,223	10,829
Other obligations	8,079	8,751
	<u>1,525,226</u>	<u>1,569,208</u>
Less current portion	<u>44,504</u>	<u>43,345</u>
	<u>\$ 1,480,722</u>	<u>\$ 1,525,863</u>

**Massachusetts Health and Educational Facilities Authority (Authority) Revenue Bonds**

In June 2005, PHS issued Partners HealthCare System, Inc. Series F Revenue Bonds of \$407,525 plus bond premium of \$4,041. The bond proceeds, net of issuance costs of \$5,321, were used to current refund the NWH Series E Revenue Bonds and to finance certain capital projects and construction period interest totaling \$69,235, \$319,413 and \$17,597, respectively.

As of September 30, 2006, approximately \$5,400 of refunded revenue bonds, which are considered extinguished for accounting purposes, remain outstanding and will be fully redeemed by 2007.

The PHS Revenue Bonds are supported by guarantees from The Brigham and Women's Hospital, Inc. (BWH), MGH and The General Hospital Corporation (General) which may be suspended under certain conditions. The MGH Revenue Bonds are collateralized by a lien on the unrestricted gross receipts of the General and MGH. PHS guarantees the payment of the NWH bonds.

# Partners HealthCare System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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The Authority Revenue Bond Agreements contain certain covenants, including a minimum debt service coverage ratio and limitations on additional indebtedness and asset transfers.

#### **Derivatives**

Partners uses derivative financial instruments principally to manage interest rate risk and has entered into derivatives to lock-in fixed rates for anticipated issuance and refunding of debt. These agreements involve the exchange of fixed rate payments by Partners for variable rate payments from five counterparties, based on a percentage of the London Interbank Offered Rate (LIBOR).

As of September 30, 2006, the notional amount of the derivative financial instrument for currently outstanding debt entered into by Partners was \$395,100. Partners has also entered into forward starting swaps in a notional amount of \$450,000 for a portion of the debt expected to be issued in 2007 through 2015. Expiration dates of the derivative contracts range between July 1, 2015 and July 1, 2042.

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either Partners or the counterparty could terminate the contract in accordance with its terms. Termination results in the payment of a termination amount by one party that attempts to compensate the other party for its economic losses. The cost of termination would depend, in major part, on then current interest rate levels, and if interest rate levels were then lower than those specified in the derivative contract, the cost of termination to Partners could be substantial.

The fair value of these derivatives was \$37,171 and \$44,769 as of September 30, 2006 and 2005, respectively, and has been reflected as a liability on the balance sheet. The impact of the change in fair value has been to increase (reduce) net assets by \$4,443 and (\$7,281) and increase (reduce) excess of revenue over expenses by \$3,155 and (\$2,040) for the years ended September 30, 2006 and 2005, respectively.

Partners also enters into foreign currency options and futures primarily as hedges on securities and indices. Forward contracts are used as currency hedges. These agreements are limited in use and generally do not exceed one year.

#### **Other**

Aggregate maturities and payments of long-term obligations, including obligations under capital leases (Note 7), during the next five years are as follows: 2007 - \$44,504; 2008 - \$37,004; 2009 - \$39,052; 2010 - \$37,801 and 2011 - \$38,795.

The fair value of long-term obligations was \$1,556,653 and \$1,601,198 as of September 30, 2006 and 2005, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

Interest expense approximates interest paid, net of capitalized interest, during the years ended September 30, 2006 and 2005.

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**7. Commitments**

**Leases**

Partners has capital and noncancelable operating leases for certain buildings and equipment including operating leases for certain office and research space between the General and Massachusetts Biomedical Research Corporation (MBRC). Minimum future lease commitments under noncancelable leases, including a total commitment of \$405,289 on the MBRC leases, for the next five years and thereafter are as follows:

	<b>Capital Leases</b>	<b>Operating Leases</b>
2007	\$ 3,177	\$ 182,027
2008	1,354	169,431
2009	1,316	159,924
2010	877	144,094
2011	-	131,657
Thereafter	-	827,121
Total lease payments	6,724	<u>\$ 1,614,254</u>
Less amount representing interest	501	
Capital lease obligations at September 30, 2006	<u>\$ 6,223</u>	

Rental expense under operating leases approximated \$231,652 in 2006 and \$202,132 in 2005, including expenses under the MBRC leases of \$41,760 and \$41,751 in 2006 and 2005, respectively.

MBRC is a related party but is not controlled by Partners, and therefore not consolidated within these financial statements. The President of MGH, or his designee, serves ex-officio as one of three members on the Board of Trustees of MBRC. A significant portion of MBRC's operating results are generated from the operating leases with the General. Summarized financial data for MBRC as of and for the years ended September 30, 2006 and 2005 is as follows:

	<b>Years Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Total operating revenue	\$ 43,684	\$ 43,724
Total operating expenses	30,000	32,960
Income from operations	13,684	10,764
Increase in unrestricted net assets	20,130	18,441

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	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Current assets	\$ 60,337	\$ 68,846
Total assets	246,739	248,722
Current liabilities	36,883	36,676
Total liabilities	139,638	161,751
Unrestricted net assets	107,101	86,971

**Construction Projects**

BWH is constructing a building which will house its center for cardiovascular care, consisting of inpatient beds, operating rooms, outpatient procedure and clinic areas, and ancillary support departments. Construction began in fiscal year 2005, and \$66,787 has been recorded in construction in progress and approximately \$153,388 in construction contracts are outstanding as of September 30, 2006 related to this project. The total project cost is expected to be approximately \$383,000.

In addition, BWH has entered into a letter of intent with a developer to construct a 12-story, 376,000 square foot research, clinical and office building. A master planning and permitting process is currently underway. Construction is anticipated to begin in May 2008. Occupancy is currently estimated at November 2011. The total project cost is expected to be approximately \$268,000.

The General is constructing a building which will house a relocated and expanded radiation oncology department, expanded emergency services, three levels of operating and procedure suites, and 150 neurosciences and medical oncology ICU and acute patient rooms. In addition, two floors will be dedicated to a new sterile processing department and a new central receiving dock. As of September 30, 2006, costs incurred in connection with the new building approximated \$3,300, with approximately \$16,700 in outstanding construction contracts. Construction began in November 2006 and the total project cost is expected to be approximately \$579,000.

**8. Pension and Postretirement Healthcare Benefit Plans**

Substantially all employees of Partners are covered under various noncontributory defined benefit pension plans and various defined contribution pension plans. In addition, certain affiliates provide subsidized healthcare benefits for retired employees on a self-insured basis, with the benefit obligation being partially funded. These benefits are administered through an insurance company and are accounted for on the accrual basis, which includes an estimate of future payments for claims incurred.

Partners uses a measurement date of June 30 for their defined benefit and postretirement healthcare benefit plans.

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Total expense for these plans consists of the following:

	<b>Years Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Defined benefit plans	\$ 69,244	\$ 58,718
Defined contribution plans	83,761	73,437
Postretirement healthcare benefit plans	7,353	5,505
	<u>\$ 160,358</u>	<u>\$ 137,660</u>

**Benefit Obligations**

<b>Change in Benefit Obligations</b>	<b>Defined Benefit Plans</b>		<b>Postretirement Healthcare Benefit Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Benefit obligations at beginning of year	\$ 1,640,747	\$ 1,391,833	\$ 80,997	\$ 65,505
Service cost	93,126	80,826	1,728	1,225
Interest cost	96,125	89,360	4,579	4,005
Assumption changes	72,728	92,928	(2,484)	6,487
Actuarial (gain) loss	65,386	29,313	(18,484)	8,092
Plan amendments	-	7,813	-	-
Benefits paid	(64,662)	(51,326)	(6,202)	(5,304)
Employee contributions	-	-	2,592	987
Benefit obligations at end of year	<u>\$ 1,903,450</u>	<u>\$ 1,640,747</u>	<u>\$ 62,726</u>	<u>\$ 80,997</u>

The accumulated benefit obligation for all defined benefit pension plans at the end of 2006 and 2005 was \$1,706,721 and \$1,472,019, respectively.

<b>Weighted-Average Assumptions Used to Determine End of Year Benefit Obligation</b>	<b>Defined Benefit Plans</b>		<b>Postretirement Healthcare Benefit Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Discount rate	6.25%	5.75%	6.25%	5.75%
Rate of compensation increase				
Professional staff	6.02%	6.02%	N/A	N/A
Other than professional staff	5.0%-5.1%	5.0%-5.1%	N/A	N/A
Healthcare cost trend rate for next year	N/A	N/A	9.0%	10.0%
Rate to which the cost trend rate is to decline	N/A	N/A	5.0%	5.0%
Year that rate reaches the ultimate trend rate	N/A	N/A	2011	2011

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

	<b>One-Percentage-Point Increase</b>	<b>One-Percentage-Point Decrease</b>
Effect on postretirement benefit obligation	\$ 1,642	\$ (1,496)

**Plan Assets**

<b>Change in Plan Assets</b>	<b>Defined Benefit Plans</b>		<b>Postretirement Healthcare Benefit Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Fair value of plan assets at beginning of year	\$ 1,605,893	\$ 1,393,843	\$ 7,086	\$ 5,358
Actual return on plan assets	242,408	204,396	432	351
Employer contributions	65,253	58,980	5,579	5,694
Employee contributions	-	-	2,592	987
Benefits paid	(64,662)	(51,326)	(6,202)	(5,304)
Fair value of plan assets at end of year	<u>\$ 1,848,892</u>	<u>\$ 1,605,893</u>	<u>\$ 9,487</u>	<u>\$ 7,086</u>

Partners' benefit plan weighted-average target asset allocation ranges for 2007 as well as actual allocations, by asset category for 2006 and 2005, are as follows:

<b>Asset Category</b>	<b>Defined Benefit Plans</b>			<b>Postretirement Healthcare Benefit Plans</b>		
	<b>Target Allocation</b>	<b>Percentage of Plan Assets</b>		<b>Target Allocation</b>	<b>Percentage of Plan Assets</b>	
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Domestic equity securities	6% - 26%	18.9%	23.2%	40% - 60%	47.8%	63.5%
Foreign equity securities	17% - 37%	25.5%	22.3%	10% - 30%	17.0%	4.5%
Fixed income securities	1% - 21%	16.0%	12.8%	20% - 30%	35.2%	32.0%
Less market sensitive strategies	20% - 40%	27.1%	25.4%			
Inflation protection strategies	6% - 25%	12.5%	16.3%			
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Less market sensitive investments include hedge funds employing long/short equity, diversified arbitrage and absolute return strategies, which in the aggregate are expected to generate positive returns on a consistent basis. Inflation protection strategies include investments in real estate assets/commodities, equity securities of commodity related companies and inflation protection bonds.

Partners' investment objective is to achieve the highest reasonable total return after considering (i) plan liabilities, (ii) funding status and projected cash flows, (iii) projected market returns, valuations and correlations for various asset classes, and (iv) Partners' ability and willingness to incur market risk. Partners' Investment Committee actively manages plan assets in order to add incremental returns by manager selection and asset allocation (increasing/decreasing allocations within allowable ranges based on current and projected valuations).

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**Funded Status**

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. Partners has elected to early adopt the balance sheet recognition provisions of SFAS 158 as of September 30, 2006. The impact of adoption resulted in a net decrease of \$34,873 in unrestricted net assets, which has been recorded as a cumulative effect of a change in accounting principle.

SFAS 158 will also require companies to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes, thus eliminating the opportunity to use a measurement date up to 90 days prior to the balance sheet date. The effective date for this change is 2009. Partners currently uses a June 30 measurement date and will adopt a September 30 measurement date in 2009 as required. Converting to the new measurement date will require a one-time adjustment to unrestricted net assets per the transition guidance in SFAS 158. None of the changes prescribed by SFAS 158 had an impact on Partners' results of operations or cash flows in 2006.

The funded status of the plans, reconciled to the amounts reported in the balance sheet, follows:

End of Year	Defined Benefit Plans		Postretirement Healthcare Benefit Plans	
	2006	2005	2006	2005
Fair value of plan assets at measurement date	\$ 1,848,892	\$ 1,605,893	\$ 9,487	\$ 7,086
Contributions received after measurement date	16,975	14,326	1,054	315
Benefit obligations at measurement date	(1,903,450)	(1,640,747)	(62,726)	(80,997)
Funded status	(37,583)	(20,528)	(52,185)	(73,596)
Amounts not yet recognized				
Unrecognized actuarial net loss	-	11,667	-	31,491
Unrecognized prior service credit	-	(1,068)	-	(174)
Unrecognized net transition asset	-	(305)	-	-
Net amount recognized	\$ (37,583)	\$ (10,234)	\$ (52,185)	\$ (42,279)
<b>Amounts recognized in the balance sheet consist of</b>				
Current assets	\$ -	\$ -	\$ 116	\$ 846
Noncurrent assets	18,196	-	-	-
Current liabilities	-	-	(3,172)	-
Long-term liabilities	(55,779)	(12,044)	(49,129)	(43,125)
Unrestricted net assets	-	1,810	-	-
	\$ (37,583)	\$ (10,234)	\$ (52,185)	\$ (42,279)
<b>Amounts recognized in unrestricted net assets consist of</b>				
Actuarial net loss	\$ 26,741		\$ 9,027	
Prior service credit	(735)		(160)	
	\$ 26,006		\$ 8,867	
Decrease in minimum liability included in unrestricted net assets	\$ (1,810)		N/A	



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The incremental effect of applying SFAS 158 on individual line items in the balance sheet as of September 30, 2006 is as follows:

	<b>Before Application of SFAS 158</b>	<b>Defined Benefit Plan Adjustments</b>	<b>Postretirement Healthcare Benefit Plan Adjustments</b>	<b>After Application of SFAS 158</b>
Other current assets	\$ 173,263	\$ -	\$ (1,093)	\$ 172,170
Other assets	113,280	18,196	-	131,476
Total assets	8,195,503	18,196	(1,093)	8,212,606
Accrued compensation and benefits	333,274	-	3,172	336,446
Accrued employee benefits	214,085	44,202	4,602	262,889
Total liabilities	3,402,058	44,202	7,774	3,454,034
Unrestricted net assets	3,786,615	(26,006)	(8,867)	3,751,742

At the end of 2006 and 2005, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets, were as follows:

<b>Accumulated Benefit Obligation in Excess of Plan Assets</b>	<b>2006</b>	<b>2005</b>
Projected benefit obligation	\$ 10,772	\$ 60,244
Accumulated benefit obligation	5,995	48,522
Fair value of plan assets	-	41,202

**Expected Cash Flows**

Information about the expected cash flows for the defined benefit and postretirement healthcare benefit plans follows:

	<b>Defined Benefit Plans</b>	<b>Postretirement Healthcare Benefit Plans</b>	<b>Medicare Subsidy</b>
Expected employer contributions 2007	\$ 94,600	\$ 4,362	
Expected benefit payments (receipts) 2007	\$ 77,900	\$ 4,362	\$ (292)
2008	75,200	4,475	(295)
2009	84,100	4,710	(294)
2010	90,600	4,656	(288)
2011	97,800	4,747	(278)
2012 and thereafter	652,400	24,389	(1,182)

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**Net Periodic Benefit Cost**

	<b>Defined Benefit Plans</b>		<b>Postretirement Healthcare Benefit Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 93,126	\$ 80,826	\$ 1,728	\$ 1,225
Interest cost	96,125	89,360	4,579	4,005
Expected return on plan assets	(120,453)	(111,158)	(530)	(417)
Amortization of				
Unrecognized actuarial net loss	1,083	744	1,589	705
Prior service credit	(305)	(692)	-	(13)
Transition asset	(332)	(362)	(13)	-
Net periodic benefit cost	<u>\$ 69,244</u>	<u>\$ 58,718</u>	<u>\$ 7,353</u>	<u>\$ 5,505</u>

The actuarial net gain and prior service credit for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2007 are \$5,287 and \$332, respectively. The actuarial net gain and prior service credit for the postretirement healthcare benefit plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2007 are \$289 and \$14, respectively.

<b>Weighted-Average Assumptions Used to Determine Net Periodic Pension and Postretirement Cost</b>	<b>Defined Benefit Plans</b>		<b>Postretirement Healthcare Benefit Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Discount rate	5.75%	6.25%	5.75%	6.25%
Expected return on plan assets	8.25%	8.25%	7.5%	7.5%
Rate of compensation increase				
Professional staff	6.02%	6.02%	N/A	N/A
Other than professional staff	5.0%-5.1%	5.0%-5.1%	N/A	N/A
Healthcare cost trend rate for this year	N/A	N/A	10.0%	9.0%
Rate to which the cost trend rate is to decline	N/A	N/A	5.0%	5.0%
Year that rate reaches the ultimate trend rate	N/A	N/A	2011	2009

Partners considers multiple factors in establishing a multi-year projected return assumption for its benefit programs. These include, but are not limited to: its current asset allocation policy and target ranges by asset class; asset valuations; historical and projected rates of return by asset class; historical and projected correlations among asset classes; the opportunity to exceed passive index returns via active management through a combination of manager selection and alternative weightings among and within asset classes; and Partners historical performance experience.

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

	<b>One-Percentage-Point Increase</b>	<b>One-Percentage-Point Decrease</b>
Effect on service and interest cost	\$ 182	\$ (163)

**9. Professional Liability Insurance**

Partners insures substantially all of its professional and general liability risk on a claims-made basis in cooperation with other organizations in the Greater Boston area through a captive insurance company, Controlled Risk Insurance Company Ltd. (CRICO). The policy covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy, except for certain tail liabilities which CRICO has assumed on an occurrence basis through December 31, 2006. Management intends to renew its coverage on a claims-made basis and has no reason to believe that it will be prevented from such renewal.

PHS owns 10% of CRICO. The investment is accounted for under the cost basis of accounting. In addition, Partners follows the accounting policy of establishing reserves to cover all professional liability claims incurred but not reported to the insurance company as of the end of the year (tail liability), excluding the tail liability assumed by CRICO. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 5.75% at September 30, 2006 and 2005.

Management is not aware of any claims against Partners or factors affecting CRICO that would cause the expense for professional liability risks to vary materially from the amount provided.

**10. Concentration of Credit Risk**

Financial instruments that potentially subject Partners to concentration of credit risk consist of patient accounts receivable, pledges receivable, and certain investments. Partners receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payers, including Medicare, Medicaid, Blue Cross and Blue Shield of Massachusetts, Harvard Pilgrim Health Care and Tufts Associated Health Plan. Pledges receivable are due from multiple donors. Investments, which include government and agency securities, stocks and corporate bonds, and private partnerships and other investments are not concentrated in any corporation or industry or with any single counterparty. Partners has not historically incurred any significant credit losses outside the normal course of business.

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**11. Restricted Net Assets**

Restricted net assets are available for the following purposes:

	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Temporarily restricted		
Charity care	\$ 110,890	\$ 104,700
Buildings and equipment	112,354	81,347
Clinical care, research and academic	547,186	507,607
	<u>\$ 770,430</u>	<u>\$ 693,654</u>
Permanently restricted		
Pledges to be paid in the future	\$ 4,498	\$ 4,622
Beneficial interests in trusts	4,297	4,175
Investments to be held in perpetuity	227,605	215,040
	<u>\$ 236,400</u>	<u>\$ 223,837</u>

**12. Functional Expenses**

Total operating expenses by function are as follows:

	<b>Years Ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Healthcare services	\$ 4,159,299	\$ 3,741,078
Research and academic	1,068,016	962,787
General and administrative	577,152	559,055
	<u>\$ 5,804,467</u>	<u>\$ 5,262,920</u>

**13. Licensing Settlement**

During 2006, the General reached settlement of a licensing dispute concerning the drug ENBREL®, to which a company has North American sales rights. The settlement involved a one-time payment that eliminates any royalty payments on sales of ENBREL® in North America going forward. The Hospital received approximately \$186,000 in net proceeds from the settlement, and the amount has been recorded in nonoperating gains as a component of gifts and other. The proceeds are net of a royalty payment of \$62,000 to the drug's inventor, who is an employee of the Massachusetts General Physicians Organization, in accordance with established royalty distribution policies of the General. The Hospital continues to receive royalty payments on sales of ENBREL® outside of North America and recognized operating revenue of \$6,756 in 2006 in connection with that activity, with \$12,850 recognized in nonoperating income at MGH.

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*(in thousands)*

**14. Proposed Affiliations**

In October 2006, the boards of trustees of MGH, Nantucket Cottage Hospital, and Martha's Vineyard Hospital voted on and approved agreements that may allow the two island hospitals to become affiliates of MGH and Partners. The proposed affiliations are aimed at strengthening and expanding clinical relationships among the three hospitals as well as ensuring the financial security of the island hospitals so they can serve the health care needs of the Nantucket and Martha's Vineyard communities.

**15. Contingencies**

Partners is subject to complaints, claims and litigation which have risen in the normal course of business. In addition, Partners is subject to reviews by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. Recently, governmental review of compliance by healthcare institutions, including Partners, has increased.

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## **APPENDIX C**

### **Definitions of Certain Terms and Summary of the Agreement**

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## DEFINITIONS OF CERTAIN TERMS

*The following are definitions of certain terms used in the Loan and Trust Agreement and used in this Official Statement:*

### General Definitions

“Act” means Chapter 614 of the Massachusetts Acts of 1968 as amended from time to time.

“Affiliate” means any corporation, partnership or joint venture which the Institution directly or indirectly controls by virtue of an ability to elect more than 50% of the members of its governing body or to exercise a voting interest greater than 50% in matters relating to its governance.

“ARS Rate Mode” means the Mode during which the Bonds bear interest at an Auction Rate.

“Authorized Officer” means: (i) in the case of the Authority, the Chairman, Vice Chairman, Secretary, Executive Director, Director of Finance, Director of Financing Programs, or Deputy Director of Financing Programs and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; (ii) in the case of the Institution, the Chairman or other presiding officer of the Board of Trustees, the President, Director or other chief executive or administrative officer, any Vice President or Vice Chairman, the Secretary, the Treasurer or other chief financial officer or any Deputy Treasurer, and when used with reference to an act or document of the Institution, also means any other person authorized to perform the act or execute the document; and (iii) in the case of the Trustee, the President, any Vice President, any Assistant Vice President, any Corporate Trust Officer, any Trust Officer or any Assistant Trust Officer, and when used with reference to an act or document of the Trustee also means any other person authorized to perform the act or sign the document.

“Bond Counsel” means any attorney at law or firm of attorneys selected by the Authority, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States.

“Bond Insurance Policy” means each of the Series G-1 and G-3 Bond Insurance Policy and the Series G-2 and G-4 Bond Insurance Policy.

“Bond Insurer” means each of the Series G-1 and G-3 Bond Insurer and the Series G-2 and G-4 Bond Insurer.

“Bond Insurer Event of Insolvency” means, with respect to each Bond Insurer, the occurrence and continuance of one or more of the following events: (i) the issuance, under the applicable laws of any state of the United States, of an order of rehabilitation, liquidation or dissolution of such Bond Insurer; (ii) the commencement by such Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (iii) the consent by such Bond Insurer to any relief referred to in the preceding clause (ii) in an involuntary case or other proceeding commenced against it; (iv) the making by such Bond Insurer of a general assignment for the benefit of creditors; (v) the failure by such Bond Insurer to pay in general its debts as they become due; or (vi) the initiation by such Bond Insurer of any action to authorize any of the foregoing.

“Bondowners” means the registered owner or owners of the Bonds from time to time as shown in the books kept by the Paying Agent as bond registrar.

“Bonds” means, collectively, the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-1 (the “Series G-1 Bonds”), the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-2 (the “Series G-2 Bonds”), the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare

System Issue, Series G-3 (the “Series G-3 Bonds”), the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-4 (the “Series G-4 Bonds”), and the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G-5 (the “Series G-5 Bonds”), each dated the date of original delivery thereof, and any Bond or Bonds duly issued in exchange or replacement therefor.

“Bond Year” means each one year period ending on the anniversary of the closing date of the Bonds.

“Brigham” means The Brigham and Women’s Hospital, Inc., a Massachusetts non-profit corporation.

“Business Day” means a day other than a Saturday or Sunday and on which banks in each of the cities in which the principal offices of the Trustee, the Remarketing Agent, if any, and the Paying Agent, the Auction Agent, if any, any Broker-Dealer, the applicable Bond Insurer, the Bond Insurer’s Fiscal Agent, if any, and the office of any Liquidity Provider at which draws on a Liquidity Facility, if any, are made are located are not required or authorized to remain closed and on which the New York Stock Exchange or, except with respect to Bonds in the ARS Rate Mode, the payment system of the Federal Reserve System is not closed.

“BWF” means Brigham and Women’s/Faulkner Hospitals, Inc., a Massachusetts non-profit corporation.

“Debt Service Coverage Ratio” means a fraction the numerator of which shall be the Partners’ (and for any Affiliate not included in the Partners’ consolidated financial statements, such Affiliate’s) excess of revenues over expenses, plus depreciation, amortization and interest expense (but exclusive of the cumulative effect of changes in accounting principles, unrealized gains and losses from investments, unrealized gains or losses resulting from the periodic valuation of Hedge Agreements, other interest rate swap agreements or similar agreements, any “other-than-temporary” impairment losses recorded pursuant to Financial Accounting Standard 115 and any items that are reported as extraordinary in the Partners’, or such Affiliate’s, audited financial statements, as the case may be) in any fiscal year, and the denominator of which shall be Debt Service Payments on outstanding Indebtedness of the Institution and all Affiliates paid or payable in such fiscal year.

“Debt Service Payments” means interest, principal and mandatory sinking fund payments on Indebtedness.

“Fitch” means Fitch Ratings Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Institution.

“Fixed Rate Conversion Date” shall mean, with respect to all or a portion of the Bonds to be converted to the Fixed Rate Mode, the date on which the Fixed Rate shall take effect with respect to such Bonds.

“General” means The General Hospital Corporation, a Massachusetts non-profit corporation.

“Government or Equivalent Obligations” means (i) obligations issued or fully and unconditionally guaranteed by the United States; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; and (iii) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (A) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (B) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) or (ii) which fund may be applied only to the payment when due of interest, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (C) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) or (ii), as the case may be, which have been deposited in such fund on deposit in such fund is sufficient to pay interest when due, principal of and

redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (A) of this clause (iii), as appropriate.

“Guarantee” means each of the Guaranty Agreements related to the Bonds as they may be amended from time to time, by and between (i) the Authority and the General and MGH, pursuant to which the General and MGH have guaranteed the obligations of the Institution under the Agreement, and (ii) the Authority and Brigham and BWF, pursuant to which Brigham and BWF have guaranteed the obligations of the Institution under the Agreement.

“Guarantee Suspension” means any period during which the guarantee obligations of the General and the MGH, and of Brigham and BWF are suspended under their respective Guarantees by the terms thereof.

“Hedge Agreement” means an interest rate swap, cap, collar, floor, forward, or other hedging agreement, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on all or a portion of any Indebtedness and with a counterparty which is rated at least “A” by Moody’s, S&P or Fitch.

“Indebtedness” means (i) obligations of the Institution or any Affiliate for borrowed money, without regard to the maturity thereof, including leases capitalized in accordance with generally accepted accounting principles, but excluding reverse repurchase agreements with a maturity of not more than thirty (30) days, and (ii) for purposes of calculating Senior Affiliate Indebtedness and Senior Indebtedness under the Agreement, (a) 25% of the aggregate lease obligations of the General to the Massachusetts Biomedical Research Corporation, payment of which has been guaranteed by MGH, (b) 25% of the aggregate amount outstanding on certain Massachusetts College of Pharmacy and Allied Health Sciences Commercial Paper Notes, interest and principal payments of which are paid from lease payments by Brigham to the Massachusetts College of Pharmacy and Allied Health Sciences, and (c) 25% of the aggregate amount of indebtedness of any Person other than the Institution or an Affiliate which an Affiliate guarantees, except for guarantees of indebtedness aggregating less than 2% of the unrestricted net assets of that Affiliate, which shall not be included, and except for guarantees on which an Affiliate is actually making payment, which shall be included at 100% of the indebtedness so guaranteed.

“Institution Bonds” means Bonds purchased with moneys furnished by the Institution.

“Insurance Agreement” means each of the Insurance Agreement between the Institution and the Series G-1 and G-3 Bond Insurer and the Insurance Agreement between the Institution and the Series G-2 and G-4 Bond Insurer.

“Insured Bonds” means the Series G-1 Bonds, the Series G-2 Bonds, the Series G-3 Bonds and the Series G-4 Bonds, for so long as they are insured by a Bond Insurer pursuant to a Bond Insurance Policy.

“IRC” means the Internal Revenue Code of 1986, as it may be amended and applied to the Bonds from time to time.

“Lien” means any lien, pledge, charge or other encumbrance upon the Property.

“Long-Term Indebtedness” means any Indebtedness which is not Short-Term Indebtedness.

“Maturity Date” means the respective regular Interest Payment Date on or immediately preceding July 1, 2042 in the case of the Series G-1 Bonds and Series G-2 Bonds, the respective regular Interest Payment Date on or immediately preceding July 1, 2038 in the case of the Series G-3 Bonds and Series G-4 Bonds, and July 1, 2047 in the case of the Series G-5 Bonds.

“Maximum Rate” means, with respect to Bonds in the ARS Rate Mode, the lesser of twelve percent (12%) per annum and the maximum rate of interest permitted by applicable law, and with respect to Bonds in a Variable Rate Mode, the lesser of ten percent (10%) per annum and the maximum rate of interest permitted by applicable law.

The maximum interest rate for Liquidity Provider Bonds shall be as set forth in the applicable Liquidity Facility then in effect.

“MGH” means The Massachusetts General Hospital, a Massachusetts non-profit corporation.

“Moody’s” means Moody’s Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Institution.

“Newton Wellesley Series G Bonds” means the portion of the Authority's Revenue Bonds, Newton Wellesley Hospital Issue, Series G, being refunded with a portion of the proceeds of the Bonds.

“Opinion of Bond Counsel” means an opinion of Bond Counsel to the effect that the matter or action in question will not have an adverse impact on the tax-exempt status of the Bonds for federal income tax purposes.

“Outstanding,” when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment or a sinking fund installment; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

“Partners” or “Partners System” means the Institution and all of the Affiliates as to which financial information is presented on a consolidated basis in accordance with generally accepted accounting principles.

“Partners Series A Bonds” means the portion of the Authority's Revenue Bonds, Partners HealthCare Issue, Series A, being refunded with a portion of the proceeds of the Bonds.

“Partners Series C Bonds” means the portion of the Authority's Revenue Bonds, Partners HealthCare Issue, Series C, being refunded with a portion of the proceeds of the Bonds.

“Paying Agent” means U.S. Bank National Association, acting as Paying Agent for the Bonds and any successor Paying Agent designated from time to time pursuant to the Agreement.

“Person” means any natural person, corporation, limited liability company, partnership, trust, joint venture, association, company, estate, unincorporated organization or any other entity or organization, including a government or any agency or political subdivision or instrumentality thereof.

“Project” means (a) Existing Part of the Project: the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furniture, fixtures and equipment, or any combination of the foregoing, in connection with the project financed and refinanced by the Refunded Bonds, which consisted of:

(i) the Project at Newton-Wellesley Hospital (“NWH”) originally financed and refinanced with the Newton-Wellesley Series G Bonds including (a) the conversion of a portion of the maternity unit to labor delivery recovery rooms; (b) the renovation of the inpatient pediatric unit, and the relocation of the inpatient and outpatient pediatric gastroenterology facility; (c) the relocation and expansion of the outpatient physical therapy rehabilitation services area, including the upgrading of equipment and treatment facilities; and (d) NWH's five-year capital plan to acquire and upgrade hospital equipment and to undertake various internal renovations;

(ii) the Project originally financed and refinanced with the Partners Series A Bonds including (a) the demolition of the former residence hall portion of the former Boston Lying-In Hospital complex, (b) the construction of a new seven-level research laboratory wing on the demolition site, (c) the construction of a main arrival space for the new research facility to provide handicapped access to the complex, and (d) the purchase and installation of furnishings, fixtures and equipment in the new research facility; (e) the construction of the Center for Women and Newborns on the site of the existing Tackaberry Building, located adjacent to the Inpatient Tower on the main campus, used for obstetrical, outpatient and other support services, (f) the construction and renovation of various clinical facilities situated on the main campus, including the amphitheater and the chemo infusion/transfusion suite in Building B, (g) the acquisition, construction and renovation of various offices and ambulatory care facilities of the Institution, (h) the acquisition, construction and renovation of various research facilities of the Institution, and (e) the acquisition by BWH of certain capital equipment, including but not limited to information and telecommunication systems, radiological and other general medical and laboratory equipment;

(iii) the Project originally financed and refinanced with the Partners Series C Bonds, including (a) the construction of a 140-bed nursing home and the acquisition of land therefor by North End Community Health Committee, Incorporated, which project was subsequently acquired and is currently owned and operated by MGH and the General; (b) the construction of additional new space in an ambulatory care building at MGH (b) the construction of a portion of an approximately 720-space parking garage attached to the aforementioned ambulatory care building; (c) the acquisition of a building for a school for medical personnel located at Building 36, 100 First Avenue, Charlestown Navy Yard in Charlestown, MA, owned and operated by the Institute of Health Professions (“IHP”), and (d) the acquisition and installation of capital equipment and construction of improvements and renovations to existing facilities for Institution and its Affiliates.

(b) New Part of the Project: the acquisition of land, site development, construction or alteration of buildings or the acquisition of furnishings and equipment or any combination of the foregoing, in connection with the following:

(i) (a) construction of a cardiovascular center at 70 Francis Street, Boston, MA consisting of inpatient beds, operating rooms, outpatient procedure and clinic areas, and ancillary support departments; and (b) the redevelopment of a portion of the Massachusetts Mental Health Center Site, located on Fenwood Road, Boston, MA, for research and administrative use;

(ii) (a) construction of a building at the General’s main campus bounded by Charles Street, Blossom Street, Cambridge Street and Fruit Street, Boston, MA to house a relocated and expanded radiation oncology department, expanded emergency services, three levels of operating and procedure suites, 150 neurosciences and medical oncology ICU and acute patient rooms, a new sterile processing department and a new central receiving dock; (b) acquisition of a condominium unit or units to be created at Charles River Plaza, Boston, MA and consisting of the properties currently identified as 165 Cambridge Street, 175 Cambridge Street and the Charles River Plaza parking facility, as well as the property known as 75 Blossom Court, Boston, MA; and (c) renovations to clinical space at the General’s main campus bounded by Charles Street, Blossom Street, Cambridge Street and Fruit Street, Boston, MA;

(iii) renovations and improvements to inpatient clinical areas by North Shore Medical Center, Inc. (“NSMC”) at NSMC’s main campus, 81 Highland Avenue, Salem, MA; and

(iv) construction by Spaulding of a new facility to be located on Parcel 6 in the Charlestown Navy Yard, Charlestown, MA; and

(v) (a) construction of a multi-specialty, ambulatory care center at 100 Endicott Street, Danvers, MA, to house the MGH/NSMC Cancer Center, eight day surgery suites, diagnostic imaging, diagnostic cardiology, laboratory services/phlebotomy, and a family/patient resource center; and (b) the acquisition and installation of a system-wide revenue management system at 529 Main Street, Charlestown, MA and installation of software at many of the addresses listed herein; and

(vi) renovation, equipping and furnishing of various facilities and the acquisition or construction of various other capital improvements for Partners and its affiliates.

The word “Project” also refers to the facilities that result or have resulted from the foregoing activities. The scope of the Project may be increased or decreased upon certification by the Project Officer on behalf of the Institution to the Trustee and the Authority describing the change, estimating the resulting increase or decrease in the cost of the Project and stating: (i) that the amendment will not cause the Project to violate any applicable building, zoning, land use, environmental protection, historical, sanitary, safety or health care laws, rules and regulations or applicable grant, reimbursement or insurance requirements or the provisions of the Agreement; (ii) that the changes are covered by a Determination of Need (which shall mean a determination pursuant to Chapter 111, Section 25C, of the Massachusetts General Laws) or are exempt from the requirement of a Determination of Need; (iii) with respect to any portion of the Project to which the amendment relates and for which a Determination of Need has been obtained, that the amendment is consistent with the Determination of Need and is not expected to increase its cost beyond the amount approved in the Determination of Need; (iv) with respect to any portion of the Project to which the amendment relates and which is exempt from the requirement of a Determination of Need, that the amendment is consistent with the exemption; and (v) as to any portion to which the amendment relates and which is exempt by reason of its cost being not more than the amount exempted by statute, that the amendment is not expected to increase its cost beyond that amount. The signers of the certificate may rely, as to conclusions of law, on an opinion of counsel furnished to the Trustee and referred to in the certificate. The scope of the Project may be increased only upon receipt by the Trustee of an Opinion of Bond Counsel regarding the increase in scope.

“Project Costs” means the costs of carrying out the Project, including repayment of external loans and internal advances for the same, if any, and interest prior to, during and for up to one year after construction is substantially complete, and other costs chargeable to the capital account of the Project, but excluding general administrative expenses, overhead of the Institution and interest on internal advances.

“Property” shall mean all real and personal property of the Institution and Affiliates.

“Rating Agency” shall mean any of Moody’s, S&P or Fitch, which is then providing a rating on the Bonds.

“Refunded Bonds” shall mean the Newton-Wellesley Series G Bonds, the Partners Series A Bonds and the Partners Series C Bonds.

“Revenues” means all rates, payments, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, payable to the Authority or the Trustee under the Agreement, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Institution.

“Securities Depository” or “DTC” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Institution which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

“Series G-1 and G-3 Bond Insurance Policy” means the financial guaranty insurance policy issued by the Series G-1 and G-3 Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series G-1 and Series G-3 Bonds when due.

“Series G-1 and G-3 Bond Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto or assignee thereof, as insurer of the Series G-1 Bonds and the Series G-3 Bonds.

“Series G-2 and G-4 Bond Insurance Policy” means the municipal bond new issue insurance policy issued by the Series G-2 and G-4 Bond Insurer that guarantees payment of principal of and interest on the Series G-2 and G-4 Bonds.

“Series G-2 and G-4 Bond Insurer” means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof, as insurer of the Series G-2 Bonds and the Series G-4 Bonds.

“Short-Term Indebtedness” shall mean any issue of Indebtedness no portion of which has a date of maturity more than one year from the date of original issuance thereof.

“Tax Certificate and Agreement” means the Tax Certificate and Agreement between the Authority and the Institution dated the date of original issuance of the Bonds.

“UCC” means the Massachusetts Uniform Commercial Code.

“Variable Rate Mode” means the Daily Mode, Weekly Mode, Flexible Mode, Index Floating Rate Mode or Term Rate Mode.

### **Special Definitions Relating to Bonds in the Auction Rate Mode**

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 55% of the Index in effect on such Auction Date for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“ARS Conversion Date” means with respect to Bonds, the date on which the Bonds of such series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

“ARS Rate Period” means, for each series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be Deutsche Bank Trust Company Americas.

“Auction Agreement” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Agreement with respect to a series of Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means with respect to any series of Bonds:

(a) *Daily Auction Period.* If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each series of Bond initially issued in an Auction Period is as follows:

<u>Series</u>	<u>First Auction Date</u>
Series G-1	July 9, 2007
Series G-2	July 11, 2007
Series G-3	July 12, 2007
Series G-4	July 13, 2007

“Auction Desk” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“Auction Index” means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less One Month LIBOR. The Auction Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Trustee and the Broker-Dealers. If either rate is unavailable, the Auction Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Institution. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

“Auction Period” means with respect to each series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week



specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Period Generally Ends this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the sixth calendar month following the beginning date of such Auction Period;

Provided, however, that if there is a conversion of a series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Period Rate” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with the Agreement; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“Auction Procedures” means the procedures for conducting Auctions for the Bonds during an ARS Rate Period set forth in the Agreement.

“Auction Rate” means for each series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such series of Bonds.

“Authorized Denominations” means \$5,000, and integral multiples thereof so long as the Bonds bear interest at an Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

“Authorizing Document” means the Agreement.

“Available Bonds” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in Appendix F hereof.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in Appendix F hereof, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Institution and that is a party to a Broker-Dealer Agreement with the Institution and the Auction Agent. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Institution and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in Appendix F, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions of the Agreement. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Business Day” means, in addition to any other definition of “Business Day” included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, a day which shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, and days on which banking institutions or trust companies

located in the state in which the operations of the Auction Agent are conducted with respect to the Bonds are authorized or required to be closed by law, regulation or executive order.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“Conversion Date” means the date on which any series of Bonds begins to bear interest at a Fixed Rate or a Variable Rate.

“Electronic Means” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Flexible Auction Period” means with respect to a series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such series of Bonds.

“Hold Order” means an Order to hold the Bonds as provided in Appendix F herein or such an Order deemed to have been submitted as provided in Appendix F herein.

“Initial Period” means the period from the Closing Date to but not including July 10, 2007 with respect to the Series G-1 Bonds, July 12, 2007 with respect to the Series G-2 Bonds, July 13, 2007 with respect to the Series G-3 Bonds and July 16, 2007 with respect to the Series G-4 Bonds.

“Interest Payment Date” with respect to Bonds bearing interest at Auction Period Rates, means July 10, 2007, in the case of the Series G-1 Bonds, July 12, 2007 in the case of the Series G-2 Bonds, July 13, 2007, in the case of the Series G-3 Bonds, and July 16, 2007, in the case of the Series G-4 Bonds, and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each January 1 and July 1, and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Record Date” means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“Sell Order” has the meaning specified in Appendix F hereto.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Institution pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Institution. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m. instead of 1:00 p.m., New York City time.

“Submitted Bid” has the meaning specified in Appendix F hereto.

“Submitted Hold Order” has the meaning specified in Appendix F hereto.

“Submitted Order” has the meaning specified in Appendix F hereto.

“Submitted Sell Order” has the meaning specified in Appendix F hereto.

“Sufficient Clearing Bids” means for each series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“Units” has the meaning set forth in Appendix F hereto.

“Winning Bid Rate” means for each series of Bonds, the lowest rate specified in any Submitted Bid of such series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such series.

## **Special Definitions Relating to Bonds in Variable Rate and Fixed Rate Modes**

“Affiliate” shall mean any person controlled by, in control of or under common control with the Authority or the Institution.

“Alternate Credit Enhancement” or “Alternate Liquidity Facility” shall mean a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, issued in accordance with the terms of the Agreement as a replacement or substitute for any Credit Enhancement or Liquidity Facility, as applicable, then in effect.

“Alternate Rate” shall mean, on any Rate Determination Date, for any Mode other than the Index Floating Rate Mode, a rate per annum equal to (a) the SIFMA Municipal Swap Index, formerly the BMA Municipal Swap Index of Municipal Market Data, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “SIFMA Rate”) most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the S&P Weekly High Grade Index, or if neither the SIFMA Rate nor the S&P Weekly High Grade Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association to determine the SIFMA Rate just prior to when the Securities Industry and Financial Markets Association stopped publishing the BMA Rate. The Tender Agent shall make the determinations required by this determination, upon notification from the Authority, if there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement

“Authorized Denominations” shall mean (i) with respect to Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof, (ii) with respect to Bonds in a Flexible Mode, \$100,000 and any integral multiple of \$1,000 in excess thereof and (iii) with respect to Bonds in the Index Floating Rate Mode or a Long-Term Mode, \$5,000 and any integral multiple thereof.

“Automatic Termination Event” shall mean an event of default set forth in any Reimbursement Agreement which would result in the immediate termination of such Liquidity Facility prior to its stated expiration date without at least thirty days’ prior notice from such Liquidity Provider to the Tender Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

“Available Amount” shall mean the amount available under the Credit Enhancement or Liquidity Facility, as applicable, to pay the principal of and interest on the Bonds or the Purchase Price of the Bonds, as applicable.

“Beneficial Owner” shall mean, so long as the Bonds are negotiated in the Book-Entry-Only System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository. If at any time the Bonds are not held in the Book-Entry-Only System, Beneficial Owner shall mean Owner for purposes of the Agreement.

“Book-Entry-Only System” shall mean the system maintained by the Securities Depository described in the Agreement.

“Calculation Agent” means, initially, J.P. Morgan Securities Inc., or such other Calculation Agent as may be selected by the Institution, its successors or assigns.

“Consumer Price Index” or “CPI-U” shall mean the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers as released monthly by the U.S. Department of Labor, Bureau of Labor Statistics. If a previously reported CPI-U index rate is revised, the CPI-U will continue to be the previously reported CPI-U for purposes of calculating interest payments. If CPI-U is rebased to a different year, Bonds using the CPI-U will continue to use the CPI-U based on the base reference year in effect when such Bonds were issued. If the applicable methodology for computing the CPI-U in effect on the date of issuance of Bonds using the CPI-U is discontinued or altered and if the U.S. Treasury, in response to such discontinuance or alteration, substitutes an

alternative index, and associated method of application (“Substitute Index and Methodology”), for the CPI-U for purposes of calculation of the inflation adjustment for the Treasury Inflation-Protection Securities, Bonds using the CPI-U will use the Substitute Index and Methodology for calculating the Index Floating Rate for such Bonds. Typically the CPI-U for a particular month is reported by the last day of the following month. If the CPI-U for a particular month is not reported by the last day of the following month, the U.S. Treasury has indicated it will announce an index number based on the last twelve-month change in the CPI-U available. Any calculations of interest on Bonds that rely on that month’s CPI-U will be based on the index number that the U.S. Treasury has announced. This index number will be used for all subsequent calculations that rely on that month’s index number and will not be replaced by the actual CPI-U when it is reported.

“Conversion Date” shall mean, with respect to all or a portion of the Bonds in the Daily, Weekly or Flexible Mode to be converted to an ARS Rate or a Fixed Rate, the date on which such Bonds begin to bear interest at an ARS Rate or a Fixed Rate, as applicable.

“Credit Enhancement” shall mean a direct-pay letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect which secures or guarantees the payment of principal of and interest on the Bonds, if any.

“Credit Enhancement Failure” or “Liquidity Facility Failure” shall mean a failure of a Credit Provider or Liquidity Provider, as applicable, to pay a properly presented and conforming draw or request for advance under the Credit Enhancement or Liquidity Facility, as applicable, or the filing or commencement of any bankruptcy or insolvency proceedings by or against the Credit Provider or Liquidity Provider, as applicable, and which, if commenced against such party has not been vacated, discharged or stayed or bonded pending appeal within sixty (60) days from the entry thereof, or the Credit Provider or Liquidity Provider, as applicable, shall declare a moratorium on the payment of the Credit Enhancement or Liquidity Facility, as applicable, or shall repudiate in writing the Credit Enhancement or Liquidity Facility, as applicable.

“Credit Provider” shall mean any bank, insurance company, pension fund or other financial institution which provides Credit Enhancement or Alternate Credit Enhancement for the Bonds.

“Current Mode” shall have the meaning specified in the Agreement.

“Daily Mode” shall mean the Mode during which the Bonds bear interest at the Daily Rate.

“Daily Rate” shall mean the per annum interest rate on any Bond in the Daily Mode determined pursuant to the Agreement.

“Daily Rate Period” shall mean the period during which a Bond in the Daily Mode shall bear interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

“Effective Date” shall mean the date on which a new interest rate takes effect.

“Electronic Means” shall mean telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

“Expiration Date” shall mean the stated expiration date of any Credit Enhancement or Liquidity Facility, as it may be extended from time to time as provided in the Credit Enhancement or Liquidity Facility, or any earlier date on which any Credit Enhancement or Liquidity Facility shall terminate, expire or be cancelled.

“Favorable Opinion of Bond Counsel” shall mean, with respect to any action the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a nationally recognized Bond Counsel, to the effect that such action is permitted under the Act and the Agreement and will not impair the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation or the exemption of interest on the

Bonds from personal income taxation under the laws of the Commonwealth (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

“Fixed Rate” shall mean the per annum interest rate on any Bond in the Fixed Rate Mode determined pursuant to the Agreement.

“Fixed Rate Bond” shall mean a Bond in the Fixed Rate Mode.

“Fixed Rate Mode” shall mean the Mode during which the Bonds bear interest at the Fixed Rate.

“Fixed Rate Period” shall mean for the Bonds in the Fixed Rate Mode, the period from the Mode Change Date upon which the Bonds were converted to the Fixed Rate Mode to but not including the Maturity Date for the Bonds. The Fixed Rate Period for the Series G-5 Bonds shall be the period from the date of issue to but not including the Maturity Date.

“Flexible Rate Bond” shall mean a Bond in the Flexible Mode.

“Flexible Mode” shall mean the Mode during which the Bonds bear interest at the Flexible Rate.

“Flexible Rate” shall mean the per annum interest rate on a Bond in the Flexible Mode determined for such Bond pursuant to the Agreement. The Bonds in the Flexible Mode may bear interest at different Flexible Rates.

“Flexible Rate Period” shall mean the period of from one to 360 calendar days (which period must end on a Business Day) during which a Flexible Rate Bond shall bear interest at a Flexible Rate, as established by the Remarketing Agent pursuant to the Agreement. The Bonds in the Flexible Mode may be in different Flexible Rate Periods.

“Index” shall mean any of (a) Three-Month LIBOR, (b) One-Month LIBOR, (c) the S&P Weekly High Grade Index, (d) the SIFMA Index, or (e) the Consumer Price Index.

“Index Floating Rate” shall mean an interest rate on the Bonds established in accordance with the Agreement.

“Index Floating Rate Conversion Date” shall mean the date on which Bonds in the ARS Rate Mode or a Variable Rate Mode are converted to bear interest at an Index Floating Rate.

“Index Floating Rate Accrual Date” shall mean, for any Index Floating Rate Period, the first day thereof and, thereafter, each Interest Payment Date (whether or not a Business Day).

“Index Floating Rate Accrual Period” shall mean the period commencing on and including the Index Floating Rate Accrual Date to but not including the following Interest Payment Date.

“Index Floating Rate Mode” shall mean the Mode in which the interest rate on the Bonds is set with reference to an Index.

“Index Floating Rate Period” shall mean each period during which an Index Floating Rate is in effect for all or any portion of the Bonds.

“Institution Purchase Account” shall mean the account by that name created in the Agreement.

“Interest Accrual Period” shall mean the period during which a Bond accrues interest payable on the next Interest Payment Date applicable thereto. With respect to any Mode, each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of the Bonds, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of

authentication of any Bond, interest is in default or overdue on the Bonds, such Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Bonds.

“Interest Amount” shall mean the aggregate amount available under any Credit Enhancement or Liquidity Facility, as applicable, to pay interest accruing on the Bonds or that portion of the Purchase Price constituting interest.

“Interest Payment Date” shall mean each date on which interest is to be paid and is: (i) with respect to the Bonds in the Flexible Mode, each Mandatory Purchase Date applicable thereto; (ii) with respect to the Bonds in the Daily Mode or Weekly Mode, the first Business Day of each month; (iii) with respect to the Bonds in the Index Floating Rate Mode, each January 1, April 1, July 1 and October 1; (iv) with respect to the Bonds in a Long-Term Mode, the first day of the sixth calendar month following the month in which such Long-Term Mode takes effect, and the first day of each sixth calendar month thereafter or, upon the receipt by the Trustee of a Favorable Opinion of Bond Counsel, any other six-month interval chosen by the Institution (beginning with the first such day which is at least three months after the Mode Change Date) and, with respect to a Term Rate Period, the final day of the current Interest Period if other than a regular six-month interval; (v) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and the Maturity Date; and (vi) with respect to any Liquidity Provider Bonds, each of the days set forth as a date on which interest is due in the applicable Liquidity Facility.

“Interest Period” shall mean, for the Bonds in a particular Mode, the period of time that the Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include a Flexible Rate Period, a Daily Rate Period, a Weekly Rate Period, an Index Floating Rate Period, a Term Rate Period and a Fixed Rate Period.

“Liquidity Facility” shall mean any letter of credit, line of credit, standby purchase agreement or other instrument then in effect which provides for the purchase of Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor.

“Liquidity Facility Purchase Account” shall mean the account by that name created in the Agreement.

“Liquidity Provider” shall mean any bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for the Bonds.

“Liquidity Provider Bonds” shall mean any Bonds purchased by a Liquidity Provider with funds drawn on or advanced under a Liquidity Facility.

“London Banking Day” shall mean any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency) in the City of London, England.

“Long-Term Mode” shall mean a Term Rate Mode or a Fixed Rate Mode.

“Mandatory Purchase Date” shall mean: (i) with respect to a Bond in the Flexible Rate Mode or the Index Floating Rate Mode, the first Business Day following the last day of each Flexible Rate Period or Index Floating Rate Period, respectively, with respect to such Bond, (ii) for Bonds in the Term Rate Mode, the first Business Day following the last day of each Term Rate Period, (iii) any Mode Change Date, (iv) for any Bonds (other than Bonds in the Fixed Rate Mode) which are secured by Credit Enhancement or the purchase of which is provided for by a Liquidity Facility, any Substitution Date, (v) for any Bonds which are secured by Credit Enhancement or the purchase of which is provided for by a Liquidity Facility, the Business Day prior to the Expiration Date (other than as a result of an Automatic Termination Event), and (vi) for any Bonds which are secured by Credit Enhancement or the purchase of which is provided for by a Liquidity Facility, the date specified by the Credit Provider or Liquidity Provider in a written notice to the Trustee following the occurrence of an event of default (other than an Automatic Termination Event) under the applicable Reimbursement Agreement, which date shall be a Business Day not more than the number of days specified in the Credit Enhancement or Liquidity Facility after the Trustee’s receipt of such notice and in any event prior to the termination of the Credit Enhancement or Liquidity Facility, if applicable.



“Mode” shall mean, as the context may require, the Flexible Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode, the ARS Rate Mode, the Index Floating Rate Mode or the Fixed Rate Mode.

“Mode Change Date” shall mean with respect to the Bonds in a particular Mode, the day on which another Mode for the Bonds begins.

“Mode Change Notice” shall mean the notice from the Institution to the other Notice Parties of the Institution’s intention to change the Mode with respect to the Bonds.

“New Mode” shall have the meaning specified in the Agreement.

“Notice Parties” shall mean the Authority, the Trustee, the Tender Agent, the Remarketing Agent, the Paying Agent, the Credit Provider(s), the Liquidity Provider(s) and the Institution.

“One Month LIBOR” shall mean the rate for deposits in U.S. dollars with a one-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the Rate Determination Date, except that, if such rate is not available on the Rate Determination Date, One Month LIBOR means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on the Rate Determination Date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the “Reference Banks”) selected by the Calculation Agent. The Calculation Agent shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, One Month LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, One Month LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the Rate Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity. If none of the banks in New York City selected by the Calculation Agent is then quoting rates for such loans, then One Month LIBOR for the ensuing interest period will mean One Month LIBOR then in effect in the immediately preceding Index Floating Rate Accrual Period.

“Opinion of Counsel” shall mean a written legal opinion from a firm of attorneys experienced in the matters to be covered in the opinion.

“Owner” shall mean the registered owner of a Bond, including the Securities Depository, if any, or its nominee.

“Principal Payment Date” shall mean any date upon which the principal amount of Bonds is due under the Agreement, including the Maturity Date, any Serial Maturity Date, any Redemption Date, or the date the maturity of any Bond is accelerated pursuant to the terms of the Agreement or otherwise.

“Purchase Date” shall mean (i) for a Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said Bond pursuant to the provisions of the Agreement, and (ii) any Mandatory Purchase Date.

“Purchase Fund” shall mean the fund by that name created pursuant to the Agreement.

“Purchase Price” shall mean (i) an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus in the case of any purchase of Bonds in the Daily Mode or the Weekly Mode and Bonds purchased on a Mandatory Purchase Date that is not an Interest Payment Date, accrued interest, if any, or (ii) in the case of any purchase of Bonds in the Index Floating Rate Mode prior to the Par Call Date, the Spread Premium.

“Rate Determination Date” shall mean any date on which the interest rate on Bonds shall be determined, which, (i) in the case of the Flexible Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily

Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode; (iii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday; (iv) in the case of the Index Floating Rate Mode, shall be no later than a date that is two London Banking Days prior to each Index Floating Rate Accrual Period; (v) in the case of the Term Rate Mode, shall be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent; and (vi) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

“Rating Confirmation Notice” shall mean a notice from Moody’s, S&P or Fitch, as appropriate, confirming that the unenhanced rating on the Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a Long-Term Mode) as a result of the action proposed to be taken.

“Record Date” shall mean (i) with respect to Bonds in a Short-Term Mode, the last Business Day before an Interest Payment Date and (ii) with respect to Bonds in a Long-Term Mode or an Index Floating Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

“Redemption Date” shall mean the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Agreement.

“Redemption Price” shall mean an amount equal to the principal of and premium, if any, and accrued interest, if any, on the Bonds to be paid on the Redemption Date.

“Reimbursement Agreement” shall mean any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, by and between the Credit Provider or Liquidity Provider, as applicable, and the Institution.

“Remarketing Agent” shall mean any investment banking firm or firms which shall be appointed by the Institution to act as Remarketing Agent under the Agreement as provided therein.

“Remarketing Agreement” shall mean each agreement by and between the Institution and a Remarketing Agent as it may be amended or supplemented from time to time in accordance with its terms.

“Remarketing Proceeds Account” shall mean each of the accounts by that name created pursuant to the Agreement.

“Serial Bonds” shall mean the Bonds maturing on the Serial Maturity Dates, as determined pursuant to the Agreement.

“Serial Maturity Dates” shall mean the dates on which the Serial Bonds mature, as determined pursuant to the Agreement.

“Serial Payments” shall mean the payments to be made in payment of the principal of the Serial Bonds on the Serial Maturity Dates.

“Short-Term Mode” shall mean the Daily Mode, the Weekly Mode or the Flexible Mode.

“Short Term Interest Period” shall mean a Daily Rate Period, a Weekly Rate Period or a Flexible Rate Period.

“S&P Weekly High Grade Index” (formerly the J.J. Kenny Index) shall mean the index of such name maintained by Standard & Poors Securities Evaluations Inc. for weekly obligations, as published on the Rate Determination Date.

“SIFMA Index” shall mean, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association (“SIFMA”), formerly known as the Bond Market Association or BMA, or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Remarketing Agent, and effective from such date.

“Substitution Date” shall mean the date upon which an Alternate Credit Enhancement or Alternate Liquidity Facility is substituted for the Credit Enhancement or Liquidity Facility then in effect or the date upon which a Liquidity Facility is provided for a series of Bonds not previously covered by a Liquidity Facility.

“Tender Agent” shall mean the commercial bank, trust company or other entity which may from time to time be appointed to serve as Tender Agent under the Agreement. Until such time as an alternate Tender Agent is appointed, the Tender Agent shall be the Trustee.

“Tender Notice Deadline” shall mean (i) during the Daily Mode, 11:00 A.M. on any Business Day and (ii) during the Weekly Mode, 5:00 P.M. on the Business Day seven days prior to the applicable Purchase Date.

“Tender Notice” shall mean a notice delivered by Electronic Means or in writing that states (i) the principal amount of such Bond to be purchased pursuant to the Agreement, (ii) the Purchase Date on which such Bond is to be purchased, (iii) applicable payment instructions with respect to the Bonds being tendered for purchase and (iv) an irrevocable demand for such purchase.

“Term Rate” shall mean the per annum interest rate for the Bonds in the Term Rate Mode determined pursuant to the Agreement.

“Term Rate Mode” shall mean the Mode during which the Bonds bear interest at the Term Rate.

“Term Rate Period” shall mean the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that the Bonds shall be in the Term Rate Mode as established by the Institution for the Bonds pursuant to the Agreement and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for the Bonds by the Institution pursuant to the Agreement while it is in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Agreement, an Interest Period for the Bonds in the Term Rate Mode must be at least 180 days in length.

“Three Month LIBOR” shall mean the rate for deposits in U.S. dollars with a three-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the Rate Determination Date, except that, if such rate is not available on the Rate Determination Date, Three Month LIBOR means a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on the Rate Determination Date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the “Reference Banks”) selected by the Calculation Agent. The Calculation Agent shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, Three Month LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, Three Month LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the Rate Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If none of the banks in New York City selected by the Calculation Agent is then quoting rates for such loans, then Three Month LIBOR for the ensuing interest period will mean Three Month LIBOR then in effect in the immediately preceding Index Floating Rate Accrual Period.

“USD-ISDA-Swap Rate” shall mean the rate for U.S. dollar swaps maturing 10 years from conversion to the Index Floating Rate Mode for Bonds not initially in the Index Floating Rate Mode, expressed as a percentage,

which appears on the Reuters Money 3000 Service on the page designated ISDAFIX1 (or such other page as may replace that page on such service for the purpose of displaying comparable rates) at 11:00 a.m., New York City time, on the day which is two Business Days prior to such date. If such rate does not appear on such page on such day, then “USD-ISDA-Swap Rate” for such maturity and date shall mean the percentage determined on the basis of mid-market semiannual swap rate quotations provided by five leading swap dealers selected by the Calculation Agent in the New York City interbank market at approximately such time on such day as the mean of the bid and offered rates for the semiannual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with an effective date of the relevant early termination date and a termination date equal to such maturity, in an amount that is representative for a single transaction in such market at such time, with an acknowledged dealer of good credit in such market, where the floating rate, calculated on the basis of a 360-day year for actual days elapsed, is equal to the London Interbank Offered Rate for loans with a three-month duration.

“Variable Rate” shall mean the Daily Rate, Weekly Rate, Flexible Rate, Index Floating Rate or Term Rate. “Weekly Mode” shall mean the Mode during which the Bonds bear interest at the Weekly Rate.

“Weekly Rate” shall mean the per annum interest rate on the Bonds in the Weekly Mode determined pursuant to the Agreement.

“Weekly Rate Period” shall mean the period during which a Bond in the Weekly Mode shall bear a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date or date of initial issuance of the Bonds, as applicable, to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date.

## SUMMARY OF THE LOAN AND TRUST AGREEMENT

*The following is a brief summary, prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement dated as of May 10, 2007 (the "Agreement") pertaining to the Bonds. This summary does not purport to be complete, and reference is made to the Agreement for full and complete statements of such and all provisions.*

The Agreement is entered into pursuant to a resolution adopted by the Authority on May 10, 2007 which authorizes the issuance of the Bonds.

### **The Assignment and Pledge of Revenues**

The Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (a) all Revenues to be received from the Institution or derived from any security provided under the Agreement and (b) all rights to receive such Revenues and the proceeds of such rights. This assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions of the Agreement. As additional security for its obligations to make payments to the Debt Service Fund and the Redemption Fund, and for its other payment obligations under the Agreement, the Institution grants to the Authority a security interest in its interest in the moneys and other investments held from time to time in the funds established under the Agreement. (Section 201)

### **Establishment of Funds**

The following funds shall be established and maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Agreement:

Debt Service Fund;  
Expense Fund;  
Project Fund; and  
Redemption Fund.

(Sections 303, 304, 307 and 701)

### **Debt Service Fund**

A Debt Service Fund is established with the Trustee and moneys shall be deposited therein as provided in the Agreement. The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments), redemption premium, if any, and interest on the Bonds. Promptly after July 1 of each Bond Year, if the amount deposited by the Institution in the Debt Service Fund during the preceding Bond Year pursuant to the Agreement was in excess of the amount required to be so deposited, the Trustee shall transfer such excess to the Institution unless there is then an Event of Default known to the Trustee with respect to payments to the Debt Service Fund, or to the Trustee, the Paying Agent or the Authority, in which case the excess shall be applied to such payments. (Section 303)

### **Expense Fund**

An Expense Fund is established to be held by the Trustee and proceeds of the Bonds shall be deposited therein as provided in the Agreement. The moneys in the Expense Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Trustee solely to the payment or reimbursement of the costs of issuing the Bonds. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Bonds, but shall be transferred to the Debt Service Fund as provided in the Agreement. After all costs of issuing the Bonds have been paid, any amounts remaining in the Expense Fund shall be transferred to the Debt Service Fund. To the extent the Expense Fund is insufficient to pay any of the above

costs, the Institution shall be liable for the deficiency and shall pay an amount equal to such deficiency as directed by the Trustee. (Section 307)

### **Project Fund**

A Project Fund is established to be held by the Trustee. Proceeds of the sale of the Bonds shall be deposited in the Project Fund as provided in the Agreement. The moneys in the Project Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Trustee solely to the payment or reimbursement of Project Costs. Subject to the next following sentence, if there is an Event of Default known to the Trustee with respect to payments to the Rebate Fund or Debt Service Fund or to the Authority, the Paying Agent or the Trustee, the Trustee may use the Project Fund without requisition to make up the deficiency, and the Institution shall restore the funds so used. Notwithstanding anything in the Agreement to the contrary, so long as the Insured Bonds are Outstanding and no Bond Insurer Event of Insolvency exists with respect to a Bond Insurer, so long as an Event of Default as described in the preceding sentence continues, amounts on deposit in the Project Fund shall be used only to pay debt service on or redeem Bonds, unless each Bond Insurer shall otherwise consent in writing.

Completion of the Project shall be evidenced by the filing with the Trustee of a certificate signed by an Authorized Officer of the Institution stating that the Project has been substantially completed so as to permit efficient use in the operations of the Institution and setting forth any Project Costs remaining to be paid from the Project Fund. Any balance in such Fund not then needed to pay Project Costs may be used to reimburse sums deposited in the Project Fund by the Institution pursuant to the Agreement other than any amounts derived from gifts, grants or bequests received or expected to be received for the purposes of the Project, and other than amounts representing an equity contribution required by a Determination of Need, and the remainder thereafter shall be transferred to the Redemption Fund. (Section 701)

### **Redemption Fund**

A Redemption Fund is established with the Trustee and moneys shall be deposited therein as provided in the Agreement. The moneys in the Redemption Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the redemption of Bonds. The Trustee may, and upon written direction of the Institution for specific purchases shall, apply moneys in the Redemption Fund to the purchase of the Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest, if any, on the purchase of Bonds shall be paid from the Debt Service Fund.

If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Paying Agent to pay the principal (including sinking fund installments) and interest then due on the Bonds, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If any moneys in the Redemption Fund are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Bonds called for redemption in accordance with the Agreement, then the Institution shall immediately supply the deficiency. (Section 304)

### **Application of Moneys**

If available moneys in the Debt Service Fund and the Redemption Fund are not sufficient on any day to pay the Purchase Price, principal (including sinking fund installments) or redemption price of and interest on the Outstanding Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) shall, after payment of all charges and disbursements of the Trustee in accordance with the Agreement, be applied

(in the order such Funds are named in this paragraph) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of Purchase Price or principal (including sinking fund installments) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). In the event there exist Institution Bonds on the date of any application of moneys as described under this heading, moneys otherwise to be paid to the Institution pursuant to the provisions described under this heading shall be applied, first, pro rata to all other Bondowners (including the Liquidity Providers, as the owners of Liquidity Provider Bonds, if any, pro rata) and second, if any balance remains, to the Institution, in respect of any Institution Bonds. For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to the provisions described under this heading, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 305)

### **Rebate**

The Institution covenants to pay when due any rebate due to the United States. (Section 306)

### **Payments by the Institution**

The Institution shall pay to the Trustee for deposit in the Debt Service Fund the amounts specified in the Agreement at the times specified in the Agreement.

The payments to be made by the Institution under the Agreement shall be appropriately adjusted to reflect the date of issue of Bonds, any earnings on amounts in the Debt Service Fund and any purchase or redemption of Bonds, so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal or sinking fund installment due or coming due on the Bonds.

At any time when any principal (including sinking fund installments) of the Bonds is overdue, the Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the payments required under the Agreement shall not otherwise bear interest. Redemption premiums shall not bear interest.

Payments by the Institution to the Trustee for deposit in the Debt Service Fund under the Agreement in an amount sufficient to pay the principal and interest then due on the Bonds shall discharge the obligation of the Institution to the extent of such payments; provided, that if any moneys are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay or redeem principal of, premium, if any, and interest on the Bonds when due, the Institution shall supply the deficiency.

With respect to Bonds as to which a Liquidity Facility is in effect, if such Liquidity Facility does not provide sufficient funds, together with all other amounts received by the Paying Agent for the purchase of Bonds that are tendered pursuant to the Agreement, to pay the Purchase Price of such Bonds on the Purchase Date, the Paying Agent shall notify the Institution and the Trustee of such deficiency. The Institution may, in its sole discretion, pay to the Paying Agent an amount equal to the Purchase Price of such Bonds less the amount, if any, available to pay the Purchase Price in accordance with the Agreement, from the proceeds of the remarketing of such Bonds or from drawings on the Liquidity Facility. In no such case, however, shall the Institution be obligated to make any such payment.

With respect to Bonds as to which no Liquidity Facility is in effect (either because the Institution has not provided for such a Liquidity Facility or because under the terms of the Liquidity Facility the Liquidity Provider has no obligation to provide funds to purchase unremarketed Bonds), if amounts received by the Paying Agent for the

purchase of Bonds that are tendered pursuant to the Agreement are not sufficient to pay the Purchase Price of such Bonds on the Purchase Date, the Paying Agent shall notify the Institution and the Trustee of such deficiency. The Institution shall pay to the Paying Agent an amount equal to the Purchase Price of such Bonds less the amount, if any, available to pay the Purchase Price in accordance with the Agreement, from the proceeds of the remarketing of such Bonds. (Section 308)

### **Unconditional Obligation**

To the extent permitted by law, the obligation of the Institution to make payments to the Authority, the Paying Agent and the Trustee under the Agreement shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, shall not be subject to setoff, recoupment or counterclaim and shall be a general obligation of the Institution to which the full faith and credit of the Institution are pledged. (Section 309)

### **Investments**

Pending their use under the Agreement, moneys in the Funds and Accounts established pursuant to the Agreement may be invested by the Trustee in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee provided that the Institution shall not request, authorize or permit any investment which would cause any Bonds to be classified as “arbitrage bonds” as defined in IRC §148. Notwithstanding the foregoing, any amount of moneys deposited in the Project Fund pursuant to the Agreement which has not been expended within three (3) years of the date of closing shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Bonds, unless otherwise permitted by an Opinion of Bond Counsel. Any investments pursuant to the Agreement shall be held by the Trustee as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings on the Redemption Fund and on the Expense Fund shall be transferred to the Debt Service Fund and credited against payments otherwise required to be made thereto not less often than quarterly.

The term “Permitted Investments” means: (i) Government or Equivalent Obligations or shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to Government or Equivalent Obligations and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee, (ii) “tax exempt bonds” as defined in IRC §150(a)(6), other than “specified private activity bonds” as defined in IRC §57(a)(5)(C), rated at least AA or Aa2 by S&P and Moody’s, respectively, or the equivalent by any other nationally recognized rating agency, at the time of acquisition thereof or shares of a so-called money market or mutual fund that do not constitute “investment property” within the meaning of IRC §148(b)(2), provided either that the fund has all of its assets invested in such “tax exempt bonds” of such rating quality or, if such obligations are not so rated, that the fund has comparable creditworthiness through insurance or otherwise and which fund is rated AAm or AAm-G if rated by S&P, (iii) negotiable certificates of deposit or other evidences of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank, which have assets of not less than \$1,000,000,000, provided that the senior debt obligations of the issuing institution are rated “Aa3” or “AA-” or better by Moody’s or S&P and mature not more than two years after the date of purchase, (iv) bills of exchange or time drafts drawn on and accepted by a commercial bank (otherwise known as bankers acceptances), provided that such bankers acceptances may not exceed 180 days maturity, and provided further that the accepting bank has the highest short-term letter and numerical rating as provided by Moody’s or S&P, (v) Repurchase Agreements, (vi) money market funds rated at least AAm or AAm-G by S&P, (vii) investment agreements with providers rated at least AA and Aa2 by S&P and Moody’s, respectively, (viii) collateralized investment agreements with providers rated at least A and A2 by S&P and Moody’s, respectively, (ix) Federal Agency Securities and participation certificates issued by the Federal National Mortgage Association,



Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank System, Student Loan Marketing Association, World Bank or Federal Agricultural Mortgage Corporation, and (x) commercial paper which is rated at the time of purchase at least A-1+ by S&P or P-1 by Moody's and which matures not more than 270 days after the date of purchase. The term "Repurchase Agreement" shall mean a written agreement under which a bank or trust company which has a capital and surplus of not less than \$50,000,000 or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York sells to, and agrees to repurchase from the Authority or the Trustee obligations issued or guaranteed by the United States or other securities identified in the Section; provided that the market value of such obligations is at the time of entering into the agreement at least one hundred and three percent (103%) of the repurchase price specified in the agreement and that such obligations are segregated from the unencumbered assets of such bank or trust company or government bond dealer; and provided further that unless the agreement is with a bank or trust company, such agreement shall require the repurchase to occur on demand or on a date certain which is not later than one (1) year after such agreement is entered into and shall expressly authorize the Trustee or the Authority, as the case may be, to liquidate the purchased obligations in the event of the insolvency of the party required to repurchase such obligations or the commencement against such party of a case under the federal Bankruptcy Code or the appointment of or taking possession by a trustee or custodian in a case against such party under the Bankruptcy Code. Any such investments may be purchased from or through the Trustee.

Notwithstanding the immediately preceding paragraph, Permitted Investments shall not include the following:

(A) Government or Equivalent Obligations, certificates of deposit and bankers' acceptances, in each case with yields lower than either (i) the yield available on any comparable obligations then offered by the United States Treasury, or (ii) the highest yield published or posted by the provider of the Permitted Investments to be currently available from the provider on reasonably comparable investments; (B) any demand deposit or similar account with a bank, trust company or broker, unless (i) the account is used for holding funds for a short period of time until such funds are reinvested or spent, and (ii) substantially all the funds in the account are withdrawn for reinvestment or expenditure within fifteen (15) days of their deposit therein; or (C) Repurchase Agreements or investment agreements, unless (i) at least three (3) bids are obtained on the proposed Repurchase Agreement or investment agreement from persons other than those with an interest in the Bonds, (ii) the highest yielding Repurchase Agreement or investment agreement for which a qualifying bid is received is purchased, (iii) the provider of the Repurchase Agreement or investment agreement certifies that the yield on the Repurchase Agreement or investment agreement is not less than the yield then available from the provider on reasonably comparable Repurchase Agreements or investment agreements, as applicable, if any, offered to persons who are purchasing the agreement from a source other than proceeds of tax-exempt bonds, (iv) the terms of the Repurchase Agreement or investment agreement, including collateral requirements, are reasonable, and (v) a written record of the yield offered by each bidder is maintained.

Any of the above requirements shall not apply to moneys as to which the Trustee and the Authority shall have received an opinion of nationally recognized bond counsel to the effect that such requirements are not necessary to preserve the exclusion of interest on the Bonds from the gross income of the owner thereof for federal income tax purposes. Permitted Investments shall not include any investment that would cause any of the Bonds to be federally guaranteed within the meaning of IRC §149(b). (Section 311)

### **Conversion; Changes in Mode**

At the option of the Institution, all or a portion of the Bonds of a series outstanding in the ARS Rate Mode may be converted to the Daily Mode, Weekly Mode, Flexible Mode, Term Rate Mode, Index Floating Rate Mode or Fixed Rate Mode on a Conversion Date selected by the Institution which shall be the Interest Payment Date following the final Auction Period; provided that the Institution's right to convert Bonds of any series to another Mode shall terminate on the date of defeasance of such series of Bonds pursuant to the Agreement; and provided further that, to the extent feasible, the Institution will exercise its option in such a manner that at least \$10 million of the Bonds of a series are in the same Mode from time to time; and provided further that no conversion shall be effective if the Bonds to be converted are not fully remarketed on the applicable mandatory tender date.

At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the Conversion Date the Institution may withdraw its notice of conversion and the Auction for such Bonds shall be held

on such Auction Date as if no conversion notice had ever been given. If on a Conversion Date there has been a timely withdrawal of the conversion notice as set forth in the preceding sentence or any condition precedent to such conversion is not satisfied, the Trustee shall give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the registered owners of the Bonds to have been converted, the Authority, the Auction Agent, each applicable Broker-Dealer and the applicable Bond Insurer that such conversion has not occurred, that such Bonds shall not be purchased on the failed Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate shall continue to be the Auction Period Rate; provided, however, that the interest rate borne by the Bonds which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date shall be the Maximum Rate, and the Auction Period shall be the seven-day Auction Period. (Section 413)

Subject to the provisions of the Agreement and any Liquidity Facility then in effect, the Institution may effect a change in Mode with respect to all or a portion of any series of Bonds in the Daily, Weekly, Index Floating Rate or Flexible Mode by following the procedures set forth in the Agreement; provided that the Institution's right to effect a change in Mode shall terminate on the date of defeasance of the Bonds pursuant to the Agreement.

In the event the conditions to a change in Mode with respect to Bonds in the Daily, Weekly, Index Floating Rate or Flexible Mode have not been satisfied by the applicable Mode Change Date, then the new Mode shall not take effect although any mandatory tender shall be made on such date if notice has been sent to the Bondowners stating that such Bonds would be subject to mandatory purchase on such date; provided that Bonds in an Index Floating Rate Mode shall not be subject to mandatory purchase in the event of a failed conversion. (Section 510)

### **Book-Entry Tenders**

Notwithstanding any other provision of the Agreement to the contrary, all tenders for purchase during any period in which the Bonds are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) shall be subject to the terms and conditions set forth in the Representations Letter and to any regulations promulgated by DTC (or any successor Securities Depository). For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Beneficial Owners of Bonds may be exercised only by a Direct Participant of DTC acting, directly or indirectly, on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant or DTC, or an Indirect Participant of DTC acting through a Direct Participant of DTC, to exercise a tender option right in respect of Bonds or portions thereof in an amount equal to all or a portion of such Beneficial Owner's beneficial ownership interest therein shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book-entry credit to the account of the Tender Agent of a beneficial interest in such Bonds. (Section 520)

### **Default by the Institution**

Events of Default; Default. "Event of Default" in the Agreement means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

(a) *Debt Service on Bonds; Required Purchase.* Any principal (including sinking fund installments) of, premium, if any, or interest on any Bond shall not be paid when due, whether at maturity, by acceleration, upon redemption or otherwise or any Purchase Price for Bonds shall not be paid as provided in the Agreement.

(b) *Payments by the Institution.* The Institution shall fail to make any payment required of it under the Agreement relating to rebate or principal (including sinking fund installments), premium, if any, interest or purchase price on the Bonds when the same becomes due and payable.

(c) *Other Obligations.* The Institution shall fail to make any other required payment to the Trustee and such failure is not remedied within seven (7) days after written notice thereof is given by the Trustee to the Institution; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within sixty (60) days after written notice thereof is given by the Trustee to the Institution.

(d) *Warranties.* There shall be a material breach of a warranty made in the Agreement by the Institution as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Trustee to the Institution.

(e) *Voluntary Bankruptcy.* The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property.

(f) *Appointment of Receiver.* A trustee, receiver, custodian or similar official or agent shall be appointed for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

(g) *Involuntary Bankruptcy.* The Institution shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

(h) *Breach of Other Agreements.* A breach shall occur (and continue beyond any applicable grace period) with respect to a payment by the Institution of debt service with respect to the payment of other Indebtedness of the Institution for borrowed money with respect to loans exceeding \$20,000,000, or with respect to the performance of any agreement securing such other Indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to under this heading, so that a holder or holders of such Indebtedness or a trustee or trustees under any such agreement accelerates or is empowered to accelerate any such Indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (h) if (A) the Institution is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, (B) the power of acceleration is not exercised and it ceases to be in effect, or (C) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Institution shall notify the Authority and the Trustee of any such breach or event immediately upon the Institution's becoming aware of its occurrence and shall from time to time furnish such information as the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this clause (h) has occurred and whether such power of acceleration has been exercised or continues to be in effect.

(i) *Insurance Agreements.* An event of default by the Institution shall occur under either Insurance Agreement and the applicable Bond Insurer shall have provided written notice thereof to the Authority, the Institution and the Trustee.

Waiver. Any default and the consequences thereof, including any acceleration, may be waived by written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds and consent of each Bond Insurer with notice to the Trustee, the Authority and the Institution. If the default concerns a payment required to be made to the Authority or rights or powers reserved by the Agreement, the written consent of the Authority shall be required for a waiver. (Section 801)

## Remedies for Events of Default

Remedies. If an Event of Default occurs and is continuing:

(a) *Acceleration.* The Trustee may, and upon the written request of the registered owners of a majority in principal amount of the Outstanding Bonds, shall, by written notice to the Institution, the Authority, the Liquidity Provider, if any, the Remarketing Agent, if any, and the Rating Agencies declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

Notwithstanding anything in the Agreement to the contrary, neither series of Insured Bonds shall be accelerated without the consent of the applicable Bond Insurer. In the event that either series of Insured Bonds are accelerated, the applicable Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration and the Trustee is required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date, the applicable Bond Insurer's obligations under the applicable Bond Insurance Policy with respect to such series of Insured Bonds shall be fully discharged.

If, at any time after such declaration and before the entry of a judgment or decree for payment of the money due, all amounts payable under the Agreement except principal and interest on the Bonds which are due solely by reason of such declaration and acceleration shall have been paid or provided for by deposit with the Trustee and all existing Events of Default shall have been cured, then, unless otherwise directed in writing by the registered owners of Bonds representing a majority of the principal amount of the Outstanding Bonds or the applicable Bond Insurer (only with respect to a series of Insured Bonds), the Trustee shall rescind and annul such declaration and acceleration, but no such rescission shall affect any subsequent Event of Default or the consequences thereof.

(b) *Rights as a Secured Party.* The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Project Fund, the Debt Service Fund and the Redemption Fund, including the right to retain such securities in satisfaction of the obligations of the Institution under the Agreement.

(c) *Court Proceedings.* (1) The Authority may enforce the obligations of the Institution under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained in the Agreement, whether or not any breach has become an Event of Default, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Institution of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations of the Institution under the Agreement.

Subject to certain provisions specified in the Agreement, the Trustee may enforce the obligations of the Authority under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained in the Agreement, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Authority of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations of the Authority under the Agreement.

Revenues after Default. The proceeds from sale, redemption or retention of securities under the provisions described under "Rights as a Secured Party" above shall be remitted to the Trustee upon receipt and in the form received. Such proceeds shall be applied, first to the remaining obligations of the Institution under the Agreement (other than obligations to make payments to the Authority for its own use) in such order as may be determined by the Trustee, and second, to any unpaid sums due the Authority for its own use. Any surplus thereof shall be paid to the Institution. (Section 802)

## **Remedies Cumulative**

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Institution or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance by the Institution or of the right to exercise any remedy for the violation. (Section 804)

## **Resignation or Removal of the Trustee**

The Trustee may resign on not less than thirty (30) days' notice given in writing to the Authority, the Institution, each Liquidity Provider, if any, each Bond Insurer and the Bondowners, but such resignation shall not take effect until a successor has been appointed and has accepted such appointment. The Trustee may be removed by written notice from (i) the registered owners of a majority in principal amount of the Outstanding Bonds to the Trustee, the Authority, the Liquidity Providers, if any, the Bond Insurer and the Institution or (ii) the Institution to the Trustee, the Liquidity Providers, if any, each Bond Insurer and the Authority, if the Institution is not then in default under the Agreement, but such removal shall not take effect until a successor has been appointed and has accepted the duties of Trustee. (Section 904)

## **Action by Bondowners**

Any request, authorization, direction, notice, consent, waiver or other action provided by the Agreement to be given or taken by Bondowners may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondowners or their attorneys duly appointed in writing. Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond. Bonds owned or held by or for the account of the Authority or the Institution shall not be deemed Outstanding Bonds for the purpose of any consent or other action by Bondowners. (Section 1101)

## **Proceedings by Bondowners**

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity as provided in the Agreement and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the obligations of the Trustee under the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Trustee to act and furnished the Trustee indemnity as provided in the Agreement and have afforded the Trustee reasonable opportunity to proceed, and the Trustee shall thereafter fail or refuse to take such action.

Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights under the Agreement and under the laws of The Commonwealth of Massachusetts. (Section 1102)

## **Rates and Charges**

The Institution agrees, subject to any governmental restrictions, its fiduciary obligations and limitations imposed by law, to charge and collect rates and charges which, together with any other moneys legally available to it, shall provide moneys sufficient at all times: (a) to make the payments required by the Agreement and comply with the Agreement in all other respects; and (b) to satisfy all other obligations of the Institution in a timely fashion. (Section 1204)

## **Annual Reports and Other Current Information**

The Institution shall from time to time render such reports concerning the condition of the Project or compliance with the Agreement as the Authority or the Trustee may reasonably request. Within one hundred fifty (150) days after the close of each fiscal year, the Institution shall furnish to the Trustee, the Authority, the Bond

Insurers and to Bondowners requesting the same, copies of its audited financial statements. The Institution shall furnish to the Authority and to the Trustee, within one hundred eighty (180) days after the close of each fiscal year, a certificate signed by its chief operating officer or an Authorized Officer stating that the Institution has caused its operations for the year to be reviewed and that in the course of that review, no default under the Agreement has come to its attention or, if such a default has appeared, a description of the default. (Section 1205)

### **Maintenance of Corporate Existence**

The Institution shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve or dispose of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities, or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the provisions specified in the Agreement, (b) the transaction does not result in a conflict, breach or default referred to in the provision specified in the Agreement, and (c) the surviving, resulting or transferee entity or entities each (i) assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Agreement, (ii) notifies the Authority and the Trustee of any change in the name of the Institution and (iii) executes, delivers, registers, records and files such other instruments as the Authority or the Trustee may reasonably require to confirm, perfect or maintain any security granted under the Agreement. (Section 1206)

### **Restrictions on Encumbrance, Sale and Lease of Property**

The Institution agrees that it will not create or suffer to be created or exist any Lien upon any Property now owned or hereafter acquired by it other than Permitted Liens.

Permitted Liens shall consist of Liens which are described in one or more of the following clauses:

(i) Any judgment lien or notice of pending action against any Institution, so long as such judgment or pending action is being contested and execution thereon is stayed;

(ii)(A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of the Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any Liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, and laborers, have been due for less than sixty (60) days; and (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof;

(iii) Any Lien existing on the date hereof provided that no such Lien (or the amount of Indebtedness secured thereby) may be extended, to apply to any Property of the Institution not subject to such Lien on such date, unless such Lien as so extended, or otherwise qualifies as a Permitted Lien under the Agreement;

(iv) Purchase money security interests, and security interests existing on any Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise, or placed upon Property to secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles; provided that the aggregate principal amounts secured by any such interests shall not exceed at the time of incurring or assumption the fair market value of such Property;

(v) Liens arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(vi) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Institution to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit-sharing plans or other similar arrangements, or to share in the privileges or benefits required for companies participating in such arrangements;

(vii) Any Lien arising by reason of an Irrevocable Deposit;

(viii) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds or on moneys to repay Indebtedness while held in a debt service reserve fund, or on any moneys to secure payment of the trustee's fees;

(ix) Liens on moneys deposited by patients or others with the Institution as security for or as prepayment for the cost of patient care;

(x) Liens on Property received by the Institution through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of such Property or the income thereon, up to the fair market value of such Property

(xi) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. §291 et seq. and similar rights under other federal and state statutes relating to the Hill-Burton program;

(xii) Liens for taxes or special assessments not then delinquent or which are being contested in good faith;

(xiii) Liens on Property due to rights of third-party payors for set-off or recoupment of amounts paid to the Institution;

(xiv) Liens securing Indebtedness incurred after the date of the Agreement in accordance with the provisions of the Agreement;

(xv) Any Liens created or permitted by the Agreement;

(xvi) Any Lien arising solely by reason of a lease of Property to others which lease would not have any material adverse effect upon (A) the security for the Bonds, if any, (B) the operations of the Property, or (C) the Debt Service Coverage Ratio;

(xviii) Any Lien upon Property the loss of which Property would not have any material adverse effect upon (A) the security for the Bonds, if any, (B) the operations of the Property, or (C) the Debt Service Coverage Ratio; and

(xix) Any Lien on Property securing Indebtedness provided a parity Lien on such Property is granted in favor the Authority securing the Bonds equally and ratably. (Section 1207)

## Debt Service Coverage Ratio

The Institution shall maintain or cause to be maintained a Debt Service Coverage Ratio in any fiscal year of at least 1.0 to 1.0. If the Institution shall fail to so maintain such ratio, then within thirty (30) days after publication of the Partners System's audited financial statements, the Institution shall retain a consultant to make recommendations as to how such ratio may be achieved in subsequent years. Failure to follow the consultant's recommendations shall not be a default or an Event of Default under the Agreement so long as the Debt Service Coverage Ratio in the immediately following fiscal year is at least 1.0 to 1.0. A consultant's report will not be required in the year immediately following a year when a consultant's report has been rendered if (i) such report states that the Institution was precluded from achieving a Debt Service Coverage Ratio of 1.0 to 1.0 by factors beyond its control and that the Institution has done all that it reasonably could to achieve the highest Debt Service Coverage Ratio reasonably possible under such circumstances, and (ii) an Authorized Officer of the Institution certifies that these circumstances have persisted into the succeeding fiscal year. (Section 1208)

## Senior Indebtedness

Except as otherwise provided in this section, the Institution may incur Indebtedness without limitation. During any Guarantee Suspension, the Institution shall not permit an Affiliate to incur Indebtedness, whether secured or unsecured ("Senior Affiliate Indebtedness") unless such Affiliate delivers to the Authority a guarantee, substantially similar in form and substance to the Guarantees, securing the Institution's obligations under the Agreement equally and ratably with such Senior Affiliate Indebtedness or unless such Senior Affiliate Indebtedness is either:

- (i) Indebtedness that, together with all Senior Indebtedness (as defined below) outstanding on the date thereof, shall be less than 25% of the sum of (a) unrestricted net assets, as shown on the most recent audited consolidated financial statements of the Partners System, and (b) unrestricted net assets, as shown on the most recent audited financial statements, of any Affiliate that is not included in the Partners System's audited financial statements; or
- (ii) (A) Indebtedness of a Person subsequently becoming, or being merged into or otherwise combined with, an Affiliate; (B) Indebtedness of a Person substantially all of whose tangible and intangible assets are subsequently acquired by an Affiliate, which is assumed in connection with such acquisition; and (C) any refinancing of Indebtedness described in the foregoing clauses (A) and (B) that does not increase the principal amount thereof by more than twenty percent (20%) or extend the security therefor; provided, however, (1) such Indebtedness was not incurred in contemplation of becoming, or being merged into or otherwise combined with, an Affiliate or of such acquisition, and (2) the amount of all Indebtedness incurred pursuant to this paragraph (ii) and all Indebtedness incurred pursuant to paragraph (i) hereof does not exceed thirty-five percent (35%) of the sum of (x) the unrestricted net assets of the Partners System as shown on the most recent consolidated audited financial statements of the Partners System, and (y) the unrestricted net assets, as shown on its most recent audited financial statements, of any Affiliate not included in the Partners System's consolidated financial statements and of the Person becoming, or being merged into, or combined with, or whose assets are acquired by, an Affiliate.

During any Guarantee Suspension, the Institution shall not incur Indebtedness that is secured by a Lien on any Property (other than a Permitted Lien) ("Institution Senior Indebtedness" and, collectively with Senior Affiliate Indebtedness, "Senior Indebtedness"), except in accordance with the Agreement, unless such Senior Institution Indebtedness is either:

- (i) Indebtedness that, together with all Senior Indebtedness outstanding on the date thereof, shall be less than 25% of the sum of (a) unrestricted net assets, as shown on the most recent audited consolidated financial statements of the Partners System, and (b) unrestricted net assets, as shown on the most recent audited financial statements, of any Affiliate that is not included in the Partners System's audited financial statements; or
- (ii) (A) Indebtedness of Persons subsequently becoming, or being merged into or otherwise combined with, Affiliates; (B) Indebtedness of Persons, substantially all of whose tangible and intangible assets



are subsequently acquired by an Affiliate, which is assumed in connection with such acquisition; and (C) any refinancing of Indebtedness described in the foregoing clauses (A) and (B) that does not increase the principal amount thereof by more than twenty percent (20%) or extend the security therefor; provided, however, (1) such Indebtedness was not incurred in contemplation of becoming, or being merged into or otherwise combined with, an Affiliate or of such acquisition, and (2) the amount of all Indebtedness incurred pursuant to this paragraph (ii) and all Indebtedness incurred pursuant to paragraph (i) hereof does not exceed thirty-five percent (35%) of the sum of (x) the unrestricted net assets of the Partners System as shown on the most recent consolidated audited financial statements of the Partners System, and (y) the unrestricted net assets, as shown on its most recent audited financial statements, of any Affiliate not included in the Partners System's consolidated financial statements and of the Person becoming, or being merged into, or combined with, or whose assets are acquired by, an Affiliate.

If Brigham or BWF shall issue Indebtedness secured by a pledge, lien, mortgage, security interest or other encumbrance on any of its tangible or intangible property (other than such an encumbrance on property financed by such Indebtedness or on the proceeds of such Indebtedness provided only to secure such Indebtedness), the Institution shall cause Brigham or BWF, as applicable, to extend such encumbrance also to secure Brigham's and BWF's obligations under Brigham's and BWF's Guarantee.

If (i) the lien created under a certain Amended and Restated Loan and Trust Agreement dated August 3, 1993 among the Authority, the General, MGH and State Street Bank and Trust Company, as successor trustee (the "1993 Trust Agreement") on Gross Receipts (as defined in the 1993 Trust Agreement) has been terminated, and (ii) either of MGH or the General shall hereafter issue Indebtedness secured by a pledge, lien, mortgage, security interest or other encumbrance on any of its tangible or intangible property (other than such an encumbrance on property financed by such Indebtedness or on the proceeds of such Indebtedness provided only to secure such Indebtedness), the Institution shall cause MGH or the General, as applicable, to extend such encumbrance also to secure the General's and MGH's obligations under the General's and MGH's Guarantee. (Section 1209)

### **Transfer of Assets**

The Institution shall not sell, transfer or dispose of assets, nor will it permit any Affiliate to sell, transfer or dispose of assets ("Asset Transfers") unless permitted by any one or more of the following exceptions:

(a) Asset Transfers of assets that are worn out, obsolete or no longer used or useful, or expected within the next twelve months to be no longer used or useful, in the conduct of its operations;

(b) Asset Transfers to the Institution or to any Affiliate provided that neither Brigham nor the General shall transfer all or substantially all of its assets to another Affiliate or Affiliates unless prior thereto such Affiliate or Affiliates shall execute a guarantee similar to the Guarantees, in form and substance satisfactory to the Authority;

(c) Asset Transfers for consideration equivalent to the fair market value of the asset sold, transferred or disposed of ("Asset FMV"); provided that neither Brigham nor the General will transfer its property, plant or equipment or any of its businesses or operations in any year, whether for consideration or as an Unrecompensed Transfer (as hereinafter defined), in excess of 7.5% of the net book value of their property, plant and equipment appearing in their most recent audited financial statements (the "Measurement Year") unless an Authorized Officer of the Institution shall certify together with appropriate assumptions and calculations that the sum of the excess of the revenues over expenses of the transferring institution plus its depreciation and amortization expense for such Measurement Year, assuming such transfer occurred at the beginning thereof, would have been at least 70% of what it in fact was;

(d) Subject to the provisions of clause (c) above, Asset Transfers for no consideration or for a consideration less than Asset FMV, to the extent of the difference between Asset FMV and such consideration (collectively, "Unrecompensed Transfers"), in an amount not exceeding in any fiscal year 5% of the sum of (i) the unrestricted net assets of the Partners System as shown on the most recent audited financial statements of the Partners System, and (ii) the unrestricted net assets, as shown on its most recent audited financial statements, of any Affiliate not included in the Partners System's consolidated financial statements;

(e) Subject to the provisions of clause (c) above, Unrecompensed Transfers, subject to receipt of a certificate of an Authorized Officer of the Institution, together with appropriate assumptions and calculations, that, had such Unrecompensed Transfer occurred on the first day of the Measurement Year, the Debt Service Coverage Ratio for such year would have been either (i) at least 3.0, or (ii) at least 70% of what it actually was but in no event less than 1.5. For purposes of calculating the Debt Service Coverage Ratio as if such Unrecompensed Transfer had occurred, principal payments in the Measurement Year shall be adjusted to include any principal or sinking fund payments on any Indebtedness if such payments constitute more than 20% of the original amount of such Indebtedness and are due in any of the three years subsequent to the Measurement Year. No Unrecompensed Transfer shall occur pursuant to this paragraph (e) if the Guarantees no longer are in full force and effect and, after giving effect thereto, the Institution could not incur \$1.00 of Senior Indebtedness pursuant to the Agreement. (Section 1210)

## **Amendment**

The Agreement may be amended by the parties without Bondowner consent for any of the following purposes: (a) to subject any property to the lien of the Agreement, (b) to add to the covenants and agreements of the Institution or to surrender or limit any right or power of the Institution, (c) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds or (d) to make any necessary changes to the Agreement to facilitate the conversion of any series of Bonds to a different Mode, including changes desired by the Institution in connection with the conversion of Bonds to the Index Floating Rate Mode, with the written consent of the applicable Bond Insurer with respect to amendments related to any conversion of either series of the Insured Bonds. If an amendment pursuant to the Agreement requires an amendment to the form of Bonds, the Trustee shall direct the Bondowners to surrender their Bonds at the office of the Trustee for definitive Bonds incorporating such amendments upon not less than 15 days' prior written notice. The Institution shall pay all costs associated with amending the Agreement and with preparing and printing any amended Bonds. Provisions of the Agreement may also be amended by the parties without Bondowner consent, but with the prior written consent of the applicable Bond Insurer if such amendment is applicable to a series of Insured Bonds, on the date of any mandatory tender of the Bonds, provided that notice of any such amendment is included in the notice of mandatory tender for purchase described in the Agreement.

Except as set forth below, while Bonds are in the Daily or Weekly Mode, the Institution may amend provisions of the Agreement concerning such Bonds in such Modes, with the consent of the applicable Bond Insurer if such amendment is applicable to a series of Insured Bonds (i) by obtaining the consent of a majority of registered owners of the Bonds in such Modes, or (ii) on any Business Day occurring at least 20 days after the date on which the Trustee mailed notice to the registered owners of the Bonds as required by the Agreement, in which case such proposed amendment shall be deemed to have been consented to by the registered owners of all such Bonds. The Institution may also amend the definition of Maximum Rate, without Bondowner consent, provided that, if a Liquidity Facility is then in effect it entitles the Paying Agent to draw upon or demand and receive in immediately available funds an amount equal to the principal amount of the Bonds then outstanding plus a number of days of accrued interest at such amended Maximum Rate at least equal to the number of days required to be covered under the Agreement.

In addition, with the consent of the Broker-Dealer, the Auction Agent and each Bond Insurer, the provisions of the Agreement concerning the Auction Procedures, including without limitation the mandatory tender provisions and provisions related to the Auction Period, Auction Date and Interest Payment Dates as provided in the Agreement, and the definitions applicable thereto, including without limitation, the definition of Maximum Auction Rate, may be amended (i) by obtaining the consent of the Trustee if the Trustee determines that such amendment does not materially adversely affect the rights of any Bondowner (it being agreed that in making such determination the Trustee may rely conclusively upon a certificate to such effect of the Broker-Dealer) or (ii) by obtaining the consent of all of the registered owners of the ARS Rate Bonds, or (iii) on any Auction Date on which Sufficient Clearing Bids have been made or all of the ARS Rate Bonds are subject to Submitted Hold Orders. In the case of clause (iii) above, if on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice to the registered owners of the ARS Rate Bonds as required by the Agreement, Sufficient Clearing Bids have been received or all of the ARS Rate Bonds are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the registered owners of all ARS Rate Bonds.

Except as provided in the foregoing paragraphs, the Agreement may be amended only with the written consent of the registered owners of a majority in principal amount of the Outstanding Bonds and the written consent of the applicable Bond Insurer with respect to amendments that affect a series of Insured Bonds; provided, however, no amendment of the Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: (i) to extend the maturity of any Bond; (ii) to reduce the principal amount, or interest rate of any Bond; (iii) to make any Bond prepayable other than in accordance with the terms of the Agreement; (iv) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds; or (v) to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment.

Any amendment of the Agreement shall be accompanied by an Opinion of Bond Counsel delivered to the Trustee and the Authority to the effect that the amendment is permitted by the Agreement and shall not adversely affect the validity of the Bonds or the exclusion of interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes. (Section 1301)

### **Rights of the Bond Insurers**

Notwithstanding anything in the Agreement to the contrary, for so long as the Series G-1 Bonds or Series G-3 Bonds, respectively, are Outstanding, no Bond Insurer Event of Insolvency exists with respect to the Series G-1 and G-3 Bond Insurer and the Series G-1 and G-3 Bond Insurer is not in default under the Series G-1 and G-3 Bond Insurance Policy, the following provisions shall apply:

(a) The Trustee shall, to the extent there are no other available funds held under the Agreement allocable to the Series G-1 Bonds and Series G-3 Bonds, use the remaining funds applicable to the Series G-1 Bonds and Series G-3 Bonds in the Project Fund to pay principal or of interest on the Series G-1 Bonds and Series G-3 Bonds, respectively, in the event of a payment default.

(b) In determining whether a payment default has occurred or whether a payment on the Series G-1 Bonds and Series G-3 Bonds has been made under the Agreement, no effect shall be given to payments made under the Series G-1 and G-3 Bond Insurance Policy.

(c) Any acceleration of the Series G-1 Bonds or Series G-3 Bonds or any annulment thereof shall be subject to the prior written consent of the Series G-1 and G-3 Bond Insurer (if it has not failed to comply with its payment obligations under the Series G-1 and G-3 Bond Insurance Policy).

(d) The Series G-1 and G-3 Bond Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee, the Authority or the Institution within 30 days of the Trustee's, the Authority's or the Institution's knowledge thereof.

(e) For all purposes of the provisions of the Agreement governing Events of Default and remedies, except the giving of notice of default to Series G-1 Bondowners and Series G-3 Bondholders, the Series G-1 and G-3 Bond Insurer shall be deemed to be the sole holder of the Series G-1 Bonds and Series G-3 Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Series G-1 and G-3 Bond Insurance Policy.

(f) The Series G-1 and G-3 Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the Authority, the Institution, and the Trustee, or any applicable receiver of the occurrence of an Event of Default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Series G-1 Bonds or Series G-3 Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Series G-1 and G-3 Bond Insurer.

(g) Any amendment or supplement to the Agreement shall be subject to the prior written consent of the Series G-1 and G-3 Bond Insurer. Any covenants made in favor of the Series G-1 and G-3 Bond Insurer may be amended or waived only by the Series G-1 and G-3 Bond Insurer. Any rating agency rating the Bonds must receive notice of each amendment to the Agreement and a copy thereof at least 15 days in advance of its execution or

adoption. The Series G-1 and G-3 Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

(h) The Institution shall pay or reimburse the Series G-1 and G-3 Bond Insurer for any and all charges, fees, costs, and expenses that the Series G-1 and G-3 Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense or preservation of any rights or security hereunder or under any other transaction document; (ii) the pursuit of any remedies under the Agreement, under any other transaction document, or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to the agreement or any other transaction document whether or not executed or completed; (iv) the violation by the Institution of any law, rule or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Series G-1 and G-3 Bond Insurer to cure defaults of the Institution under the transaction documents; or (vi) any litigation or other dispute in connection with the Agreement, any other transaction document, or the transactions contemplated by the Agreement or other transaction documents, other than amounts resulting from the failure of the Series G-1 and G-3 Bond Insurer to honor its payment obligations under the Series G-1 and G-3 Bond Insurance Policy. The Series G-1 and G-3 Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Agreement or any other transaction document. The obligations of the Institution to the Series G-1 and G-3 Bond Insurer shall survive discharge and termination of the Agreement.

Notwithstanding anything in the Agreement to the contrary, for so long as the Series G-2 Bonds or Series G-4 Bonds, respectively, are Outstanding, no Bond Insurer Event of Insolvency exists with respect to the Series G-2 and G-4 Bond Insurer and the Series G-2 and G-4 Bond Insurer is not in default under the Series G-2 and G-4 Bond Insurance Policy, the following provisions shall apply:

(a) Any provision of the Agreement expressly recognizing or granting rights in or to the Series G-2 and G-4 Bond Insurer may not be amended in any manner which affects the rights of the Series G-2 and G-4 Bond Insurer under the Agreement without the prior written consent of the Series G-2 and G-4 Bond Insurer.

(b) Unless otherwise provided in the Agreement, the Series G-2 and G-4 Bond Insurer shall be treated as the owner of the Series G-2 and G-4 Bonds for the purpose of giving consents and approvals, granting waivers and exercising remedial rights and privileges.

(c) While the Series G-2 and G-4 Bond Insurance Policy is in effect, the Trustee shall furnish to the Series G-2 and G-4 Bond Insurer upon request, the following: (a) a copy of any financial statement, audit and/or annual report of the Institution in such party's possession; (b) such additional information in such party's possession as the Series G-2 and G-4 Bond Insurer may reasonably request relating to the Institution or the Bonds; and (c) a copy of any notice to be given to the Bondowners, including, without limitation, notice of any redemption of or defeasance of the Series G-2 and G-4 Bonds, and any certificate rendered pursuant to the Agreement relating to the security for the Series G-2 and G-4 Bonds.

(d) Notwithstanding any other provision of the Agreement, the Trustee shall immediately notify the Series G-2 and G-4 Bond Insurer if at any time there are insufficient moneys to make any payments of principal and interest on the Series G-2 and G-4 Bonds when due as required by the Agreement and immediately upon becoming aware of the occurrence of any Event of Default under the Agreement.

(e) To the extent that the Agreement confers upon or gives or grants to the Series G-2 and G-4 Bond Insurer any right, remedy or claim under or by reason of the Agreement, the Series G-2 and G-4 Bond Insurer is explicitly recognized as being a third-party beneficiary under the Agreement and may enforce any such right remedy or claim conferred, given or granted under the Agreement.

(f) Whenever required to consider whether an action might be adverse to the interests of the Bondowners, the Trustee shall disregard the effect of the Series G-2 and G-4 Bond Insurance Policy.

(g) The Series G-2 and G-4 Bond Insurer shall be entitled to pay principal or interest on the Series G-2 and G-4 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Institution

(as such terms are defined in the Series G-2 and G-4 Bond Insurance Policy) and any amounts due on the Series G-2 and G-4 Bonds as a result of acceleration of the maturity thereof in accordance with the Agreement, whether or not the Series G-2 and G-4 Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Series G-2 and G-4 Bond Insurance Policy) or a claim upon the Series G-2 and G-4 Bond Insurance Policy.

(h) The Institution shall pay or reimburse the Series G-2 and G-4 Bond Insurer any and all charges, fees, costs and expenses which the Series G-2 and G-4 Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document (as defined in the Agreement); (ii) the pursuit of any remedies under the Agreement or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Agreement or any other Related Document whether or not executed or completed, (iv) the violation by the Authority or the Institution of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Agreement or any other Related Document or the transactions contemplated thereby, other than amounts resulting from the failure of the Series G-2 and G-4 Bond Insurer to honor its obligations under the Series G-2 and G-4 Bond Insurance Policy. The Series G-2 and G-4 Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Agreement or any other Related Document.

(i) After payment of reasonable expenses of the Trustee and the Authority, the application of funds realized upon default shall be applied to payment of expenses of the Institution or rebate only after the payment of debt service due and past due on the Series G-2 and G-4 Bonds. (Section 601)

#### **Defeasance**

When there are in the Debt Service Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations (for defeasance of the Insured Bonds, only in clause (i) or (ii) of such definition without prior Bond Insurer consent) in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Bonds in full and, prior to the Fixed Rate Conversion Date for all the Bonds, to pay the Purchase Price thereof whenever the same may be payable and when all the rights under the Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Agreement, the Bonds shall be deemed paid, the security interests created by the Agreement (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee, and provided further, however, that the Trustee shall have received written confirmation from S&P, if any Bonds are then rated by S&P and are in the Daily, Weekly or Flexible Mode, that the defeasance will not result in the withdrawal or reduction of its rating on the Bonds. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose, and moneys held for defeasance shall be invested only as described above in this paragraph. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full, after satisfaction of all the rights of the Authority and the Trustee and after allowance for any payments under IRC §148(f) and the regulations thereunder (the "Rebate Provision"), shall be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require.

Notwithstanding anything in the Agreement to the contrary, to accomplish defeasance of Insured Bonds, the Institution shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the applicable Bond Insurer verifying the sufficiency of the escrow established to pay such Insured Bonds in full on the maturity or redemption date (the "Verification"), (ii) an escrow deposit agreement which shall be acceptable in form and substance to the Bond Insurer, and (iii) an opinion of Bond Counsel to the effect that such Insured Bonds are no longer Outstanding under the Agreement. Each Verification and defeasance opinion shall be acceptable in form and substance by, and addressed to, the Authority, the Trustee and the applicable Bond Insurer. The applicable Bond Insurer shall be provided with final drafts of the above-referenced documentation no less than five business days prior to funding of the escrow. (Section 203)

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**APPENDIX D**  
**Proposed Form of Bond Counsel Opinion**

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## EDWARDS ANGELL PALMER &amp; DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

## PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Massachusetts Health and Educational  
Facilities Authority  
99 Summer Street, Suite 1000  
Boston, Massachusetts 02110

\$620,000,000

Revenue Bonds, Partners HealthCare System Issue, Series G-1 through G-5 (2007)  
Dated the Date of Delivery

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the “Authority”) in connection with the issuance by the Authority of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Loan and Trust Agreement dated as of May 10, 2007 (the “Agreement”), among the Authority, Partners HealthCare System, Inc. (the “Institution”) and U.S. Bank National Association, as trustee (the “Trustee”).

As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Institution contained in the Agreement and in the certified proceedings and other certifications of public officials furnished to us, and certifications of officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. The Bonds are payable solely from funds to be provided therefor by the Institution pursuant to the Agreement. Under the Agreement, the Institution has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and purchase or redemption price of and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the “Revenues”), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

We express no opinion with respect to compliance by the Institution with applicable legal requirements with respect to the Agreement or in connection with the construction or operation of the Project (as defined in the Agreement) being financed by the Bonds.

Reference is made to an opinion of even date of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., counsel to the Institution, with respect to, among other matters, the corporate existence of the Institution, the power of the Institution to carry out the Project, the power of the Institution to

enter into and perform its obligations under the Agreement, and the authorization, execution and delivery of the Agreement by the Institution. We have relied on such opinion with regard to such matters and to the other matters addressed therein, including, without limitation, the current qualification of the Institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). We note that such opinion is subject to the limitations and conditions described therein. Failure of the Institution to maintain its status as an organization described in Section 501(c)(3) of the Code or to use the Project in activities of the Institution that do not constitute unrelated trades or businesses of the Institution within the meaning of Section 513 of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable against the Authority. As provided in Section 13 of Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Agreement creates a valid lien on the Revenues, the other funds pledged by the Agreement as security for the Bonds, and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Agreement.

4. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Authority and the Institution with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to comply with all such requirements. Failure by the Authority or the Institution to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences

arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

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**APPENDIX E**  
**Form of Continuing Disclosure Agreement**

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**FORM OF CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by Partners HealthCare System, Inc. (the “Institution”) and U.S. Bank National Association (in such capacity, the “Trustee”) in connection with the issuance of \$620,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Partners HealthCare System Issue, Series G (2007) (the “Bonds”). The Bonds are being issued pursuant to a Loan and Trust Agreement, dated as of May 10, 2007 (the “Agreement”), by and among the Authority, the Institution and the Trustee. The proceeds from the sale of the Bonds are being loaned by the Authority to the Institution pursuant to the Agreement. The Institution and the Trustee covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Institution and the Trustee for the benefit of the Bondowners and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Institution and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner of the Bonds, with respect to any such reports, notices or disclosures.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Institution pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Bondowner” shall mean the registered owner of a Bond, and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or the Institution.

“Dissemination Agent” shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Institution and which has filed with the Institution, the Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. In the absence of a third party Dissemination Agent, the Institution shall serve as Dissemination Agent.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, NJ 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
E-mail: Munis@Bloomberg.com

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
E-mail: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.  
Attn: NRMSIR  
100 William Street, 15<sup>th</sup> Fl.  
New York, NY 10038  
Phone: (212) 771-6999  
Fax: (212) 771-7390  
E-mail: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.  
55 Water Street, 45th Floor  
New York, NY 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
E-mail: nrmsir\_repository@sandp.com

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts State as a state repository for the purpose of the Rule.

### **SECTION 3. Provision of Annual Reports:**

(a) The Dissemination Agent not later than 150 days after the end of the Institution's fiscal year, commencing with fiscal year ending September 30, 2007 (the “Filing Deadline”), shall provide to each Repository and the Bond Insurers an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Institution (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Institution may be submitted separately from and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Institution submits its audited financial statements at a later date, it shall provide unaudited financial statements by the above specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available.

(b) The Dissemination Agent shall:

(i) determine each year within five (5) Business Days of the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any (insofar as determinations regarding Repositories are concerned, the Dissemination Agent, the Institution or the Trustee, as applicable, may rely conclusively on the list of Repositories maintained by the United States Securities and Exchange Commission); and

(ii) file a report with the Institution, the Authority and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories and other parties to which it was provided (the “Compliance Certificate”).



(c) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send a notice to the Municipal Securities Rulemaking Board and the State Repository in substantially the form attached hereto as Exhibit A.

(d) If the Dissemination Agent has not provided the Annual Report to the Repositories by the Filing Deadline, the Institution shall send a notice to the Municipal Securities Rulemaking Board and the State Repository in substantially the form attached hereto as Exhibit A.

**SECTION 4. Content of Annual Reports.** The Institution's Annual Report shall contain or incorporate by reference the following information relating to the Institution for or as of the most recently completed fiscal year of the Institution:

- 1) Audited Financial Statements,
- 2) To the extent not included in the Audited Financial Statements:
  - a) Summary of Utilization Statistics for the Institution,
  - b) Summary of Revenues and Expenses, with comparative information for the preceding fiscal year,
  - c) Investments and Investment Policy,
  - c) Liquidity and Capital Resources Data,
  - d) Summary of Sources of Patient Service Revenue for the Institution, and
  - e) Changes in Outstanding Indebtedness.

The Institution agrees that the financial statements provided pursuant to Sections 3 and 4 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Institution is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Institution shall clearly identify each such other document so incorporated by reference.

**SECTION 5. Reporting of Significant Events.**

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

1. principal or interest payment delinquencies on the Bonds;
2. occurrence of any default under the Agreement (other than as described in clause (1) above);
3. any unscheduled draw on debt service reserves reflecting financial difficulties;
4. any unscheduled draw on municipal bond insurance policies reflecting financial difficulties;
5. any change in the provider of a municipal bond insurance policy described in clause 4 or any successor thereto or its failure to perform;

6. the rendering of an opinion of bond counsel to the effect that there has been an adverse development affecting the tax exempt status of the Bonds, or the occurrence of any event adversely affecting the tax exempt status of the Bonds;
7. modifications to the rights of the Bondowners;
8. giving of a notice of redemption of any Bonds (the giving of notice of regularly scheduled mandatory sinking fund redemption shall not be deemed material for this purpose under clause (b) of this Section 5);
9. defeasance of the Bonds or any portion thereof;
10. the release, substitution or sale of property securing repayment of the Bonds; and
11. any change in the rating on the Bonds or the rating of the Institution.

(b) Whenever the Institution obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material, the Institution shall, in a timely manner, file or direct the Dissemination Agent to file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, with a copy to the Authority and the Bond Insurers.

**SECTION 6. Termination of Reporting Obligation.** The Institution's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Institution and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If the Institution's obligations under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Institution and the original Institution shall have no further responsibility hereunder.

**SECTION 7. Dissemination Agent.** The Institution may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Institution and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Institution and which does not affect the rights and remedies of the Trustee or Dissemination Agent) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Institution and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, the Institution and the Trustee may amend this Disclosure Agreement if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Institution or of the type of business conducted by the Institution, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c)(i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement, pursuant to Section 1101 of the Agreement. The annual financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment is made to an undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made should present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Institution from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Institution chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Institution shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the Institution or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of Bondowners of at least 25% aggregate principal amount of Outstanding Bonds, shall) take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Institution or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

**SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Section 903 of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. The Trustee in its capacity as Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Institution agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Institution under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**SECTION 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Institution, the Trustee, the Dissemination Agent, the Participating Underwriters, the Authority and Bondowners from time to time of the Bonds, and shall create no rights in any other person or entity.

**SECTION 13. Disclaimer.** No Annual Report or notice of a Listed Event filed by or on behalf of the Institution under this Disclosure Agreement shall obligate the Institution to file any information regarding matters other than those specifically described in Section 3 and Section 4 hereof, nor shall any such filing constitute a representation by the Institution or raise any inference that no other material events have occurred with respect to the Institution or the Bonds or that all material information regarding the Institution or the Bonds has been disclosed. The Institution shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

**SECTION 14.** Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: June 28, 2007

**PARTNERS HEALTHCARE SYSTEM, INC.**

By \_\_\_\_\_  
Title:

**U.S. BANK NATIONAL ASSOCIATION, as Trustee**

By \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Massachusetts Health and Educational Facilities Authority  
Name of Bond Issue: Revenue Bonds, Partners HealthCare System Issue, Series G (2007)  
Name of Institution: Partners HealthCare System, Inc.  
Date of Issuance: June 28, 2007

NOTICE IS HEREBY GIVEN that Partners HealthCare System, Inc. (the "Institution") has not provided an Annual Report with respect to the above named Bonds as required by the Continuing Disclosure Agreement, dated June 28, 2007, by and between the Institution and U.S. Bank National Association, as Trustee.

Dated:

**U.S. BANK NATIONAL ASSOCIATION**

cc: Partners HealthCare System, Inc.

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**APPENDIX F**  
**Auction Procedures**

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## AUCTION PROCEDURES

*The following is a summary, prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority, of Auction Procedures pertaining to the Bonds.*

### Orders by Existing Owners and Potential Owners.

(a) Prior to the Broker-Dealer Deadline for each series of Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of the caption "Allocation of Bonds" below if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of the caption "Allocation of Bonds" below if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of the caption "Allocation of Bonds" below if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of the caption "Allocation of Bonds" below if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a particular series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular series to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in (e)(ii) and (f) of the caption "Submission of Orders by Broker-Dealers to Auction Agent" below; and

(i) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

#### Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a series, all Orders with respect to Bonds of such series accepted by such Broker-Dealer in accordance with the provisions under the caption "Orders by Existing Owners and Potential Owners" above and specifying with respect to each Order or aggregation of Orders pursuant to section (b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds of such series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Bonds of such series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Bonds of such series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Bonds of such series, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Authority, the Institution, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission

Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this section (f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this section (f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Treatment of Orders by the Auction Agent. Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this section and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such series equal to the excess of the number of Units of Bonds of such series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee, Authority or Institution that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee, Authority or Institution has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Determination of ARS Rate.

(a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each series of Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be 75% of the Auction Index for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes, if the Auction Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Auction Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be 75% of the Auction Index for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes, if the Auction Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Auction Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the

event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i)(B) or (ii)(B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

#### Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids for a series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a series of Bonds, Submitted Orders for each series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

#### Notice of Auction Period Rate.

(a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each series of Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;



(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(c) On each Auction Date, with respect to each series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(d) The Auction Agent shall give notice of the Auction Rate to the Institution, Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

#### Auction Index.

(a) If for any reason on any Auction Date the Auction Index shall not be determined as provided in the definition thereof, the Auction Index shall be the Auction Index for the Auction Period ending on such Auction Date.

(b) The determination of the Auction Index as provided herein shall be conclusive and binding upon the Authority, the Institution, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

#### Miscellaneous Provisions Regarding Auctions.

(a) In the Auction Procedures, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in the Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each series of Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in Appendix C-1 to the Official Statement, including without limitation the definitions of All Hold Rate, Auction Index, Interest Payment Date,

Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Institution and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of the Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

#### Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Institution may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all or a portion of the Bonds of a series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds; provided that the Institution shall, to the extent feasible, exercise its rights in such manner that at least \$10 million of the Bonds of a series are subject to the same Auction Period from time to time. The Institution shall initiate the change in the length of the Auction Period by giving written notice to the Authority, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least ten (10) Business Days (or such lesser number of days as each such notice party may agree to) prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such series if the change is to a longer Auction Period and a Hold Order if the

change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Institution, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Institution's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 15 days prior to the proposed changed Auction Date to the Trustee, the Authority, the Institution and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which a Auction Period begins and ends, the day of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

(c) Changes Resulting From Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealer may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

#### Auction Agent.

(a) The Auction Agent shall be appointed by the Trustee, at the written direction of the Institution, to perform the functions specified herein. The Auction Agent shall signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Institution, the Trustee, the Authority, each Bond Insurer and each Broker-Dealer, which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Authority, the Institution and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Bonds with the same rights as if such entity were not the Auction Agent.

#### Qualifications of Auction Agent; Resignation; Removal.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, (x) authorized by law to perform all the duties imposed upon it by this Agreement and (y) a member of or a participant in the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Agreement by giving at least ninety (90) days' written notice to the Institution, each Bond Insurer, the Authority and the Trustee. The Auction Agent may be removed at any time by the Institution, by written notice delivered to the Auction Agent, the Authority, each Bond Insurer and the Trustee. Upon any such resignation or removal, the Trustee, at the written direction of the Institution and with the written consent of each Bond Insurer, shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and the Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee, at the written direction of the Institution; provided, however, that if a successor Auction Agent has not been appointed within 45 days of the giving of such notice of resignation or removal of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a substitute Auction Agent. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign, by giving thirty (30) days' notice to the Institution, the Authority, each Bond Insurer and the Trustee, even if a successor Auction Agent has not been appointed.

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**APPENDIX G**  
**Specimen Bond Insurance Policies**

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Financial Guaranty Insurance Company  
125 Park Avenue  
New York, NY 10017  
T 212-312-3000  
T 800-352-0001

## Municipal Bond New Issue Insurance Policy

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company  
125 Park Avenue  
New York, NY 10017  
T 212-312-3000  
T 800-352-0001

## Municipal Bond New Issue Insurance Policy

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principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

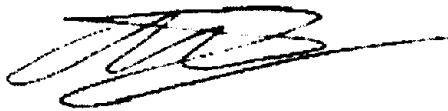


**President**

**Effective Date:**

**Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



**Authorized Officer**





Financial Guaranty Insurance Company  
125 Park Avenue  
New York, NY 10017  
T 212-312-3000  
T 800-352-0001

## Endorsement

### To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**

**U.S. Bank Trust National Association, as Fiscal Agent**



Financial Guaranty Insurance Company  
125 Park Avenue  
New York, NY 10017  
T 212-312-3000  
T 800-352-0001

## Endorsement

### To Financial Guaranty Insurance Company Insurance Policy

**Policy Number:**

**Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the \_\_\_\_\_ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**

**U.S. Bank Trust National Association, as Fiscal Agent**



## FINANCIAL SECURITY ASSURANCE®

## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

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