

*In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, interest on the Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the Bonds will not be a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest paid to corporate holders of the Bonds may be indirectly subject to alternative minimum tax under circumstances described under “TAX MATTERS” herein. The Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds. See “TAX MATTERS” herein.*



**\$64,625,000**  
**DAUPHIN COUNTY GENERAL AUTHORITY**  
**HEALTH SYSTEM REVENUE BONDS, SERIES OF 2007**  
**(PINNACLE HEALTH SYSTEM PROJECT)**

**Dated: Date of Delivery****Price: 100%****Due: May 15, 2029**

The Dauphin County General Authority (the “Issuer”) is issuing its \$64,625,000 Health System Revenue Bonds, Series of 2007 (Pinnacle Health System Project) (the “Bonds”) under the provisions of a Trust Indenture, dated as of October 1, 2007 (the “Bond Indenture”), by and between the Issuer and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as trustee (the “Bond Trustee”), as described herein. The Issuer will lend the proceeds of the sale of the Bonds to Pinnacle Health Hospitals (the “Borrower”) pursuant to a Loan Agreement, dated as of October 1, 2007 (the “Loan Agreement”) between the Issuer and the Borrower, as described herein. The obligations of the Borrower under the Loan Agreement will be secured by the 2007 Note issued pursuant to the provisions of the Master Indenture by the Borrower, Pinnacle Health System (the “System”) and Pinnacle Health Medical Services (“Services”) to the Issuer, which will be assigned to the Bond Trustee, as described herein, pursuant to which the Borrower and other members of the Obligated Group, as described herein, are obligated to make payments in amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds when due.

The Bonds will be issued initially as Auction Rate Securities in denominations of \$25,000 or any integral multiple thereof. Except during the Initial Period, the Bonds will bear interest at Auction Period Rates for successive Auction Periods, as more fully described on the inside cover page of this Official Statement. Each Auction Period Rate for each Auction Period will be equal to the interest rate that results from the implementation of the Auction Procedures set forth in APPENDIX D—“AUCTION PROCEDURES” attached hereto.

The Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) under the book-entry-only system maintained by DTC. So long as Cede & Co. is the registered owner of the Bonds, principal and tender price, if any, of, and interest on the Bonds will be payable by the Bond Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds, as more fully described herein. See APPENDIX H – “BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein. While bearing interest at Auction Period Rates, the Bonds are subject to mandatory tender for purchase upon conversion to another Interest Rate Period in the manner described herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds (the “Municipal Bond Insurance Policy”) by FINANCIAL SECURITY ASSURANCE INC. (the “Insurer”).



**Neither the general credit of the Issuer, nor the general credit or the taxing power of the County of Dauphin, the Commonwealth of Pennsylvania or any political subdivision thereof is pledged for the payment of the Bonds, nor will the Bonds be or be deemed to be an obligation of the County of Dauphin, the Commonwealth of Pennsylvania or any political subdivision thereof. The Issuer has no taxing power.**

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**This Official Statement describes the terms of the Bonds only while the Bonds are Auction Rate Securities, as described herein. The Borrower, on behalf of the Issuer, may elect to convert the Bonds to another Interest Rate Period as described herein. Prospective purchasers of the Bonds bearing interest at rates other than Auction Period Rates should not rely on this Official Statement.**

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of this issue. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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The Bonds are offered when, as and if issued by the Issuer and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and subject to an approving legal opinion of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Issuer by Nauman Smith Shissler & Hall, LLP, Harrisburg, Pennsylvania; for the Borrower by McNees Wallace & Nurick LLC, Harrisburg, Pennsylvania; and for the Underwriter by Pepper Hamilton LLP, Philadelphia, Pennsylvania. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about October 25, 2007.

**Citi**

**\$64,625,000**  
**DAUPHIN COUNTY GENERAL AUTHORITY**  
**HEALTH SYSTEM REVENUE BONDS, SERIES OF 2007**  
**(PINNACLE HEALTH SYSTEM PROJECT)**

<b><u>Length of Initial Period</u></b>	<b><u>Initial Auction Date</u></b>	<b><u>Initial Interest Payment Date</u></b>	<b><u>Auction Periods Generally</u></b>	<b><u>Auction Dates Generally</u></b>	<b><u>Interest Payment Dates Generally</u></b>	<b><u>Final Maturity Date</u></b>
13 Days	November 6, 2007	November 7, 2007	7-day	Every Tuesday	Every Wednesday	May 15, 2029

The Bonds will bear interest from the date of original delivery for the Initial Period set forth above at the rate established by the Underwriter prior to the date of delivery. Thereafter, the Bonds will bear interest at Auction Period Rates for successive Auction Periods, until a conversion to another Interest Rate Period, as described herein. Interest accruing on the Bonds during the Initial Period will be payable on the Initial Interest Payment Date set forth above. Thereafter, interest accruing on the Bonds during each Auction Period will be payable on the Business Day immediately following such Auction Period, except (i) with respect to a daily Auction Period, interest will be payable on the first Business Day of the month immediately succeeding the first day of such Auction Period, and (ii) with respect to a Flexible Auction Period of 183 or more days, interest will be payable on each May 15 and November 15 and on the Business Day immediately following such Flexible Auction Period.

The length of the Auction Period may be changed in accordance with the Bond Indenture. The Bonds will not be subject to mandatory tender for purchase upon a change in the length of the Auction Period; however, notice of such change will be given as described herein, and, in the case of changes to a longer Auction Period, any Bonds that are not the subject of a specific Order shall be deemed to be subject to a Sell Order.

Prospective purchasers of the Bonds should carefully review the Auction Procedures set forth in “APPENDIX D—AUCTION PROCEDURES” attached hereto and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction and (ii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Bonds may be transferred only pursuant to a Bid or Sell Order placed or deemed to be placed in an Auction or through a Broker-Dealer. Definitions for capitalized terms used on this page, the cover and the inside cover are defined in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS” or APPENDIX D – “AUCTION PROCEDURES” attached hereto or elsewhere in this Official Statement.

US Bank National Association will act as the initial Auction Agent for the Bonds, and Citigroup Global Markets Inc. will serve as the initial Broker-Dealer for the Bonds.

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This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds, and, if given or made, such information or representation must not be relied upon.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information relating to the Insurer and the Municipal Bond Insurance Policy set forth herein under the caption “BOND INSURANCE” herein and APPENDIX F – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY” hereto has been furnished by the Insurer, and the information relating to DTC and the book-entry system set forth herein under the caption “THE BONDS—General” and in APPENDIX H – “BOOK-ENTRY ONLY SYSTEM” hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or the Issuer. All other information set forth herein has been obtained from the Issuer and other sources (other than the Issuer) that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Issuer or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the Issuer, the Borrower, the Insurer or DTC since the date hereof. This Official Statement is submitted in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

Other than with respect to information concerning the Insurer contained under the caption “BOND INSURANCE” and APPENDIX F – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY” herein, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions that stabilize or maintain the market price of the Bonds offered hereby at levels above that which otherwise might prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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#### CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words contained in the forepart of this Official Statement and in APPENDIX A.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Issuer nor the Borrower plans to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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## OFFICIAL STATEMENT

**\$64,625,000**

**DAUPHIN COUNTY GENERAL AUTHORITY  
HEALTH SYSTEM REVENUE BONDS, SERIES OF 2007  
(PINNACLE HEALTH SYSTEM PROJECT)**

### INTRODUCTION

*The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein, in APPENDIX C or in APPENDIX D, have the same meaning as in the Bond Indenture, the Loan Agreement or the Master Indenture (each as defined below). See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS” and APPENDIX D – “AUCTION PROCEDURES – Definitions.”*

#### **Purpose of this Official Statement**

This Official Statement, including the cover page and the Appendices hereto, is provided to furnish information in connection with the offering of \$64,625,000 aggregate principal amount of Health System Revenue Bonds, Series of 2007 (Pinnacle Health System Project) (the “Bonds”) to be issued by the Dauphin County General Authority (the “Issuer”).

#### **The Issuer**

The Issuer is a public instrumentality of the Commonwealth of Pennsylvania and a body corporate and politic organized and existing pursuant to the provisions of the Pennsylvania Municipality Authorities Act, 53 Pa. Cons. Stat. §5601 et seq., as amended (the “Act”). The Issuer has no taxing power. See “THE ISSUER” for more information about the Issuer.

#### **The Borrower and the Obligated Group**

Pinnacle Health Hospitals (the “Borrower”), a Pennsylvania not-for-profit corporation, was formed on December 31, 1995, as a result of the consolidation of Harrisburg Hospital, The Seidle Memorial Hospital (“Seidle Memorial Hospital”) and the Polyclinic Medical Center of Harrisburg, now known as Polyclinic Hospital (“Polyclinic Hospital”). Pinnacle Health System (the “System”), a Pennsylvania not-for-profit corporation, was formed on December 31, 1995, as a result of the consolidation of Capital Health System Services (“Capital”) and Polyclinic Health System (“Polyclinic”). Effective August 1, 1998, Community General Osteopathic Hospital, Inc. (“CGOH”) was merged into the Borrower. Prior to December 31, 1995, Capital (and its affiliates) and Polyclinic (and its affiliates) were long time competitors in the central Pennsylvania market. The System, Services and Borrower, together with their affiliates, comprise the largest health care system in central Pennsylvania and one of the largest in the Commonwealth of Pennsylvania. The Borrower owns and operates an acute care hospital with facilities on five sites in the Harrisburg metropolitan area: Harrisburg Hospital, Polyclinic Hospital, Seidle Memorial Hospital, CGOH and Frederickson Outpatient Health Center. The Borrower is an accredited teaching hospital with programs in internal medicine, surgery and orthopedics. Pinnacle Health Medical Services (“Services”), a Pennsylvania not-for profit corporation, operates 11 primary care physician practices, 10 specialty physician practices and five clinics within the Borrower’s service area. The System is the sole corporate member of the Borrower and Services and provides management services and manages the finances and cash flow of the integrated delivery system controlled by the System. The Borrower, Services and the System are exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”) by virtue of being organizations described in Section 501(c)(3) of the Code. See APPENDIX A and APPENDIX B for more information on the organization, operations and financial performance of the Borrower and the Obligated Group.

### **The Bond Indenture; The Bond Trustee**

The Bonds will be executed, delivered and secured pursuant to the Act and a Trust Indenture, dated as of October 1, 2007, (the “Bond Indenture”) between the Issuer and Manufacturers and Traders Trust Company, as trustee (the “Bond Trustee”).

### **The Loan Agreement; Use of Proceeds**

The Issuer will lend the proceeds of the sale of the Bonds to the Borrower (the “Borrower”), pursuant to a Loan Agreement, dated as of October 1, 2007, (the “Loan Agreement”) between the Issuer and the Borrower. In the Loan Agreement, the Borrower will promise to make payments sufficient to pay principal, premium, if any, and interest on the Bonds when due.

The Borrower will use the proceeds of the sale of the Bonds to:

- (1) finance the cost of various capital improvements to its health care facilities,
- (2) refund certain outstanding bonds of the Issuer,
- (3) pay the premium for the municipal bond insurance policy being issued in connection with the Bonds, and
- (4) pay all or a portion of the expenses incurred in connection with the issuance and delivery of the Bonds.

See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

### **Issuance of the 2007 Note**

In the Loan Agreement, the Borrower will agree to issue a promissory note to the Issuer as further evidence of the Borrower’s payment obligations under the Loan Agreement. The Borrower will issue this note, which is referred to as the “2007 Note”, under and pursuant to a Master Trust Indenture, dated as of August 15, 1991, the (“Original Master Trust Indenture”) between the Borrower and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as successor master trustee, (the “Master Trustee”) and the Eleventh Master Supplemental Trust Indenture dated as of October 1, 2007, (“Eleventh Supplement”) between the Borrower and the Master Trustee (the Original Master Trust Indenture, as supplemented and amended, and as amended and restated by the Amended and Restated Master Trust Indenture dated as of October 1, 2007 between the Borrower, the System, Services and the Master Trustee, is referred to herein as, the “Master Indenture”). The Issuer will assign the 2007 Note to the Bond Trustee pursuant to the Bond Indenture as security for the Bonds.

### **The Master Indenture; The Obligated Group**

The Master Indenture authorizes the creation of an “Obligated Group.” As of the date of this Official Statement, the Borrower, the System and Services are the sole members of the Obligated Group. The Borrower, the System and Services and any future member of the Obligated Group are referred to in the Master Indenture individually as a Member of the Obligated Group and collectively as the “Members of the Obligated Group.”

Each Member of the Obligated Group may issue notes or other forms of obligations under the Master Indenture. Members of the Obligated Group are jointly and severally liable for the payment of all such obligations, including the 2007 Note.

In connection with the execution and delivery of the Bonds, the Borrower and the System expect to enter into an interest rate swap transaction with Citibank, N.A. New York (the “Counterparty”). See “PLAN OF FINANCE—The Swap Transaction.” The Borrower will issue a note (the “2007 Swap Note”) under the Master



Indenture as further evidence of its obligations to make payments under the swap agreement relating to the Bonds (the “Swap”). The 2007 Swap Note will be issued on a parity basis with all other Obligations under the Master Indenture, including the 2007 Note.

The Master Indenture provides for admission to and withdrawal from the Obligated Group under certain circumstances. For more information, see APPENDIX C “— SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—Admission to the Obligated Group” and “—Withdrawal from the Obligated Group.”

For a description of the Master Indenture and the 2007 Note, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—The Master Indenture” herein and APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS — MASTER INDENTURE.”

### **Security and Sources of Payment for the Bonds**

**Neither the general credit of the Issuer, nor the general credit or the taxing power of the County of Dauphin, the Commonwealth of Pennsylvania or any political subdivision thereof is pledged for the payment of the Bonds, nor will the Bonds be or be deemed to be an obligation of the County of Dauphin, the Commonwealth of Pennsylvania or any political subdivision thereof. The Issuer has no taxing power.**

Payment of the Bonds will depend upon the ability of the Borrower, the other current Members of the Obligated Group and any future Members of the Obligated Group to generate revenues sufficient to provide for the payment of the Bonds and their other debt while paying their operating and other expenses.

The Borrower and its affiliates own and operate healthcare facilities for the provision of healthcare services for the residents of Dauphin County, Pennsylvania and surrounding areas. See APPENDIX A – “INFORMATION CONCERNING THE OBLIGATED GROUP” for additional information about the Borrower and additional Members of the Obligated Group.

The financial statements of the System as of and for the years ended June 30, 2007 and 2006, which include supplemental data for the Obligated Group as of and for the year ended June 30, 2007, are included in this Official Statement in APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE SYSTEM AND SUPPLEMENTAL DATA RELATED TO THE OBLIGATED GROUP FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006.”

### **Bond Insurance**

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds (the “Municipal Bond Insurance Policy”) by Financial Security Assurance, Inc. (the “Insurer”). See “BOND INSURANCE” herein and a specimen of the Municipal Bond Insurance Policy in APPENDIX F hereto.

### **Auction Rate Securities**

The Bonds will be issued initially as “Auction Rate Securities” or “ARS.”

The Bonds will bear interest beginning on the date of delivery of the Bonds for the Initial Period described on the inside front cover of this Official Statement at the rate the Underwriter determines is necessary to sell the Bonds at par. Thereafter the Auction Period Rate to be applicable to the Bonds during each Auction Period shall be determined and notice thereof shall be given as provided in APPENDIX D—“AUCTION PROCEDURES” attached hereto. The Bonds will bear interest at Auction Period Rates for successive Auction Periods generally of the duration set forth on the inside cover page, unless the Borrower changes the length of the Auction Periods as described below under “THE BONDS – Auction Rate Securities – Changes in Auction Period.” Interest on the Bonds will be payable on the Initial Interest Payment Date set forth on the inside front cover of this Official Statement and thereafter (a) 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) with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period, (c) 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 May 15 and November 15 and on the Business Day immediately following such Flexible Auction Period and (d) the date when the final payment of principal of the Bonds becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise) (each, an “Interest Payment Date”). The applicable Auction Period Rate may not exceed the lesser of 15% per annum and the Maximum Lawful Rate. The Bonds may be converted to other Interest Rate Periods. See “THE BONDS” herein and APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—BOND INDENTURE” and APPENDIX D—“AUCTION PROCEDURES” attached hereto.

### **Outstanding Bonds**

The Issuer has heretofore issued for the benefit of the Borrower various issues of revenue bonds, including \$92,550,000 aggregate principal amount of its Health System Revenue Bonds, Series of 1997 of which \$43,870,000 are currently outstanding (the “1997 Bonds”); \$50,900,000 aggregate principal amount of its Health System Revenue Bonds, Series of 2004 (Pinnacle Health System Project) of which \$50,900,000 are currently outstanding (the “2004 Bonds”); and \$ 55,000,000 aggregate principal amount of its Health System Revenue Bonds, Series of 2005, of which \$54,210,000 are currently outstanding (the “2005 Bonds”). The 1997 Bonds were issued to refund certain bonds issued on behalf of Harrisburg Hospital and to finance construction and renovation at Harrisburg Hospital as part of a site consolidation plan. The 2005 Bonds were issued, *inter alia*, to advance refund certain of its 1997 Bonds and certain revenue bonds issued by the Issuer in 1999 for the benefit of the Hospital. A portion of the proceeds of the Bonds will currently refund the Issuer’s outstanding 1997 Bonds and currently refund a portion of the 2004 Bonds. For a more detailed description of the application of proceeds of the Bonds, see “PLAN OF FINANCING” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

In 1999, the Borrower borrowed \$10,000,000 (the “1999 Pool Loan”) from the Health Care Facilities Authority of Sayre (the “Sayre Authority”) pursuant to its Capital Asset Financing Program sponsored by VHA of Pennsylvania, of which \$6,810,000 is currently outstanding. The loan proceeds were used to finance a portion of the construction and equipment of an ambulatory care center, including a medical office building, ambulatory surgery center and other outpatient services located in Hampden Township, Cumberland County, Pennsylvania. In 2001, the Borrower borrowed \$10,000,000 (the “2001 Pool Loan”) from the Sayre Authority pursuant to its Capital Asset Financing Program, of which \$720,000 is currently outstanding. Such funds were used to finance the acquisition of certain equipment.

The 1997 Bonds, the 2004 Bonds and the 2005 Bonds are secured, *inter alia*, by a pledge and assignment of all of the Issuer’s right, title and interest in and to a Series 1997 Master Note (the “1997 Note”), a Series 2004 Master Note (the “2004 Note”) and a Series 2005 Master Note (the “2005 Note”) and a note evidencing obligations to make payments under a swap agreement relating to the 2005 Bonds (the “2005 Swap Note”), respectively, each issued by System and the Borrower pursuant to and secured by the Master Indenture. The 1999 Pool Loan and the 2001 Pool Loan are secured, *inter alia*, by a 1999 Second Series Master Note (the “1999 Second Series Note”) and a Series 2001 Master Note (the “2001 Note”), respectively, each issued by the System and Borrower pursuant to and secured by the Master Indenture. Upon completion of the Refunding Project, the 2007 Note, the 2007 Swap Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note and the 1999 Second Series Note, and all other master notes which may be hereafter issued pursuant to the Master Indenture, will be secured by a parity lien on the Gross Revenues of the Borrower and the Obligated Group and any future Members of the Obligated Group established under the Master Indenture.

### **Covenants of the Obligated Group**

The Master Indenture contains certain operational and financial restrictions and covenants that apply to each Member of the Obligated Group, and to the Obligated Group as a whole. These covenants and agreements include, among others, restrictions on the incurrence of and security for Master Notes and Master Guaranties and other indebtedness, transfers of assets, granting of liens on or security interests in assets, mergers and consolidations and certain additional financial and operating covenants of the Obligated Group. For a more detailed description of certain of these covenants and restrictions, see “THE MASTER INDENTURE” in Appendix C.

## **Bondholders' Risks**

There are a number of risks associated with the purchase of the Bonds. See "BONDHOLDERS' RISKS" herein for a discussion of certain of these risks.

## **Continuing Disclosure**

Pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the Borrower, on behalf of itself, the Obligated Group and any future Members of the Obligated Group, will enter into a Continuing Disclosure Agreement, dated the date of delivery of the Bonds (the "Continuing Disclosure Agreement") for the benefit of the holders of the Bonds to provide certain information annually and quarterly and to provide notice of certain events to certain information repositories pursuant to the requirements of the Rule. See "CONTINUING DISCLOSURE" herein. A form of the Continuing Disclosure Agreement is set forth in APPENDIX G hereto.

## **Availability of Documents**

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. Further descriptions of the Bond Indenture, the Loan Agreement and the Master Indenture are set forth in APPENDIX C and APPENDIX D hereto. All references herein to the Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, the 2007 Note, the Continuing Disclosure Agreement, the Auction Agent Agreement and the Broker-Dealer Agreement are qualified in their entirety by such documents, copies of which are available from the Underwriter prior to the execution and delivery of the Bonds and thereafter may be examined or obtained at the expense of the person requesting the same at the corporate trust office of the Bond Trustee in Harrisburg, Pennsylvania. Information relating to The Depository Trust Company ("DTC") and the book-entry only system has been furnished by DTC.

## **THE ISSUER**

The Issuer is a municipality authority organized under the Act. The Issuer was incorporated on March 7, 1984. Pursuant to a Certificate of Amendment dated January 8, 1998, the term of the Issuer's existence was extended for fifty (50) years to January 8, 2048. The principal office of the Issuer is located at 530 South Harrisburg Street, Harrisburg, Pennsylvania 17113.

## **Organization**

The governing body of the Issuer is a Board consisting of five members appointed by the County Commissioners of Dauphin County, Pennsylvania (the "County"). Members of the Board either are residents of Dauphin County or work within the boundaries of the County. Members are appointed for five-year terms and may be reappointed. Their terms are staggered so that the term of at least one member expires each year. No member of the Board is also a Commissioner of the County.

Under its By-laws, the Board must meet at least quarterly but may meet more frequently from time to time.

The members of the Board, their offices, the dates of expiration of their terms as members and their principal occupations are as follows:

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>	<u>Occupation</u>
Henry Michael Liptak	Chairman	January, 2009	Business Executive
David Michael Transue	Vice Chairman	January, 2010	Business Executive
Douglas Steven Gelder	Treasurer	January, 2011	Business Executive
Abby Lynn Gabner	Secretary	January, 2012	Business Executive
Walter William Cohen	Assistant Secretary Assistant Treasurer	January, 2008	Attorney

#### **Staff and Advisors**

The Act authorizes the Issuer to appoint officers, agents and employees; and the Issuer has employed a full-time acting executive director and a secretary. The Issuer also retains a solicitor, an independent certified public accountant, a financial advisor and two parking managers.

#### **Other Obligations and Financing Programs of the Issuer**

The Issuer has outstanding various issues of bonds, all of which are special and limited obligations of the Issuer secured by various indentures and payable only out of the revenues derived from the respective projects for which such bonds were issued.

The Issuer intends from time to time to enter into additional financing transactions for other projects permitted under the Act and, in connection therewith, may issue bonds or notes which will be limited obligations of the Issuer, payable from and secured by revenues derived from such projects. The Issuer also from time to time enters into refinancing transactions for obligations previously issued.

Certain outstanding bond issues of the Issuer, unrelated to the Borrower and the Obligated Group, have experienced payment and/or technical defaults, one of which has resulted in the appointment of a receiver. In addition, another outstanding tax-exempt bond issue of the Issuer, also unrelated to the Borrower and the Obligated Group, was audited by the Internal Revenue Service ("IRS") resulting in a preliminary determination that the interest on this bond issue was not excludable from gross income for federal tax purposes. The Issuer has entered into a Closing Agreement terminating this audit with the Internal Revenue Service. As a result of an investigation alleging that the Issuer made misleading statements in connection with the issuance of certain outstanding bonds, on April 26, 2004, the Securities and Exchange Commission entered a cease and desist order against the Issuer, to which the Issuer has consented, imposing remedial sanctions under the Securities Act of 1933 to cease and desist causing any future violation of Section 17(a) of the Securities Act of 1933. The membership of the Board of the Issuer has been completely reconstituted since the issuance of all of the above described bond issues. All of the above described defaults, determinations or sanctions are unrelated to the Obligated Group, the Bonds and the Project. The Issuer's sole function in connection with the issuance of the Bonds is that of a conduit issuer, and the Issuer has no role in the management of the Obligated Group.

### **PLAN OF FINANCE**

#### **The Project**

The proceeds from the sale of the Bonds will be used (i) to finance the cost of various capital improvements to the Borrower's health care facilities (the "New Money Project"); (ii) to currently refund the Issuer's Health System Revenue Bonds, Series of 1997 (Pinnacle Health System Project) (the "1997 Bonds") and to

currently refund a portion of the Issuer's Health System Revenue Bonds, Series of 2004 (Pinnacle Health System Project) (the "2004 Bonds") (collectively, the "Refunding Project"); (iii) to pay the premium on the bond insurance policy; and (iv) to pay the costs of issuance of the Bonds (the "Project").

### **The Refunding Project**

The proceeds from the sale of the Bonds will be used (i) to currently refund the Issuer's 1997 Bonds, which are currently outstanding in the principal amount of \$43,870,000; and (ii) to currently refund a portion (\$1,500,000) of the Issuer's 2004 Bonds, which are currently outstanding in the principal amount of \$50,900,000 ((i) and (ii) together, the "Prior Bonds").

### **The Swap Transaction**

In connection with the issuance and delivery of the Bonds, the Borrower and the System expect to enter into an interest rate swap transaction (the "Swap Transaction") with Citibank, N.A., New York (the "Counterparty"). In general, the Swap Transaction provides that, subject to the terms thereof, the Borrower and the System will pay to the Counterparty a fixed rate and the Counterparty will pay to the Borrower and the System a floating rate based on a percentage of the London Interbank Offered Rate (LIBOR) plus a spread, in each case based on a notional amount equal to the principal amount of the Bonds outstanding. The purpose of the Swap Transaction is generally to convert the Borrower's and the System's floating rate obligations with respect to the Bonds to fixed rate obligations.

The Borrower's and the System's payment obligations pursuant to the Swap Transaction will be secured by the 2007 Swap Note issued under the Master Indenture. Certain of the Borrower's and the System's payment obligations pursuant to the Swap Transaction will also be insured by the Insurer. Such of the Borrower's and the System's payment obligations as are insured by Insurer will be secured by the 2007 Swap Note on a parity with all other Obligations under the Master Indenture, including the 2007 Note, and all other amounts will be secured on a subordinate basis.

Entering into the Swap Transaction creates a variety of risks to the Borrower and the System. Certain of such risks are as follows:

(a) Under certain circumstances, the Swap Transaction is subject to termination prior to its scheduled termination date and prior to the maturity of the Bonds. In the event of an early termination of the Swap Transaction, there can be no assurance that (i) the Borrower and the System will receive any termination payment payable to it by the Counterparty, (ii) the Borrower and the System will have sufficient amounts to pay a termination payment payable by it to the Counterparty, and (iii) the Borrower and the System will be able to obtain a replacement swap agreement with comparable terms. Payment due upon early termination may be substantial.

(b) The floating rate payable by the Counterparty pursuant to the Swap Transaction is intended to approximate the variable interest rate on the Bonds while they bear interest at the Auction Rate. However, there is no guarantee that such rates will match at all times or at any time. To the extent of a mismatch, the Borrower and the System is exposed to "basis risk" in that the floating rate it receives from the Counterparty pursuant to the Swap Transaction will not equal the variable interest rate it is required to pay on the Bonds.

The agreement by the Counterparty to pay certain amounts to the Borrower and the System pursuant to the Swap Transaction does not alter or affect the Borrower's and the System's obligation to pay the principal of, interest on, and redemption price of, any of the Bonds. The Counterparty has no obligation to make any payments with respect to the principal of, interest on, or redemption price of, the Bonds. Neither the holders of the Bonds nor any other person shall have any rights under the Swap Transaction or against the Counterparty.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Bonds and other available funds:

Sources of Funds:	
Par Amount of the Bonds	\$64,625,000.00
Other Available Funds*	<u>883,325.31</u>
Total Sources	<u><u>\$65,508,325.31</u></u>
Uses of Funds:	
New Money Project.....	\$17,013,720.25
Refunding Cost.....	46,876,413.33
Issuance Costs** .....	<u>1,618,191.73</u>
Total Uses of Funds .....	<u><u>\$65,508,325.31</u></u>

\* Funds held by the Trustee.

\*\* Includes Underwriter's discount, Municipal Bond Insurance Policy premium, certain legal fees, printing costs, rating agency fees and miscellaneous expenses of issuance.

## ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year of the Borrower ending June 30th, the amounts required in such year for the payment of the principal of (whether at maturity or pursuant to mandatory sinking fund redemption) and interest on the Bonds (including the 1999 Pool Loan and 2001 Pool Loan) of the Borrower after giving effect to the refunding of the Prior Bonds, as described above under "PLAN OF FINANCE".

<b>Fiscal Year Ending June 30,</b>	<b>2007 Bonds Mandatory Redemption or Principal Payments</b>	<b>2007 Bonds Interest<sup>1</sup></b>	<b>Other Debt Service</b>	<b>Total Debt Service of the Obligated Group</b>
2008	\$1,225,000	\$1,427,669	\$4,181,090	\$ 6,833,759
2009	3,300,000	2,292,341	4,413,295	10,005,635
2010	3,500,000	2,172,008	4,337,195	10,009,203
2011	2,925,000	2,046,532	5,048,857	10,020,388
2012	3,100,000	1,970,249	4,949,887	10,020,136
2013	3,275,000	1,824,558	4,926,086	10,025,643
2014	3,275,000	1,707,997	5,027,245	10,010,242
2015	2,925,000	1,590,073	5,504,405	10,019,478
2016	1,250,000	1,484,316	7,284,903	10,019,219
2017	1,375,000	1,469,989	7,191,695	10,036,683
2018	2,500,000	1,388,005	6,128,446	10,016,451
2019	2,725,000	1,296,485	6,006,987	10,028,471
2020	2,825,000	1,195,864	5,986,646	10,007,510
2021	2,575,000	1,097,364	6,347,987	10,020,350
2022	3,000,000	1,002,734	6,005,659	10,008,393
2023	2,950,000	909,474	6,159,745	10,019,219
2024	3,225,000	781,645	6,011,558	10,018,203
2025	3,200,000	669,146	6,151,394	10,020,540
2026	3,425,000	552,375	6,026,919	10,004,294
2027	3,400,000	428,120	6,176,895	10,005,015
2028	175,000	318,631	9,517,213	10,010,844
2029	8,475,000	289,638	1,252,597	10,017,234
2030			8,160,882	8,160,882
2031			8,219,983	8,219,983
2032			8,216,893	8,216,893
2033			8,277,954	8,277,954
2034			8,316,985	8,316,985
2035			8,331,345	8,331,345
<b>TOTAL</b>	<b>\$64,625,000</b>	<b>\$27,915,210</b>	<b>\$174,160,743</b>	<b>\$266,700,954</b>

1. Interest calculated at a coupon of 3.64%.

## THE BONDS

*The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Bond Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference.*

**The following summary describes the terms of the Bonds only while the Bonds are Auction Rate Securities. Prospective purchasers of the Bonds should not rely on this summary if the Bonds are bearing interest at rates other than Auction Period Rates. If the Borrower, on behalf of the Issuer, elects to convert the Bonds to another Interest Rate Period, a new official statement or a supplement to this Official Statement describing the terms of the Bonds during such Interest Rate Period will be prepared.**

## **General**

The Bonds are being issued in the aggregate principal amount of \$64,625,000, will be dated their date of delivery and will have a final maturity of May 15, 2029, subject to prior redemption, as described under “—**Redemption**” below.

The Bonds will be delivered initially only in book-entry form and, when delivered, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of The Depository Trust Company (“DTC”), as nominee of DTC. DTC will act as the initial Securities Depository for the Bonds. See APPENDIX H – “BOOK-ENTRY ONLY SYSTEM.” Except as described in APPENDIX H – “BOOK-ENTRY ONLY SYSTEM,” Beneficial Owners (as defined in APPENDIX H) of the Bonds will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Bonds. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in APPENDIX H) to receive payment of the principal or Tender Price of or interest on such Bonds.

## **Auction Rate Securities**

The Bonds will be issued initially as “Auction Rate Securities” or “ARS.”

*Authorized Denominations.* While bearing interest at Auction Period Rates, the Bonds will be issued in fully registered form without coupons in denominations of \$25,000 or any integral multiple thereof, subject to the book-entry procedures described in APPENDIX H—“BOOK-ENTRY ONLY SYSTEM.”

*Interest.* The Bonds will bear interest during the Initial Period beginning on the date of delivery of the Bonds to the Underwriter against payment therefor (the “Closing Date”) at the rate the Underwriter determines is necessary to sell the Bonds at par (the “Initial Period Rate”). Thereafter the Auction Period Rate to be applicable to the Bonds during each Auction Period shall be determined, and notice thereof shall be given, as provided in APPENDIX D—“AUCTION PROCEDURES” attached hereto. The Auction Period Rate will not exceed the lesser of 15% per annum or the Maximum Lawful Rate (the “Maximum Rate”). Interest on the ARS will be computed on the basis of actual days over 360 if the ARS are in an Auction Period which is less than 180 days and on the basis of a 360-day year of twelve 30-day months if the ARS are in an Auction Period which is 180 days or greater.

*Payments.* While the ARS are book-entry bonds subject to the procedures described in APPENDIX H, payment of the principal and Tender Price of and interest on any ARS will be made by wire transfer to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. The interest on the ARS will be payable on each of the following dates (each, an “Interest Payment Date”):

- 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, the first Business Day of the month immediately succeeding the first day of such Auction Period,
- c. 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 May 15 and November 15 and on the Business Day immediately following such Flexible Auction Period, and



- d. the date when the final payment of principal of such ARS becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

In the event the ARS are no longer maintained in book-entry form by the Securities Depository, principal and Tender Price of and premium, if any, and interest on the ARS will be payable by check mailed by the Bond Trustee to the respective Holders thereof on the applicable Record Date at their addresses as they appear as of the close of business on the applicable Record Date in the books kept by the Bond Trustee, as bond registrar, except that in the case of such a Holder of \$1,000,000 or more in aggregate principal amount of such Bonds, upon the written request of such Holder to the Bond Trustee, specifying the account or accounts to which such payment shall be made, such payments shall be made by wire transfer of immediately available funds on the applicable Payment Date following such Record Date. The “Record Date” with respect to the ARS will be the Business Day immediately preceding each ARS Interest Payment Date.

*Exchange and Transfer.* In the event the ARS are no longer maintained in book-entry form by the Securities Depository, the following provisions will apply. Upon surrender of a Bond or Bonds at the principal corporate trust office of the Bond Trustee, as bond registrar, together with an assignment duly executed by the Bondholder or his attorney or legal representative in such form and with such guaranty of signature as shall be satisfactory to the Bond Trustee, a Bond or Bonds may be exchanged for fully registered Bonds of the same maturity, aggregating in amount the then unpaid principal amount of the Bond or Bonds surrendered, of Authorized Denominations.

As to any Bond, the Bondholder shall be deemed and regarded as the absolute owner thereof for all purposes and none of the Issuer, the Borrower or the Bond Trustee shall be affected by any notice, actual or constructive, to the contrary.

Any Bond may be registered as transferred upon the books kept for the registration and transfer of Bonds only upon surrender thereof to the Bond Trustee, as bond registrar, together with an assignment duly executed by the Bondholder or his attorney or legal representative in such form and with such guaranty of signature as shall be satisfactory to the Bond Trustee. Upon the registration of transfer of any such Bond and on request of the Bond Trustee, the Issuer shall execute, and the Bond Trustee shall authenticate and deliver, a new Bond or Bonds, registered in the name of the transferee or transferees, of the same maturity, aggregating in amount the then unpaid principal amount of the Bond or Bonds surrendered, of Authorized Denominations.

*Auction Procedures.* The procedures for submitting Orders on an Auction Date, determining the Auction Period Rate for the related Auction Period, and allocating the Bonds as a result of each Auction are set forth in APPENDIX D – “AUCTION PROCEDURES” attached hereto.

*Amendment of Auction Procedures.* During an ARS Rate Period, the Auction Procedures and other provisions relating to Auction Rate Securities set forth in APPENDIX D – “AUCTION PROCEDURES” attached hereto, including, without limitation, the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended 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 Bond Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Bond Indenture, (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 Issuer and the Bond Trustee an opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Bonds or any exemption from federal income taxation to which 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 the Auction Period Rate.

*Changes in Auction Period.* During an ARS Rate Period, the Borrower 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 of the Bonds 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 the Bonds. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Bond 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 10 Business Days prior to the Auction Date for such Auction Period. The change in the length of the Auction Period shall take effect only if Sufficient Clearing Bids (as defined in APPENDIX D attached hereto) exist at the Auction on the Auction Date for the 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 any Bonds, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds 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.

*Changes in Auction Date.* During any ARS Rate Period, the Auction Agent, at the direction of the Borrower, 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 will provide notice of the Borrower’s direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Issuer, the Borrower and the Broker-Dealer, with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period begins and ends and the Interest Payment Dates relating to any Auction Period will be adjusted accordingly.

*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 in APPENDIX D – “AUCTION PROCEDURES” attached hereto, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealers for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealers is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

*Converting Interest Rate Periods; Mandatory Tender for Purchase; Rescission of Election; Failure to Meet Conditions.* The Borrower, on behalf of the Issuer, may elect to convert the Bonds from the ARS Rate Period to another Interest Rate Period effective as of an Interest Payment Date immediately following an Auction Period. Upon such Conversion, the Bonds shall bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long Term Interest Rate or Bond Interest Term Rates. The Borrower must provide a written direction to the Bond Trustee, the Issuer, the Auction Agent, and the Broker-Dealer of its election to convert the Bonds to another Interest Rate Period. The Bond Trustee must provide notice of such Conversion to the Holders of the Bonds not less than 30 days prior to the proposed effective date of such Conversion (the “Conversion Date”).

The Bonds will be subject to mandatory tender for purchase on the Conversion Date subject to the terms and conditions provided in the Bond Indenture. The Tender Price will be equal to the principal amount thereof tendered for purchase, without premium. The Tender Price of the Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds by a remarketing agent appointed by the Borrower. The Municipal Bond Insurance Policy issued by the Insurer will not be available to pay the mandatory Tender Price. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—BOND INDENTURE” attached hereto.

On or prior to 10:00 a.m. New York City time on the Business Day immediately preceding the Conversion Date, the Borrower may rescind its election to make such Conversion and the Auction for the Bonds shall be held on such Auction Date as if no conversion notice had been given.

In the event that any condition to the Conversion of the Bonds shall not have been satisfied as provided in the Bond Indenture, the Bond Trustee is required to give notice by Electronic Means as soon as

practicable and in no event later than the next succeeding Business Day to the Holders, the Issuer, the Insurer, the Auction Agent and the Broker-Dealer that such conversion has not occurred, that the Bonds will not be purchased on the failed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the 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 such Bonds which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date shall be the Maximum Bond Interest Rate, and the Auction Period shall be the seven-day Auction Period.

*Auction Agent; Auction Agreement.* The Bond Trustee, at the written direction of the Borrower, will appoint US Bank National Association as the initial Auction Agent. The Bond Trustee and the Auction Agent will enter into an Auction Agreement, dated as of October 1, 2007 (the “Auction Agreement”), pursuant to which the Auction Agent will agree to perform certain duties, including determining the Auction Period Rate for the related Auction Period in accordance with the Auction Procedures set forth in APPENDIX D – “AUCTION PROCEDURES” attached hereto.

*Broker-Dealers; Broker-Dealer Agreements.* The Borrower has appointed Citigroup Global Markets Inc. to serve as the initial Broker-Dealer. The Borrower may appoint one or more other Persons to serve as a Broker-Dealer. The Auction Agent, the initial Broker-Dealer and the Borrower will enter into a Broker-Dealer Agreement, dated as of October 1, 2007 (a “Broker-Dealer Agreement”), pursuant to which such Broker-Dealer will agree to perform certain duties, including following the Auction Procedures set forth in APPENDIX D – “AUCTION PROCEDURES” attached hereto.

#### **Certain Considerations Affecting Auction Rate Securities**

*Role of Broker-Dealer.* The Broker-Dealer has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. The Broker-Dealer receives broker-dealer fees from such issuers or obligors at agreed-upon annual rates that are applied to the principal amount of securities sold or successfully placed through the Broker-Dealer in such auctions.

The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer with respect to the Bonds and is authorized to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealer will receive Broker-Dealer fees from the Borrower with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The 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 Bonds.

*Bidding by Broker-Dealers.* The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the 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 the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the 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 Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Borrower to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for such Bonds. See “Role of Broker-Dealer.” The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed initially by the Borrower to serve as a Broker-Dealer in the Auctions for the Bonds, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The 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. The Broker-Dealer may place one or more Bids in an Auction for the Bonds for its own account to acquire such Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for such 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 Bonds for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See “Price Talk.”

The Broker-Dealer routinely encourages bidding by others in auctions generally for which it serves as broker-dealer. The Broker-Dealer also may encourage Bidding by others in Auctions for the Bonds, including to prevent an Auction Failure or to prevent an Auction for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the 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 the 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 Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer 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 Bonds clears successfully does not mean that an investment in such Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Bonds to prevent an Auction Failure or an Auction for such Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for such 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 the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by the Broker-Dealer apply only to the 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 an Auction for the Bonds, if all outstanding 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 the Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the practice of the Broker-Dealer to submit a Sell Order into the Auction for the Bonds, which would prevent that Auction from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above.

*Price Talk.* Before the start of an Auction for the Bonds, the 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 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 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 credit quality of the Borrower or of the Insurer 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 the 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-Dealer 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 Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

*No Assurances Regarding Auction Outcomes.* The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the 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 the Bonds purchased or retained in the Auction may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Bonds from or sell Bonds to a customer after the Auction.

*Deadlines.* Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealer 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, the Broker-Dealer imposes an earlier deadline for all of its customers— called the “Broker-Dealer Deadline” — by which Bidders must submit Bids to the 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-Dealer may correct Clerical Errors by the Broker-Dealer after its Broker-Dealer Deadline and prior to the Submission Deadline. The 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, the 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 a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through the Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the 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 all, and may not be able to sell any, of such Bonds subject to such Submitted Sell Orders. As discussed above (see “Bidding by Broker-Dealers”), the Broker-Dealer may submit a Bid in an Auction for the 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 the Broker-Dealer bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Borrower’s or the Insurer’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer was unable or unwilling to Bid.

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

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

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Borrower or the Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the 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 or press reports, financial reporting cycles and market conditions generally. Demand for the 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 Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 60 days notice (30 days if it has not received payment of certain fees) to the Bond Trustee, the Borrower, the Insurer and the Issuer, which Auction Agreement does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place. The Broker-Dealer Agreement provides that the Broker-Dealer may resign upon five business days notice or suspend its duties immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation or suspension, 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 Bonds, with the result that the interest on such Bonds will be determined set forth in Section 2.04(c) of the Auction Procedures. SEE "APPENDIX D – AUCTION PROCEDURES" attached hereto.

## **Redemption**

*Optional Redemption.* So long as the Bonds are ARS and if there is no continuing Event of Default under the terms of the Bond Indenture, the Bonds are subject to redemption by the Issuer, at the written direction of the Borrower, on the Interest Payment Date immediately following an Auction Period, as a whole or in part in an Authorized Denomination, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium; provided, however, that after giving effect to any redemption in part, not less than \$10,000,000 in aggregate principal amount of ARS shall remain Outstanding, unless otherwise consented to by all Broker-Dealers.

*Mandatory Sinking Fund Redemption.* The Bonds shall be redeemed in part on May 15 in each year listed below, commencing May 15, 2008, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date, in the principal amount set forth below next to such year:

<u>Year</u>	<u>Amount</u>
2008	\$1,225,000
2009	3,300,000
2010	3,500,000
2011	2,925,000
2012	3,100,000
2013	3,275,000
2014	3,275,000
2015	2,925,000
2016	1,250,000
2017	1,375,000
2018	2,500,000
2019	2,725,000
2020	2,825,000
2021	2,575,000
2022	3,000,000
2023	2,950,000
2024	3,225,000
2025	3,200,000
2026	3,425,000
2027	3,400,000
2028	175,000
2029*	8,475,000

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\*Final Maturity

Notwithstanding the foregoing, when any Bonds to be so redeemed are in an ARS Rate Period, if such May 15 is not an Interest Payment Date, the mandatory sinking fund redemption shall occur on the Interest Payment Date immediately succeeding such May 15; provided, however, if the ARS are in a Flexible Auction Period, they shall be redeemed prior to the end of the Flexible Auction Period pursuant to the mandatory sinking fund redemption schedule set forth above.

*Extraordinary Optional Redemption.* The Bonds shall be redeemed in whole or in part by the Issuer at any time, at the written direction of the Borrower, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date, without premium, in the event that the Hospital Premises (as defined in the Bond Indenture) or any portion of the Hospital Premises shall have been damaged, taken or condemned as to render the Hospital Premises or such portion thereof, in the judgment of the Borrower, unsatisfactory for its intended use for a period of time longer than one year.

*Notice of Redemption; Effect of Redemption.* In the event any of the Bonds are called for redemption, the Bond Trustee shall give notice, in the name of the Issuer, of the redemption of such Bonds, which notice shall (i) specify the Bonds to be redeemed, the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the principal corporate trust office of the Bond Trustee) and, if less than all of the Bonds are to be redeemed, the numbers of the Bonds, and the portions of the Bonds, to be so redeemed, (ii) state any condition to such redemption, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. If any ARS are to be redeemed, then the notice of

redemption also shall comply with the additional requirements of the Bond Indenture. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Holder of Bonds to be redeemed at its address shown on the registration books kept by the Bond Trustee; provided, however, that failure to give such notice to any Bondholder or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Bonds. The Bond Trustee shall send a second notice of redemption by certified mail return receipt requested to any registered Holder who has not submitted Bonds called for redemption 30 days after the redemption date, provided, however, that the failure to give any second notice by mailing, or any defect in such notice, shall not affect the validity of any proceedings for the redemption of any of the Bonds and the Bond Trustee shall not be liable for any failure by the Bond Trustee to send any second notice.

Any Bonds and portions of Bonds which have been duly selected for redemption and which are paid in accordance with the Bond Indenture shall cease to bear interest on the specified redemption date.

With respect to any optional redemption of Bonds, if at the time of mailing such notice of redemption, there shall not have been deposited with the Bond Trustee available moneys sufficient to redeem all the Bonds called for redemption, such notice may state that the redemption is conditional, that is, subject to the deposit of available moneys for the redemption with the Bond Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

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

### **General**

The Bonds are special, limited obligations of the Issuer, and are secured by and payable solely from (i) payments by the Borrower under the Loan Agreement, (ii) payments by the Borrower (and any future Members of the Obligated Group) under the 2007 Note, and (iii) certain moneys and securities, if any, held by or received by the Bond Trustee pursuant to the Bond Indenture, including the Debt Service Reserve Fund if at the time funded but excluding any rebate funds. The covenants and agreements in the Bond Indenture are for the equal and ratable benefit of all present and future Holders of the Bonds, without preference, priority or distinction of any one Bond over any other Bond except as otherwise expressly provided in or permitted by the Bond Indenture.

**Neither the general credit of the Issuer, nor the general credit or the taxing power of the County of Dauphin, the Commonwealth of Pennsylvania or any political subdivision thereof is pledged for the payment of the Bonds, nor will the Bonds be or be deemed to be an obligation of the County of Dauphin, the Commonwealth of Pennsylvania or any political subdivision thereof. The Issuer has no taxing power.**

Set forth below is a brief discussion of certain provisions of the Loan Agreement, the Master Indenture and the Bond Indenture.

### **The Loan Agreement**

The Issuer will enter into the Loan Agreement with the Borrower. Pursuant to the Loan Agreement, the proceeds of the sale of the Bonds will be loaned to the Borrower.

Under the Loan Agreement, the Borrower will be required to make installment payments in amounts which, in the aggregate, will be sufficient to pay the principal or redemption price of and interest on the Bonds as and when due, to pay certain administrative expenses of the Issuer, and to make up any deficiencies in the Debt Service Reserve Fund provided for in the Bond Indenture. The payment obligations of the Borrower will be as provided in the Loan Agreement. See "THE LOAN AGREEMENT — Sums Payable by Borrower" in Appendix C.

The Bonds will be secured by a pledge and assignment to the Bond Trustee of all of the right, title and interest of the Issuer in and to the Loan Agreement and all payments to be received from the Borrower thereunder (except for the Issuer's right to certain indemnity payments and administrative expenses, which will not be pledged at all). The payment obligations of the Borrower under the Loan Agreement will be the general obligation of the Borrower, unsecured by any pledge of or security interest in any revenues of the Borrower, or any



mortgage of or security interest in the facilities of the Borrower. The Borrower's payment obligations in respect of the Loan Agreement will be secured by the 2007 Note issued by the Borrower and the other Members of the Obligated Group in favor of the Issuer, and assigned to the Bond Trustee pursuant to the Master Indenture (further described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Master Indenture" below).

### **The Master Indenture**

Pursuant to the Master Indenture, the Obligated Group will issue the 2007 Note to the Bond Trustee, as the assignee of the Issuer, to evidence and secure the Borrower's payment obligations under the Loan Agreement. The 2007 Note will be in a principal amount equal to the original aggregate principal amount of the Bonds. Payments under the 2007 Note are scheduled to be made at the times and in the amounts required to pay debt service on the Bonds and will be credited against the applicable loan payment obligations of the Borrower under the Loan Agreement.

The 2007 Note is secured, on a parity with the 2005 Note, the 2005 Swap Note, the 2004 Note, the 1999 Second Series Note, the 2001 Note and any other master notes and master guaranties that may be issued from time to time under the Master Indenture, by a pledge of the Gross Revenues of the Members of the Obligated Group (see "INTRODUCTORY STATEMENT — Outstanding Bonds," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Other Indebtedness of the Obligated Group" and " - Pledge of Gross Revenues" below) and on a parity with the 2007 Swap Note (see "INTRODUCTORY STATEMENT — Swap Agreement" and "PLAN OF FINANCING — Swap Transaction). While the 2007 Swap Note, the 2007 Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note and the 1999 Second Series Note secure separate obligations, a default under any of these Master Notes will result in a default under the other Master Notes. See "THE MASTER INDENTURE — Events of Default and Remedies" in Appendix C.

The 2007 Note, 2007 Swap Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note, and the 1999 Second Series Note, will constitute the joint and several obligations of the Obligated Group, and any future Members of the Obligated Group, and will be payable in all events, notwithstanding the expiration, invalidity or termination of the Loan Agreement. At the time of issuance of the Bonds, the Borrower, Services and the System will be the only Members of the Obligated Group, and will be the sole entities obligated for repayment of the 2007 Swap Note, 2007 Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note, and the 1999 Second Series Note (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS - No Recourse to Non-Member Affiliates" below).

The Master Indenture permits other entities, under certain conditions, to become Members of the Obligated Group, and to have additional Master Notes or other Master Indenture Obligations issued thereunder on behalf of such Members. Any future Members of the Obligated Group must agree to be jointly and severally liable for the performance of all covenants and agreements set forth in the Master Indenture and for the payment of all Master Indenture Obligations, including the 2007 Note, 2007 Swap Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note and the 1999 Second Series Note. The Master Indenture also permits Members to withdraw from the Obligated Group upon compliance with certain financial tests and other specified conditions. Upon any such withdrawal, the withdrawing Member will no longer be obligated or liable with respect to the 2007 Swap Note, 2007 Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note, the 1999 Second Series Note or any other Master Indenture Obligations then outstanding. Neither the System, Services nor the Borrower has any present plans to cause or permit any other entities to join the Obligated Group. Accordingly, no representation can be made as to the potential effects of any such subsequent joinder upon the ability of the Borrower, Services and the System (together with any future Members of the Obligated Group) to perform the covenants and agreements set forth in the Master Indenture, or to pay debt service on the Bonds. See also "BONDHOLDERS' RISKS — Risks Related to Master Indenture Financings" herein.

The Obligated Group has agreed, under the Master Indenture, to subject themselves to certain operational and financial restrictions contained therein. Each entity that becomes a Member of the Obligated Group hereafter will covenant to comply with such restrictions as well. The operational and financial restrictions contained in the Master Indenture relate primarily to debt service coverage requirements, the maintenance of liquidity, restrictions on leverage, the incurrence of additional indebtedness, directly or by guaranteeing the debt of others, the

ability to transfer assets, including both tangible and intangible assets, the ability to create additional liens and the ability to effect mergers and consolidations. See “THE MASTER INDENTURE” in APPENDIX C.

In connection with the issuance of the Bonds, it is the intent of the Obligated Group, with the consent of all related bond insurers and liquidity facility providers, to enter into an Amended and Restated Master Trust Indenture in order to restate in a single instrument the various covenants, agreements and security provisions of the original Master Trust Indenture, including all supplemental indentures thereto executed to date. Following such restatement, all existing supplemental indentures and all Master Notes previously executed and delivered under the existing Master Trust Indenture will continue in full force and effect as supplemental indentures and Master Notes enter into, and governed by, the restated Master Trust Indenture.

### **Pledge of Gross Revenues**

Under the Master Indenture, the Obligated Group and all future Members of the Obligated Group will grant to the Master Trustee (to the extent permitted by law and subject to Permitted Liens) a lien on and security interest in the Gross Revenues of the Obligated Group and such future Members of the Obligated Group, as security for repayment of the 2007 Note and the 2007 Swap Note. Such lien and security interest will be on a parity with the lien on and security interest in the Gross Revenues previously granted to secure the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note, the 1999 Second Series Note, as well as any future Master Indenture Obligations. The Obligated Group and other future Members of the Obligated Group will be permitted to incur additional indebtedness subject to the conditions contained in the Master Indenture.

To the extent that a security interest can be perfected in the Gross Revenues of the Borrower, Services and the System, and any future Members of the Obligated Group, by the filing of financing statements under the Pennsylvania Uniform Commercial Code (the “UCC”), such action will be taken. Such security interests may not be enforceable against third parties unless the Gross Revenues are actually transferred to the Master Trustee, and the applicability of such security interests to certain Gross Revenues may be subject to exceptions provided under the UCC or restrictions imposed by federal or state Medicare, Medicaid or other medical assistance laws or regulations. In the event of a default by any Member under the 2007 Swap Note, the 2007 Note or the Master Indenture, the Master Trustee may not be able to compel Medicare, Medicaid, Blue Cross, Blue Shield or other third parties to make payments of certain Gross Revenues directly to the Master Trustee. The enforceability of such security interests in the Gross Revenues also may be limited by other factors, some of which are discussed under “BONDHOLDERS’ RISKS” herein.

### **Springing Mortgage**

As a condition of the issuance of the municipal bond insurance policy guaranteeing the scheduled payment of principal of, and interest on, the 2004 Bonds when due, the bond insurer for the 2004 Bonds (the “2004 Bonds Insurer”) required the delivery by the Borrower to the Master Trustee of a mortgage (the “Mortgage”). The Mortgage is held in escrow by the Master Trustee and will not be effective unless certain financial ratios under the Master Indenture are not met, in which event unless otherwise directed in writing by each Insurer, the Master Trustee shall record the Mortgage. Upon the date of a violation of any such ratio, the Mortgage will be a mortgage lien on Harrisburg Hospital, CGOH and Frederickson Outpatient Health Center, together with the improvements, fixtures, machinery, equipment and other property interests as described in the Master Indenture (the “Mortgaged Properties”) and will secure, until its satisfaction in accordance with its terms, the 1999 Second Series Note, the 2001 Note, the 2004 Note, the 2005 Note, the 2005 Swap Note, the 2007 Note and the 2007 Swap Note, and any future Master Notes issued under the Master Indenture. No title insurance policy was provided in connection with the execution and delivery into escrow of the Mortgage. From its effective date, the Mortgage will remain in effect for so long as the 2004 Bonds, 2005 Bonds and 2007 Bonds are outstanding. There can be no assurance that if and when recorded the Mortgage will be a first mortgage lien on the Mortgaged Properties, that there will be no intervening liens or title defects or that there will not be environmental or other issues affecting the Mortgaged Properties that would cause the Master Trustee to refuse to foreclose on the Mortgage. The Mortgaged Properties are limited-purpose facilities and there can be no assurance that there would be a market for them in the event that the Master Trustee were to foreclose on and attempt to sell the Mortgaged Properties. Upon restatement of the Original Master Trust Indenture, the Borrower will execute and deliver to the Master Trustee a modification to the

Mortgage reflecting the restatement of the Master Trust Indenture, which modification will be held in escrow by the Master Trustee until such time, if ever, as the conditions for recording of the Mortgage are triggered.

### **The Bond Indenture - Debt Service Reserve Fund**

Pursuant to the Bond Indenture, the Bond Trustee will establish a Debt Service Reserve Fund which will be held in trust by the Bond Trustee for the benefit of Holders of the Bonds until applied as provided in the Bond Indenture. *The Debt Service Reserve Fund will not be funded at the time of issuance of the 2007 Bonds.*

In accordance with the provisions of the Loan Agreement, if the Obligated Group's Debt Service Coverage Ratio is less than 1.50x for any Fiscal Year, or the Unrestricted Cash and Investments of the Obligated Group are less than 90 days of Operating Expenses on any semi-annual test date, the Obligated Group will be required to fund the Debt Service Reserve Fund in an amount equal to the Required Reserve Amount. Such amount will be applied in accordance with the Bond Indenture until such time as the Obligated Group delivers to the Bond Trustee and the Insurer an Officer's Certificate demonstrating that, based on audited financial statements for any two consecutive Fiscal Years subsequent to the funding of the Debt Service Reserve Fund, the Obligated Group's Debt Service Coverage Ratio for such Fiscal year was at least 2.00, and the Unrestricted Cash and Investments of the Obligated Group was equal to at least 90 Days of Operating Expenses on each semi-annual test date during such Fiscal Years. Upon the delivery of such Officer's Certificate, the Bond Trustee shall apply amounts on deposit in the Debt Service Reserve Fund in accordance with the Bond Indenture.

Moneys in the Debt Service Reserve Fund shall be used to pay the principal or redemption price of and interest on the Bonds, to the extent that available moneys in the Debt Service Fund established under the Indenture are insufficient for such purposes.

The Bond Trustee shall be authorized, without any direction from the Issuer, to transfer money from the Debt Service Reserve Fund to the Debt Service Fund to the extent that the money in the Debt Service Fund may at any time be insufficient to pay the principal of the Bonds or the interest due thereon, as the same shall become due and payable. The Bond Trustee shall give written notice to the Insurer of any invasion of the Debt Service Reserve Fund to meet the requirements of the Debt Service Fund.

If the money on deposit in the Debt Service Reserve Fund is not sufficient to eliminate the deficiency in the Debt Service Fund, then the Bond Trustee, without further direction or authorization of the Issuer or the Borrower, after first applying the money available in the Debt Service Reserve Fund toward such deficiency, shall draw upon any Reserve Fund Surety Bond, if applicable, in an amount necessary to make the required payment of interest or principal on the Bonds.

For further discussion of the terms and provisions of the Bond Indenture relating to the Debt Service Reserve Fund, see "Trustee-Held Funds Created by the Bond Indenture-Debt Service Reserve Fund" in APPENDIX C.

### **Other Indebtedness of the Obligated Group**

Members of the Obligated Group (which includes only the Borrower, Services and the System at present) may incur additional indebtedness to other Members of the Obligated Group without limitation, and may incur indebtedness to entities other than Members of the Obligated Group upon compliance with the applicable provisions of the Master Indenture and any supplement thereto. Any such additional indebtedness may be issued either as Master Notes or other Master Indenture Obligations, for the payment of which all Members of the Obligated Group will be jointly and severally liable, or may be issued as other indebtedness, for the payment of which the individual issuer may be the only party responsible. Other Master Indenture Obligations issued hereafter will not be pledged under the Bond Indenture but any future Master Indenture Obligations may be secured by a pledge of the Gross Revenues of the Members of the Obligated Group on a parity with the pledge of such Gross Revenues which secures the 2007 Note, the 2007 Swap Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note, and the 1999 Second Series Note. Also, future Master Indenture Obligations may be entitled to the benefit of additional security (including, for example, separate credit facilities, liens on property, or debt service

reserve or similar funds) which security need not be extended to the 2007 Note. At the time of issuance of the Bonds, the 2007 Note, the 2007 Swap Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note, and the 1999 Second Series Note will be the only Master Indenture Obligations issued and outstanding under the Master Indenture. See “THE MASTER INDENTURE - Limitations on Incurrence of Additional Indebtedness” in APPENDIX C.

#### **No Recourse to Non-Member Affiliates**

There will be no recourse for payment of the 2007 Note against any subsidiaries or affiliates of the System, Services or the Borrower (including, without limitation, other members of the System) or against any subsidiaries or affiliates of any future Members of the Obligated Group which, in either case, are not themselves Members of the Obligated Group (collectively, “Non-Member Affiliates”). Neither the assets nor the revenues of any Non-Member Affiliates will be available for payment of, or be subject to any pledge or lien given as security for payment of, the 2007 Note. Furthermore, the covenants and obligations of the Obligated Group and any future Members of the Obligated Group under the Master Indenture and any supplements thereto shall not apply to Non-Member Affiliates.

#### **Consents and Direction of Remedies by the Insurer**

So long as the Insurer is not in default under the Municipal Bond Insurance Policy, (i) the Insurer will be considered to be the Holder of 100% of the Bonds for all purposes of the Bond Indenture (including consents to amendments to the Bond Indenture, the Loan Agreement and the Master Indenture), and (ii) the Insurer will be entitled to control and direct the enforcement of remedies and rights granted to the Bond Trustee and the Bondholders under the Bond Indenture (including rights exercisable by the Bond Trustee under the Master Indenture as the Holder of the 2007 Note), and also will be entitled to approve all waivers of events of default under the Bond Indenture. See “THE BOND INDENTURE - Concerning the Insurer and Default and Remedies” in APPENDIX C.

#### **Amendment of Master Indenture and Exchange of Master Notes**

The Bond Indenture contains provisions permitting the Bond Trustee, as assignee of the Master Note, to vote the 2007 Note or the indebtedness represented thereby in connection with any proposed amendment, change, modification, waiver or consent to or with respect of the Master Indenture. The Bond Trustee may agree to any such amendment, without obtaining the consent of or the provision of notice to the Holders of the 2007 Note, if the Bond Trustee has received the consent of the Insurer; provided that no such consent shall be given to an amendment which alters the time, amounts, currency or terms of any payment terms of the Bonds without the consent of the Holders of all outstanding Bonds.

The Bond Trustee is also authorized and directed to accept a substitute note (the “Substitute Note”) in substitution of the 2007 Note, which Substitute Note must provide for the full and timely repayment of the Bonds on substantially the same repayment terms of the existing 2007 Note and must be executed and delivered to the Bond Trustee by an entity or a group of entities of which the Borrower is a part, upon receipt of (i) the written request of the Borrower, (ii) an opinion of Bond Counsel to the effect that the substitution of the Substitute Note for the 2007 Note complies with the terms of the Bond Indenture and will not cause the interest on the Bonds to become includable in the gross income of the owners thereof for federal tax purposes, (iii) an opinion of counsel to the Borrower to the effect that the Substitute Note is a valid and binding obligation of the obligor or obligors thereunder, including the Borrower, and (iv) the prior written consent of the Insurer.

The Master Indenture provides that the Master Trustee may, without noteholder consent, enter into one or more replacements of the Master Indenture, whether entered into by the Obligated Group or another person or persons replacing such Obligated Group, and may authenticate replacements for outstanding master notes, including the 2007 Note, having the same payment terms as the master notes so replaced, so long as (i) the Insurer consents in writing to such replacement, and (ii) such replacement does not adversely affect the exclusion from gross income of the holders of any bonds secured thereby for purposes of federal or Pennsylvania income tax.

This could lead to the substitution of different security in the form of a note issued by a new group of obligors, which may or may not include the Borrower, Services and the System, that is financially and operationally different from the current members of the Obligated Group. The new group of obligors could have substantial debt outstanding that would rank on a parity with the substitute note, and the financial and operating covenants related to the substitute note could be materially different from those contained in the Master Indenture.

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

The 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.**

Financial Security 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 Financial Security is liable for the obligations of Financial Security.

At June 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,642,612,000 and its total net unearned premium reserve was approximately \$2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, Financial Security's consolidated shareholder's equity was approximately \$3,072,828,000 and its total net unearned premium reserve was approximately \$1,660,356,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security 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 Financial Security 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 Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

## BONDHOLDERS' RISKS

The Bonds are special, limited obligations of the Issuer, and are payable solely from the sources described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein, which include payments made by the Borrower under the Loan Agreement, payments made by the Obligated Group and any future Members of the Obligated Group under the 2007 Note, and certain funds held by the Bond Trustee under the Bond Indenture. No representation can be made or assurance given that the Borrower will generate sufficient revenues to meet its obligations under the Loan Agreement, or that the Obligated Group (or any future Members of the Obligated Group) will generate sufficient revenues to meet their joint and several obligations under the 2007 Note, the 2007 Swap Note, the 2005 Note, the 2005 Swap Note, the 2004 Note, the 2001 Note and the 1999 Second Series Note. The ability of such parties to meet such obligations could be adversely affected by future events, conditions and circumstances that are not predictable, including, but not limited to, those described below.

The discussion herein of risks to the owners of the 2007 Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters which could affect payment on the 2007 Bonds. The Borrower, Services and the System are sometimes separately or collectively referred to in the following discussion as the “Obligor.”

### Enforceability of Remedies

*Introduction.* The remedies available to Bondholders upon an event of default under the Bond Indenture, the Loan Agreement or the Master Indenture are in many respects dependent upon judicial action which may be subject to discretion or delay. In addition, under existing law and judicial decisions, the remedies specified in the Bond Indenture, the Loan Agreement or the Master Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the original delivery of the Bonds will be qualified as to enforceability of the various legal instruments (including the Bond Indenture, the Loan Agreement and the Master Indenture) by a number of limitations, including, without limitation, those imposed by bankruptcy, reorganization, insolvency or other similar laws affecting creditors' rights and by the application of equitable principles.

*Potential Effects of Bankruptcy.* If an Obligor were to file a petition for relief (or if a petition were filed against such Obligor) under the federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Obligor and its property. If the bankruptcy court so ordered, the Obligor's property could be used for the benefit of the Obligor, despite the claims of its creditors (including the Bond Trustee and the Master Trustee). In a bankruptcy proceeding, an Obligor could file a plan for the adjustment of its debts which modifies the rights of creditors generally or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and would discharge all claims against the Obligor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interest of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims shall be deemed to have accepted a plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

*Limitations on Security Interest in Gross Revenues.* The perfection and enforcement of the Master Trustee's security interest in the Gross Revenues of the Obligated Group (and any future Members of the Obligated Group), may be limited by a number of factors, including, without limitation, prohibitions against assignments of payments under the Medicare and Medicaid programs. Thus, in the event of a default by the Borrower under the Master Indenture or the 2007 Note, the Master Trustee may not be able to require Medicare or Medicaid to make payments directly to the Master Trustee. Under current law, the enforceability of the security interest in the Gross Revenues also may be limited by (i) federal and state laws giving super-priority to certain types of statutory liens; (ii) rights arising in favor of the United States of America or any agency thereof; (iii) present or future prohibitions against assignments of certain revenues or payments to health care providers contained in any federal or state statutes or regulations; (iv) constructive trusts, equitable liens and other rights impressed or conferred by any federal or state court in the exercise of its equitable jurisdiction; (v) the provisions of the federal Bankruptcy Code affecting assignments of revenue earned after or within 366 days prior to any effectual institution of bankruptcy proceedings

by or against a Member of the Obligated Group; (vi) rights of third parties, and the debtor in possession, in Gross Revenues converted to cash and not in the possession of the Master Trustee; and (vii) the requirement that appropriate financing or continuation statements be filed in accordance with the UCC as from time to time in effect.

### **Risks Related to Master Indenture Financings**

The Master Indenture provides that the Obligated Group and any future Members of the Obligated Group will be jointly and severally liable for all Master Indenture Obligations, including the 2007 Note. However, the enforcement of such liability against any particular Member of the Obligated Group may be limited or subject to challenge under bankruptcy, insolvency, fraudulent conveyance or other federal or state laws. For example, to the extent that the proceeds of the 2007 Bonds are not paid to, or applied to the satisfaction of obligations of, a particular Member of the Obligated Group, it is possible that such Member's obligations with respect to the 2007 Note may not be enforceable if it is determined that fair consideration or reasonably equivalent value therefor was not received by such Member, and that the incurrence of such obligations rendered the Member insolvent or with unreasonably small capital under applicable provisions of the federal Bankruptcy Code, state fraudulent conveyance statutes and judicial decisions interpreting such provisions. In addition, the assets of a Member of the Obligated Group 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.

The accounts of the Obligated Group and any future Members of the Obligated Group will be combined for financial reporting purposes, and for purposes of determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of additional indebtedness, other than indebtedness between Members) are met, notwithstanding uncertainties as to the enforceability of certain obligations of the Members of the Obligated Group (discussed above) which may bear on the availability of the assets and revenues of certain Members of the Obligated Group for payment of debt service on Master Indenture Obligations, including the 2007 Note.

Upon the issuance of the 2007 Note, the Borrower, Services and the System will be the only Members of the Obligated Group. Although the Master Indenture permits other entities to become Members of the Obligated Group, the Borrower, Services and the System could remain the sole Members of the Obligated Group throughout the term of the Bonds. Also, since it is not known which entities, if any, might become Members of the Obligated Group in the future, it is unknown what risks the addition of such entities, in light of their financial condition and the nature of their businesses, may present to the owners of the Bonds.

### **Regulation**

The future financial condition of each Obligor involved in the health care industry could be affected adversely by, among other things, demand for hospital services, the ability of the Obligor to provide services required by patients, physicians' and the public's confidence in the Obligor, economic developments in the Obligor's service area, technological developments, competition, methods of payments, rates, costs, third-party reimbursement, legislation, governmental regulations, malpractice claims and other litigation. There can be no assurance that revenues of any Obligor and/or utilization of its facilities will not decrease.

Each Obligor is subject to federal regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare and Medicaid programs and by other third party payors, and actions by, among others, the National Labor Relations Board, the Joint Commission on Accreditation of Healthcare Organizations, other federal, state and local government agencies, and other private accreditation agencies. There can be no assurance that such agencies and legislative bodies may not make regulatory, legislative, or other policy changes that could produce adverse effects upon the Obligor's ability to generate revenues or upon the utilization of its facilities.

In addition, bills and regulations proposing to regulate, control or alter the method of financing health care costs are often proposed and introduced in Congress, state legislatures, and regulatory agencies. It can be expected that Congress will continue its consideration of substantial changes to the current national health care reimbursement and insurance systems. It is not possible to predict what those changes will be, when or whether

substantial changes will be effective and whether they will have an adverse effect on any Obligor's ability to meet its obligations in respect of the Bonds.

## **Medicare Reimbursement**

An amendment to the Social Security Act created the Medicare program, which is the nation's largest health insurance program. Medicare covers people 65 years of age and older, some disabled people under 65 years of age, and people with permanent kidney failure treated with dialysis or a transplant. Medicare Part A covers inpatient hospital services, skilled nursing care and some home health care, while Medicare Part B covers outpatient hospital services, physician services and certain supplies.

The Medicare Part A program is primarily financed by payroll taxes held in the Federal Hospital Insurance Trust Fund (the "Trust Fund"), from which expenditures to participating hospitals and other health care providers are paid. The Medicare Part B program is financed by premium payments by enrollees (or states under the Medicaid program) and by appropriations by the federal government to the Federal Supplementary Medical Insurance Trust Fund. Medicare Part C was added in 1999, and allows Medicare beneficiaries the option of enrolling with private health maintenance organizations that contract with Medicare. In December of 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 was signed into law. This law provides for a new Medicare Part D, under which outpatient prescription drug benefits will be available to Medicare beneficiaries.

The Medicare program is administered by the Secretary (the "Secretary") of the United States Department of Health and Human Services ("HHS"), and the Secretary has delegated this responsibility to the Centers for Medicare and Medicaid Services ("CMS"), formerly known as the Health Care Financing Administration.

It is likely that the government will continue to attempt to contain the costs of the Medicare program through measures such as the reduction of funding levels and the transition of Medicare enrollees into Medicare managed care plans, which could have an adverse financial effect on the Obligor.

*Payments Under Medicare.* Based on the Borrower's records, 37.9% of the Borrower's gross patient service revenues, excluding Medicare managed care, were derived in the 2007 fiscal year from Medicare. If managed care is included, 45.9% of the Borrower's gross patient service revenues were derived from Medicare.

*Physician Payments.* Payment for physician fees is covered under Part B of Medicare. Under Part B, most physician services are reimbursed in an amount equal to the lesser of actual charges or the amount determined under a fee schedule known as the "resource-based relative value scale" or "RBRVS." RBRVS sets a relative value for each physician service; that value is then multiplied by a geographic adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

The relative values for physician services contained in the RBRVS are based on a work component intended to reflect the time and intensity of effort required to provide the service; a practice expense component which includes costs such as office rents, allied health support salaries, equipment and supplies; and a component for the cost of malpractice insurance.

The data upon which the relative values are based is several years old and does not necessarily reflect current market conditions, particularly with respect to the malpractice expense component. The formulae used to calculate physician payments under the RBRVS methodology do not necessarily reflect the actual costs of such services. There can be no assurance that payments to the Obligor under the Medicare program will be adequate to cover the Obligor's costs of providing physician services.

*Hospital Inpatient Services/Operating Expenditures.* Medicare payments for operating expenses incurred in the delivery of certain inpatient hospital services are based on a prospective payment system ("PPS") which essentially pays hospitals a fixed amount for each Medicare inpatient discharge based upon patient diagnosis, procedures and certain other factors used to classify each patient into a Diagnosis Related Group ("DRG"). The



amount paid for each DRG is based on its assigned weight and payment factors which are established prospectively by CMS. With certain exceptions (referred to as “outliers”), such payments are not adjusted for actual costs, for variations in intensity of illness or for length of stay. The payments may be subject to adjustment by a disproportionate share hospital factor that contemplates the increased operating costs associated with providing care to low income patients. Further, DRG rates change periodically and there can be no assurance that payments under PPS will be sufficient to cover all of the Obligor’s actual costs of providing inpatient hospital services to Medicare patients.

*Hospital Outpatient Services.* Effective August 1, 2000, CMS instituted a PPS methodology for Medicare hospital outpatient services. Under the outpatient PPS methodology, procedures, evaluations and management services, and drugs and devices in outpatient departments are classified into one of approximately 750 groups called Ambulatory Payment Classifications (“APC”). Services provided within an APC are similar clinically and in terms of the resources they require. Each APC has been assigned a weight derived from the median hospital cost of the services in the group relative to the median hospital cost of the services included in the APC for mid-level clinic visits. CMS determines the portion of the median labor related hospital costs and adjusts those costs for variations in hospital labor costs across geographic regions.

Payment rates for each APC are calculated by multiplying the relative weight for an APC by a conversion factor to arrive at a dollar figure. The base conversion factor was calculated in 1999, and was intended to represent the factor that when applied to the APC group weights and service frequencies, and reduced by the amounts that would have been payable in 1999 as outlier payments and transitional pass-through payments, would equal the base expenditure target for 1999 (the “Base Target”). The Base Target is the sum of the aggregate amount that would have been payable, under the cost-based payment system, for hospital outpatient services and the total amount of coinsurance that would have been payable by beneficiaries to hospitals for covered hospital outpatient services in 1999. The conversion factor for each calendar year is equal to the conversion factor calculated for the previous year and adjusted based on the hospital inpatient market basket percentage increase. CMS is authorized to develop and substitute a market basket index based on outpatient services, but has not done so to date.

Outpatient PPS includes additional adjustments for transitional pass-through payments and outlier payments. Transitional pass-through payments are costs associated with new technology items (drugs, biologicals and medical devices) that were not reflected in the data that CMS used to calculate PPS payment rates, and are intended to allow for adequate payment of new and innovative technology until there is enough data to incorporate the costs for these items into the base APC group. Outlier payments may be made to hospitals in the event actual costs exceed the PPS payment (adjusted to reflect the transitional pass-through payments) by a fixed multiple, and are intended to protect hospitals from catastrophic losses.

Hospitals are able to secure payment for more than one APC for an encounter. However payments for certain multiple APC procedures are subject to discounting.

CMS is required to review and update APC groups, relative payment weights, and the wage and other adjustments annually to account for changes in medical practice and technology and to add new services, cost data and other factors.

Under PPS, a hospital with costs exceeding the applicable payment rate would incur losses on such services provided to Medicare beneficiaries. There can be no assurance that the payments under PPS will be adequate to cover the Obligor’s actual costs associated with treating Medicare beneficiaries.

*Hospital Capital Expenditures.* Medicare payments for capital costs are based upon a PPS system similar to that applicable to operating costs. Effective for cost reporting periods beginning on or after October 1, 2001, payment for capital related costs for all hospitals is determined based on a standardized amount referred to as the federal rate. Prospective payment for capital costs based on the federal rate was transitioned in over a ten year period.

Under PPS, payments for capital costs are calculated by multiplying the federal rate by the DRG weight for each discharge and by a geographical adjustment factor. The payments are subject to further adjustment by a disproportionate share hospital factor that contemplates the increased capital costs associated with providing

care to low income patients, and an indirect medical education factor that contemplates the increased capital costs associated with medical education programs.

There can be no assurance that payments under the PPS inpatient capital regulations will be sufficient to fully reimburse the Obligor for its capital expenditures.

*Medical Education Costs.* Under PPS, teaching hospitals receive additional payments from Medicare for certain direct and indirect costs related to their graduate medical education (“GME”) programs. Direct graduate medical education (“DGME”) payments compensate teaching hospitals for the costs directly related to educating residents. Such costs include the residents’ stipends and benefits, the salaries and benefits of supervising faculty, other costs directly attributable to the GME program, and allocated overhead costs. Payment for direct medical education costs are calculated based upon set formulae taking into account hospital-specific medical education costs associated with each resident, the number of full-time equivalent residents, and the proportion of Medicare inpatient days to non-Medicare inpatient days. Indirect medical education payments compensate teaching hospitals for the higher patient care costs they incur relative to non-teaching hospitals. Those indirect payments are issued as a percentage adjustment to the PPS payments. The calculation for both the direct part and the indirect part of Medicare payments for GME include certain limitations on the number and classification of full-time equivalent residents reimbursed by Medicare.

The formula used to determine payments for medical education do not necessarily reflect the actual costs of such education, and the federal government will continue to evaluate its policy on graduate medical education and teaching hospital payments. There can be no assurance that payments to the Obligor under the Medicare program will be adequate to cover its direct and indirect costs of providing medical education to interns, residents, fellows and allied health professionals.

*Outlier Payments.* As noted above, hospitals are eligible to receive additional payments under the Inpatient PPS for individual cases incurring extraordinarily high costs. The amount of an outlier payment was based, in part, on the hospital charges for a particular case as compared to that hospital’s cost-to-charge ratio. The hospital specific cost-to-charge ratio was calculated based on the most recently settled cost report, and, as a result, was typically many months or years old and out of date.

Following an audit of aggressive pricing strategies at one of the nation’s largest hospital chains, and a determination that some hospitals might be manipulating current hospital charge data to maximize reimbursement from Medicare under the outlier payment provisions, the Office of the Inspector General of HHS (“OIG”) began investigating past outlier billing practices, and CMS amended the regulations on how outlier payments were to be calculated in the future.

The OIG continues to scrutinize outlier payments in an effort to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations, or whether such payments were the result of potentially abusive billing practices. While the Obligor believes it has calculated its outlier payments appropriately, there can be no assurance that the Obligor will not become the subject of an investigation or audit with respect to its past outlier payments, or that such an audit would not have a material adverse impact on the Obligor.

The new methodology for calculating outlier payments is designed to prevent hospitals from manipulating the outlier formula to maximize reimbursement, and allows for recovery of overpayments in certain cases. There can be no assurance that any new formula for calculating outlier payments will not reduce the payments to the Obligor, or that any such reduction will not have a material adverse impact on the Obligor.

*Medicare + Choice.* The fiscal 1998 tax and budget reconciliation law (“Balanced Budget Act” or “BBA”) established a new Part C of the Medicare program, called “Medicare + Choice.” Effective January 1, 1999, every individual entitled to Medicare Part A benefits, and who is enrolled in Medicare Part B, with the exception of individuals who suffer from end stage renal disease, may elect coverage under either the traditional Medicare fee for service program or a Medicare + Choice program.

Public and private health maintenance organizations, preferred provider organizations, and provider service organizations may qualify as authorized Medicare + Choice organizations. With limited exceptions, Medicare + Choice organizations are risk-bearing entities that accept a fixed monthly capitation fee in return for providing beneficiaries with a defined level of services (basic or basic plus supplemental), either directly or through arrangements with other providers. All Medicare + Choice plans offered by Medicare + Choice organizations are required to provide coverage, even if out of network, for emergency services, renal dialysis services provided while the enrollee was temporarily outside of the plan's service area, post-stabilization care services (under limited circumstances) and services for which coverage was denied but, following appeal by the enrollee, were determined to be covered services. Providers wishing to participate in Medicare + Choice plans are subject to specific requirements concerning enrollee protection and accountability. The shift of Medicare eligible beneficiaries from traditional Part A and Part B coverage to Part C may result in reduced utilization of health care services and have a material negative impact upon the revenue of the Obligor.

## **Medicaid Reimbursement**

Medicaid is a jointly funded federal and state health insurance program for certain low-income and medically needy people. Under federal guidelines, each state establishes eligibility standards, scope of services, payment rates for services, and an administrative framework for management of the program. The Pennsylvania Department of Public Welfare ("DPW") administers the Medicaid program in the Commonwealth of Pennsylvania, which is known as the Medical Assistance program.

In the event of a shortfall in state revenues, Pennsylvania may reduce the Medicaid reimbursement received by hospitals in order to balance the budget. In addition, national health care reform measures, including proposals to provide federal funds as block grants to the states, may necessitate changes to the Pennsylvania Medicaid system and such changes may affect hospital reimbursement. Similar changes have occurred in the past and can be expected to occur in the future, particularly in response to federal and state budgetary constraints, coupled with increased costs for covered services.

*Payments Under Medicaid.* Based on the Borrower's records, 3.4% of the Borrower's gross patient service revenues, excluding Medicaid managed care, were derived in the 2007 fiscal year from the Commonwealth's Medical Assistance Program ("Medicaid"). If managed care is included, 11.5% of the Borrower's gross patient service revenues were derived from Medicaid.

*Inpatient Services.* Since July 1984, Medicaid payment for acute care services in Pennsylvania has been based on a prospective payment system similar to the federal Medicare DRG-based prospective payment system explained above.

*Capital Expenditures.* Payment for capital costs (including depreciation and interest, but excluding such costs for moveable equipment) has been integrated into a comprehensive prospective payment system for both capital costs and operating costs of providing inpatient services. There is no assurance that Medicaid reimbursement levels for capital depreciation and interest will be adequate to satisfy the capital requirements of the Obligor.

*Outpatient Services.* Medicaid generally pays for hospital outpatient services rendered based on the lower of the usual charge to the general public for the same service or the Medicaid maximum allowable fee, or the upper limit established by Medicare or Medicaid.

*Inpatient Mental Health and Rehabilitation Services.* Medicaid provides payment for inpatient mental health and rehabilitation services rendered to eligible recipients by private psychiatric hospitals and rehabilitation distinct part units at a per diem rate.

*HealthChoices.* In February 1997, the Commonwealth of Pennsylvania began rolling out a new program for Medicaid recipients called HealthChoices. The HealthChoices program requires Medicaid recipients to enroll in managed care plans. The program was implemented in the Obligor's primary service area in October, 2001.

Under HealthChoices, Medicaid recipients receive physical health services through one managed care organization and behavioral health services through another managed care organization. The implementation of HealthChoices required providers who wanted to be eligible to treat Medicaid recipients to contract with the managed care organizations that are responsible for providing health services to Pennsylvania Medicaid recipients. There can be no assurance that reimbursements from these managed care organizations will be sufficient to cover the costs of delivering care to Pennsylvania's Medicaid recipients.

### **Third-Party Reimbursement**

A significant portion of the net patient service revenue of the Obligor is received from Blue Cross, Blue Shield and other non-governmental agencies, which provide third-party reimbursement for patient care on the basis of various formulae. Renegotiations of such formulae and changes in such reimbursement systems may reduce such third-party reimbursements to the Obligor. The reimbursement currently paid by Blue Cross and Blue Shield plans may be subject to more restrictions in the future, and there can be no assurance that such payments will be adequate to cover the cost of care for the beneficiaries in the future.

Certain private insurance companies contract with hospitals on an exclusive or preferred-provider basis, and some insurers have introduced plans known as preferred provider organizations ("PPOs"). Under these plans, there may be financial incentives for subscribers to use only those hospitals and physicians which contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by network hospitals and physicians. With this contracting authority, private payors may direct patients away from hospitals not in the network by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis, a discounted fixed rate per day of care basis, or on a fixed rate per case basis. The discounts offered to HMOs and PPOs may result in payment at less than actual cost, and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Therefore, the financial consequences of such arrangements cannot be predicted with certainty and may be different from current or prior experience. Some HMOs offer or mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, or if use by enrollees materially exceeds projections, the financial condition of the hospital may be adversely affected.

There is no assurance that contracts of the Obligor or its physicians with Blue Cross, Blue Shield, HMOs, PPOs or other payors will be maintained or that other similar contracts will be obtained in the future, or that payments from such payors will be sufficient to cover all of the costs the Obligor or its physicians in providing hospital services to its their beneficiaries. Failure to execute and maintain such contracts could have the effect of reducing the patient base or gross revenues of the Obligor. Conversely, participation may maintain or increase the patient base, but may result in reduced payments.

### **Regulatory Environment**

The Obligor and the health care industry in general are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health care planning programs, and other federal, state and local governmental agencies. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs, and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. Over the past several years, both the federal and state governments have consistently attempted to curb the growth of governmental spending on health care programs. In addition, Congress and governmental agencies have focused on the provision of care to indigent and uninsured patients, the prevention of the transfer of such patients to other hospitals in order to avoid the provision of uncompensated care, activities of tax-exempt institutions that are unrelated to their exempt purposes, and other issues. Some of the legislation and regulations affecting the health care industry are discussed below. These laws and regulations, as well as similar

laws and regulations now in effect, and the adoption of additional laws and regulations in these and other areas, could have an adverse effect on the results of operations of the Obligor.

*Federal False Claims Act and Civil Money Penalties Law.* There are multiple federal laws concerning the submission of inaccurate or fraudulent claims for reimbursement and errors or misrepresentations on cost reports by hospitals and other providers. The coding, billing and reporting obligations of Medicare providers are extensive, complex and highly technical. In some cases, errors and omissions by billing and reporting personnel may result in liability under one of the federal False Claims Acts or similar laws, exposing a health care provider to civil and criminal monetary penalties, as well as exclusion from participation in the Medicare and Medicaid programs.

The federal Civil False Claims Act prohibits knowingly filing a false or fraudulent claim for payment to the United States. This statute is violated if a person acts with actual knowledge or in deliberate ignorance or reckless disregard of the falsity of the claim. Penalties under the Civil False Claims Act include fines of up to \$10,000, plus treble damages. Under the federal Criminal False Claims Act, anyone who knowingly makes a false statement or representation in any claim to the Medicare or Medicaid programs is subject as well to fines and imprisonment.

In addition, the Civil Money Penalties Law under the Social Security Act (“CMP Law”) provides for the imposition of civil money penalties against any person who submits a claim to Medicare, Medicaid or any other federal health care program that the person knows or should know is for items or services not provided as claimed, is false or fraudulent, is for services provided by an unlicensed or uncertified physician or by an excluded person, or represents a pattern of claims that are based on a billing code higher than the level of service provided or are for services that are not medically necessary. Penalties under the CMP Law include up to \$50,000 for each item or service claimed, and damages of up to three times the amount claimed for each item or service, and exclusion from participation in the federal health care programs.

The Civil False Claims Act includes “whistleblower” provisions under which anyone who believes that a person is violating the False Claims Act can file a sealed complaint against that person in the name of the United States government. The nature of the allegations is not revealed to the target during the time the Justice Department investigates the complaint and determines whether to join in the suit. If the Justice Department decides not to join in the suit, the original complainant can nonetheless proceed. In either event, if the case is successful, the whistleblower is entitled to between 15% and 30% of the proceeds of any fines or damages paid. Although the False Claims Act has been in effect for many years, in recent years there has been a significant increase in the number of whistleblower allegations filed under the False Claims Act, a large number of which involve the healthcare and pharmaceutical industries.

The threats of large monetary penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs, and the significant costs of mounting a defense, create serious pressures on providers who are targets of false claims actions or investigations to settle. Therefore, an action under the False Claims Act or CMP Law could have an adverse financial impact on the Obligor, regardless of the merits of the case.

*“Fraud and Abuse” Laws and Regulations.* Section 1128(b) of the Social Security Act (the “Anti-Kickback Law”) prohibits the knowing and willful offer, solicitation, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for goods or services, or the purchase, lease, order or arrangement for the provision of goods or services, that may be reimbursed under Medicare, Medicaid or other health benefit programs funded by the federal government. The scope of the Anti-Kickback Law is very broad, and it potentially implicates many practices and arrangements common in the health care industry, including space and equipment leases, personal services contracts, purchase of physician practices, joint ventures, and relationships with vendors. Penalties for violation of the Anti-Kickback Law include criminal prosecution, civil penalties of up to \$50,000 and damages of up to three times the amount of the illegal remuneration, as well as exclusion from the federal health care programs.

The Medicare and Medicaid Patient and Program Protection Act of 1987 directed the Inspector General of Health and Human Services to promulgate safe harbor regulations that describe certain payment practices that will be exempt from prosecution or other enforcement action under one of the federal laws prohibiting referrals

in exchange for remuneration. The current safe harbor regulations are narrowly drawn and do not cover all of the practices and arrangements that health care providers may consider legitimate business arrangements that do not violate the Anti-Kickback Law. Arrangements that do not comply with all of the strict requirements of the safe harbors, though not necessarily illegal, may nevertheless face an increased risk of investigation or prosecution.

Because of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Obligor will not be found to have violated the Anti-Kickback Law, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the future operations and financial condition of the Obligor.

*Restrictions on Referrals.* Section 1877 of the Social Security Act (the “Stark Law”) prohibits a physician who has a financial relationship with an entity that provides certain health services from referring Medicare and Medicaid patients to that entity for the provision of such health services, with limited exceptions. These restrictions currently apply to referrals for a number of health services and goods, including clinical laboratory services, physical therapy services, occupational therapy services, radiology or other diagnostic services, durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services.

Unlike the Anti-Kickback Law, which is an intent-based statute, the Stark Law absolutely prohibits specific referral arrangements and the accompanying claims for payment from Medicare or Medicaid by the provider unless an exception applies. Sanctions for violations of the Stark Law include refunds of the amounts collected for services rendered pursuant to a prohibited referral, civil money penalties of up to \$15,000 for each claim arising out of such referral, plus up to three times the reimbursement claimed, and exclusion from the Medicare and Medicaid programs. The Stark Law also provides for a civil penalty of up to \$100,000 for entering into an arrangement with the intent of circumventing its provisions.

Final regulations implementing the provisions of the Stark Law relating to clinical laboratory services were promulgated in 1995. The first phase of final regulations implementing other aspects of the Stark Law were published in January 2001 and became effective early in 2002. The second phase of final regulations implementing the Stark Law provisions were published in March 2004, and became effective in July 2004. The third phase of the final regulations implementing the Stark Law provisions were published on September 5, 2007 and became effective on December 4, 2007.

Because of the complexity of the Stark Law, the infancy of many parts of the regulations, and the lack of other formal guidance on many of its provisions, there can be no assurances that the Obligor will not be found to have violated the Stark Law. If such violation were found to have occurred, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the Obligor.

Pennsylvania’s Department of Public Welfare also has authority to investigate referral relationships between physicians and health care facilities that might create incentives to overcharge the Medical Assistance program. The Department of Welfare’s regulations are somewhat more narrowly drawn than the federal fraud and abuse laws and regulations. Although the Department of Public Welfare has not recently been active in investigating such arrangements, there can be no assurances that the Department of Public Welfare will not initiate such investigations, and there can be no assurances that the Obligor will not be found to have violated the Department of Public Welfare’s fraud and abuse regulations. If such violation were found to have occurred, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the Obligor.

*Expanded Enforcement Activity.* Congress enacted The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) in August of 1996 as part of a broad health care reform effort. Among other things, HIPAA established a program administered jointly by the Secretary of HHS and the United States Attorney General designed to coordinate federal, state and local law enforcement programs to control fraud and abuse in connection with the federal health care programs. In addition, in HIPAA Congress greatly increased funding for health care fraud enforcement activity, enabling the OIG to substantially expand its investigative staff and the Federal Bureau of Investigation to plan to quadruple the number of agents assigned to health care fraud. The result

has been a dramatic increase in the number of civil, criminal and administrative prosecutions for alleged violations of the laws relating to payment under the federal health care programs, including the Anti-Kickback Law and the False Claims Act. This expanded enforcement activity, together with the whistleblower provisions of the Civil False Claims Act, have significantly increased the likelihood that all health care providers, including the Obligor, could face inquiries or investigations concerning compliance with the many laws governing claims for payment and cost reporting under the federal health care programs.

*Emergency Medical Treatment and Active Labor Act.* In 1986, Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”), in response to allegations of inappropriate hospital transfers of indigent and uninsured emergency patients. EMTALA imposes strict requirements on hospitals in the treatment and transfer of patients with emergency medical conditions.

EMTALA requires hospitals to provide a medical screening examination to any individual who comes to the hospital’s emergency department for treatment, without regard to ability to pay, to determine whether the individual suffers from an emergency medical condition within the meaning of EMTALA. A participating hospital may not delay providing a medical screening examination in order to inquire about method of payment or insurance status. If an emergency medical condition is present, the hospital must provide such additional medical examination and treatment as may be required to stabilize the emergency medical condition. If the hospital deems it in the best interest of the individual to transfer the individual to another medical facility, the treating physician must execute a transfer certificate complying with the standards of EMTALA and must provide a medically appropriate transfer.

EMTALA imposes significant costs on hospitals, including the costs of treatment of individuals who may not be able to pay for such services, costs of development and implementation of protocols concerning medical screening examinations and stabilization and appropriate transfers and, in some cases, costs associated with assuring on-call availability of specialty physicians.

If a hospital violates EMTALA, whether knowingly and willfully or negligently, it is subject to a civil money penalty of up to \$50,000 per violation. Failure to satisfy the requirements of EMTALA may also result in termination of the hospital’s provider agreement with Medicare. In addition, EMTALA creates a private cause of action for individuals who suffer personal harm as a result of an EMTALA violation, and for any hospital that suffers financial loss as a result of another hospital’s violation of EMTALA. Enforcement activity with respect to EMTALA violations has increased dramatically in recent years, and because of the broad interpretation of the reach of EMTALA, there can be no assurance that the Obligor will not have been found to have violated EMTALA, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the future operations and financial condition of the Obligor.

*HIPAA’s Administrative Simplification Provisions.* In addition to the expanded enforcement activity noted above, the “Administrative Simplification” provisions of HIPAA mandate the use of uniform standard electronic formats for certain administrative and financial health care transactions, the adoption of minimum security standards for individually identifiable health information maintained or transmitted electronically, and compliance with privacy standards adopted to protect the confidentiality of personal health information. The Administrative Simplification provisions apply to health care providers, health plans, and healthcare clearinghouses (collectively “Covered Entities”).

Various requirements of HIPAA apply to virtually all healthcare organizations, and significant civil and criminal penalties may result from a failure to comply with the Administrative Simplification regulations. Compliance will require changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in the monitoring of ongoing compliance with the various regulations. The financial costs of compliance with the Administrative Simplification regulations will be substantial. Additionally, failure to achieve compliance with the transactions and code set standards could result in substantial payment delays, which could, in turn, have significant negative cash flow implications for Covered Entities.

Covered Entities are now required to conduct certain electronic transactions in compliance with the applicable transactions and code sets standards published by DHHS, and are also required to comply with the privacy regulations and data security regulations. The Obligor is actively engaged in achieving compliance with the

HIPAA regulations, however, in light of the complexity of the regulations, and the absence of further guidance from DHHS with respect to numerous provisions of the regulations, it is impossible to accurately assess the financial and operational impact HIPAA will have on the Obligor.

*Environmental Laws Affecting Health Care Facilities.* Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remediating any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. For these reasons, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property, or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that the Obligor will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligor.

*Future Federal Legislation.* Future legislation, regulation, and other actions by the federal government are expected to continue the trend toward reduced reimbursement for hospital services and more pervasive regulation of operations. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations upon the forecasted financial performance of the Obligor cannot be determined at this time.

Any future changes to the Medicare and Medicaid programs could result in substantial reductions in the amounts of Medicare and Medicaid payments to hospital providers in the future, which could substantially reduce the revenues available to the Obligor, and any reduction in the levels of payment in these government payment programs could substantially adversely affect the Obligor's financial condition and its ability to fulfill its obligations with respect to the Bonds.

*Medical Care Availability and Reduction of Error Act.* In March 2002, the Pennsylvania General Assembly enacted the Medical Care Availability and Reduction of Error Act (the "Mcare Act"). The Mcare Act includes significant patient safety initiatives, professional liability tort reforms, professional liability insurance reforms, and administrative requirements. Although the new law was initially intended to address the malpractice insurance crisis that was developing in Pennsylvania, it was substantially revised by the Pennsylvania Senate before being signed into law, and the law as signed imposes numerous burdens on health care providers in Pennsylvania.

Under the Mcare Act, hospitals are required to develop and implement patient safety plans, appoint patient safety officers, form patient safety committees, and engage in mandatory reporting of serious events, incidents, and infrastructure failures in the hospital. Furthermore, hospitals are required to provide written notice to patients affected by serious events. Hospitals, ambulatory surgical centers, and birth centers are subject to administrative fines of \$1,000 per day for failure to comply with the patient safety requirements of the Mcare Act.

The Mcare Act also eliminated the Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "CAT Fund") and established the Medical Care Availability and Reduction of Error Fund (the "Mcare Fund"). The Mcare Fund provides coverage for professional liability claims in excess of a basic limit of insurance, and participation in the Mcare Fund is mandatory for licensed health care providers. The Mcare Act provides for the transition of all professional liability coverage from the Mcare Fund to commercial insurance by 2009. The liabilities of the CAT Fund, which are estimated at over two billion dollars, were transferred into the Mcare Fund and will be paid through the imposition of annual assessments on health care providers in Pennsylvania until such time as all liabilities are satisfied. The administrative provisions under the Mcare Act require physicians in Pennsylvania to report to the appropriate licensing board each time they are named in a lawsuit, and provide for additional civil penalties of up to \$10,000 for violations of the Mcare Act by licensees.



The administrative and financial burdens imposed on health care providers by the Mcare Act are substantial, and there can be no assurance that compliance with the Mcare Act will not have a material adverse effect upon the future operations and financial condition of the Obligor.

### **Regulatory Inquiries**

The laws and regulations governing federal reimbursement programs and the laws governing the healthcare industry generally (such as the False Claims Act, the Civil Money Penalties Law, the Anti-Kickback Law and the Stark Law) are complex and subject to varying interpretations, and the Obligor is subject to contractual reviews and program audits in the normal course of business. Penalties for violations of federal regulations governing healthcare providers can be severe, including treble damages, fines, and suspension from federal reimbursement programs such as Medicare and Medicaid. Federal agencies have initiated nationwide investigations into several areas of concern, including, among others: (i) teaching hospitals, (ii) home healthcare services, (iii) investigational devices, (iv) laboratory billing, and (v) cost reporting. The Obligor expects that the level of review and audit to which it and other healthcare providers are subject will increase. The Obligor has compliance programs that are designed to detect and correct potential violations of laws and regulations applicable to its programs. Regulatory authorities have discretion to assert claims for noncompliance with applicable requirements based upon their interpretation of those requirements. Because these complex program requirements are subject to varying interpretations and because, in some instances (e.g., the Anti-Kickback Law and the Stark Law), there is little clear regulatory or judicial guidance, there can be no assurance that regulatory authorities will not challenge the Obligor's compliance with these requirements and assert claims or penalties, and it is not possible to determine the impact (if any) any such claims or penalties would have upon the Obligor.

### **Tax Exemption of Nonprofit Borrowers**

Loss of tax-exempt status by the Obligor could result in loss of tax exemption of interest on the Bonds or other tax-exempt debt issued for the benefit of the Obligor, and defaults in covenants regarding the Bonds and other related tax-exempt debt could be triggered. Such an event would have material adverse consequences on the financial condition of the Obligor.

The maintenance by the Obligor of its tax-exempt status depends, in part, upon its maintenance of its status as an organization described in Section 501(c)(3) of the Code. Maintaining that status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that would cause their assets to inure to the benefit of private persons. The IRS has announced that it intends to closely scrutinize transactions between nonprofit organizations and for-profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Obligor conducts diverse operations involving private parties, there can be no assurances that certain of their transactions would not be challenged by the IRS.

The IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their federal tax-exempt status. As a result, tax-exempt entities such as the Obligor that have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The Taxpayer Bill of Rights 2 (the "Intermediate Sanctions Law") allows the IRS to impose "intermediate sanctions" against certain individuals in circumstances involving the violation by tax-exempt organizations of the prohibition against private inurement. Prior to the enactment of the Intermediate Sanctions Law, the only sanction available to the IRS was revocation of an organization's tax-exempt status.

Intermediate sanctions may be imposed in situations in which a "disqualified person" (such as an "insider") (i) engages in a transaction with a tax-exempt organization on other than a fair market value basis, (ii) receives unreasonable compensation from a tax-exempt organization, or (iii) receives payment in an arrangement

that violates the prohibition against private inurement. These transactions are referred to as “excess benefit transactions.”

A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not on the organizational manager) if the excess benefit is not corrected within a specified period of time.

In March 1998, the IRS issued a revenue ruling providing guidance on joint ventures between nonprofit and for-profit entities. The revenue ruling provides generally that a nonprofit hospital must retain control over certain of the key aspects of such a joint venture (e.g., control of the governing body of the joint venture, change in the types of services offered, etc.) in order to assure that the joint venture’s activities are treated as primarily furthering the exempt purposes of nonprofit, charitable organization.

In 2004, the IRS issued a revenue ruling providing further guidance on joint ventures between nonprofit and for-profit entities. In addition to retaining control over key aspects of such a joint venture, the venture must not be a substantial part of the nonprofit’s activities, which would divert the nonprofit’s funds and energies away from its mission.

It is not possible at this point to determine whether IRS guidelines for joint ventures will restrict the ability of the Obligor to enter into joint ventures with for-profit entities.

The tax-exempt status of nonprofit corporations, and the exclusion of income earned by them from taxation, has been the subject of review by various federal, state and local legislative, regulatory and judicial bodies. This review has included proposals to broaden and strengthen existing federal tax law with respect to unrelated business income of nonprofit corporations.

Bills have been introduced in Congress that would require a tax exempt hospital to provide a certain amount of charity care and care to Medicare and Medicaid patients in order to maintain its tax-exempt status and avoid the imposition of an excise tax. Other proposed legislation would have conditioned a hospital’s tax-exempt status on the delivery of adequate levels of charity care. Such bills have not been enacted. However, there can be no assurance that similar legislative proposals or judicial actions will not be adopted in the future.

The Subcommittee on Oversight of the United States House of Representatives Ways and Means Committee has considered options and recommendations in the area of taxation of unrelated business income of nonprofit organizations. Hearings have been held on these options and recommendations and legislation may be drafted to clarify and strengthen existing law with respect to the unrelated business income tax. The scope and effect of legislation, if any, that may be adopted at the federal and state levels with respect to unrelated business income cannot be predicted. Any such legislation could have the effect of subjecting a portion of a hospital’s income to federal or state income taxes.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to federal, state or local taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of the federal, state or local governments or audits or examinations of the activities of the Obligor by one or more taxing authorities will not materially and adversely affect the operations and revenues of the Obligor by requiring it to pay income, sales or real estate taxes or to make payments in lieu of such taxes.

#### **Other Legislative and Regulatory Actions**

The Obligor is subject to regulation, certification and accreditation by various federal, state and local government agencies and by certain nongovernmental agencies such as the Joint Commission on Accreditation of Healthcare Organizations. No assurance can be given as to the effect on future hospital operations of existing

laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Legislative proposals which could have an adverse effect on the Obligor include: (a) any change in the taxation of not for profit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax-exempt financing for charitable organizations described in Section 501(c)(3) of the Code; (c) regulatory limitations affecting the ability of the Obligor to undertake capital projects or develop new services; and (d) a requirement that not for profit health care institutions pay real estate property tax and sales tax on the same basis as for-profit entities.

## **Antitrust**

The Obligor, like other providers of health care services, is subject to antitrust laws. Those laws generally prohibit agreements that restrain trade and prohibit the acquisition or maintenance of a monopoly through anticompetitive practices. The legality of particular conduct under the antitrust laws generally depends on the specific facts and circumstances and cannot be predicted in advance. Antitrust actions against health care providers have become increasingly common in recent years. Antitrust liability can arise in a number of different contexts, including medical staff privilege disputes, third-party payer contracting, joint ventures and affiliations between health care providers, and mergers and acquisitions by health care providers. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private plaintiffs seeking damages for harm from allegedly anticompetitive behavior.

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

In 1996, the United States Department of Justice and the Federal Trade Commission issued "Revised Statements of Antitrust Enforcement Policy in the Health Care Area" and these statements have been revised from time to time. The statements generally describe certain analytical principles which the agencies will apply to certain factual situations and also establish certain "antitrust safety zones." Conduct within the safety zones will not be challenged by the agencies, absent extraordinary circumstances. Many activities frequently engaged in by health care providers fall outside of the zones but are not challenged, and failure to fall within a safety zone does not mean that a participant will be investigated or prosecuted, or even that the activity violated the antitrust laws. There cannot be any assurances that enforcement authorities or private parties will not assert that the Obligor, or any transaction in which it is involved, is in violation of the antitrust laws.

## **Medical Professional Liability Insurance Market**

Poor underwriting results have generated substantial premium increases and coverage reductions in the medical professional liability insurance marketplace. A dramatic and sustained rise in claim severity nationwide coupled with the lower investment returns available to insurers as a result of the slowing economy resulted in substantial reductions in medical professional liability insurance capacity. Several major medical professional liability insurance carriers have been forced into rehabilitation and/or liquidation, or have voluntarily withdrawn from this line of business over the last few years. The insurance carriers who are still writing medical professional liability coverage have required substantial premium increases, reductions in the breadth of coverage afforded by the policy(is), more stringently enforced policy terms, and increases in required deductibles or self-insured retentions. Health care entities that have self-funded programs have also experienced similar difficulties with respect to fronting carriers, reinsurance on their captive insurance companies and/or with respect to insurance placements in excess of the primary coverage layers. Furthermore, insurance carrier insolvencies have forced health

care providers to either repurchase insurance coverage from new carriers at substantially higher rates, or self insure exposures for which they had previously purchased insurance.

The effect of these developments has been to increase the operating costs of hospitals, including those of the Obligor. In addition, the dramatic increase in the cost of professional liability insurance may have the effect of causing established physicians to leave the most heavily affected geographical regions, including Pennsylvania, and of preventing new physicians from establishing their practices in the Obligor's region. There can be no assurance that the unpredictability and increasing severity of jury awards and claims payouts, the reduction of coverage availability, and/or the rising cost of professional liability insurance coverage will not adversely affect the operations or financial condition of the Obligor.

### **Nursing Shortage**

The health care industry is facing a nationwide shortage of nursing professionals, including registered nurses. Nurses are leaving the profession citing stress, irregular working hours, high patient to nurse ratios, deteriorating working conditions, and low morale as some of the reasons. Additionally, the average age of the existing workforce has risen substantially over the last two decades. As a result of these factors, the health care industry is facing a severe nursing shortage. The Bureau of Health Professions of PH's Health Resources and Services Administration estimates that by 2010 there will be 275,000 more registered nurses needed than are available. A shortage of nursing staff could result in escalating labor costs, delays in providing care, and patient care management issues, among other adverse effects. Although legislation has been introduced at both the state and federal level to mitigate the impact of the existing and projected nursing shortages, there can be no assurance that a nursing shortage will not adversely affect the operations or financial condition of the Obligor.

### **Competition**

The Obligor may experience increased competition from specialty hospitals and from physicians who provide outpatient services that are ancillary to their day-to-day practices. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established an 18-month moratorium on physician referrals to specialty hospitals in which the referring physician has an ownership interest. This moratorium has now expired. Accordingly, while specialty hospitals represent a competitive threat to general acute care hospitals, the exact nature of this competitive threat is not entirely clear at this time, and depends largely upon pending legislative and regulatory action.

The Obligor is currently exploring the feasibility of constructing a short-stay surgical hospital ("SSH") which would be owned by the Obligor and a group of physicians. If opened, the SSH might materially adversely affect the Obligor's inpatient volume, though this adverse effect might also be partially offset by distributions of profits from the SSH to Obligor. The SSH entity is not expected to become a Member of the Obligated Group.

In addition, physicians increasingly offer outpatient ancillary services that compete with certain services offered by hospitals. Finally, nonprofit hospitals such as Obligor's also compete for patient volume with an increasing number of for-profit hospitals.

### **Fluctuations in Market Value of Investments**

*General.* Earnings on its investments have historically provided the Obligor an important source of cash flow and capital appreciation to support its programs and services, to finance its capital expenditure investments and to build its cash reserves. Historically the value of both debt and equity securities has fluctuated and, in some instances, the fluctuations have been quite significant. No assurances can be given that the market value of the Obligor's investments will grow, or even remain at its current level and there is no assurance that such market value will not decline.

*Pension Funding Impact.* Changes in market interest rates and debt and equity market fluctuations may have an impact on the Obligor's pension fund liabilities and its requirements for funding its related pension

expenses. Like any other entity with pension fund liabilities, the Obligor finds that increases or decreases in interest rates have an impact on the assumed earnings rates on pension assets needed to match pension fund liabilities, which accordingly affects the levels of actuarial pension investment assets required to meet future pension obligations. Consequently, any substantial and sustained decline in long-term interest rates could have the effect of increasing the Obligor's current pension funding requirements. No assurance can be given that the Obligor will not be required to make increased pension funding payments in this or other circumstances.

### **Factors Affecting Real Estate Tax Exemption**

In recent years various State and local legislative, regulatory and judicial bodies have reviewed the exemption of nonprofit corporations from real estate taxes. Various State and local government bodies have challenged with increasing frequency and success the tax-exempt status of such institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. The real estate tax- exempt status of the Borrower's sites at Harrisburg Hospital and Polyclinic Hospital was challenged in 1994. In 1998, the Borrower entered into a settlement agreement with the School District of the City of Harrisburg, the City of Harrisburg, the County of Dauphin and the Board of Assessment Appeals of the County of Dauphin to terminate the challenge to its real estate tax-exempt status for the Harrisburg Hospital and Polyclinic Hospital sites. Under the settlement agreement, the Borrower's exemption from the payment of real estate taxes for such sites was restored for tax years 1994 through 2001. The Borrower agreed to pay \$7 million total for tax years 1994 through 1998 and \$1 million per year for tax years 1999, 2000 and 2001. In December 2003, the Borrower entered into a new settlement agreement with the School District of the City of Harrisburg, the City of Harrisburg, the County of Dauphin, and the Board of Assessment Appeals of the County of Dauphin pursuant to which the Borrower's payment in lieu of taxes was reduced from \$1 million per year to \$445,000 per year. The new agreement continues through December 31, 2008 and renews automatically unless any party gives 5 months notice of non renewal. The real estate tax exempt status of the Seidle

Memorial Hospital site has not been challenged. The CGOH site has been determined by the Pennsylvania Supreme Court to not be subject to real estate taxes and no payment in lieu of taxes are made by the Borrower with respect to the CGOH site. No assurance can be given that the Borrower will retain its real estate tax exemption for such sites without challenge throughout the term of the 2005 Bonds.

### **Other Risk Factors**

In the future, the following additional factors, among others, may adversely affect the operations of the Obligor to an extent that cannot be determined at this time: (i) adoption of legislation which would establish a national health program; (ii) increased competition in the future from other hospitals and health care providers if such providers were to expand or establish additional facilities and services or to offer comparable health care services at lower prices to the population now serviced by an Obligor; (iii) employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs; (iv) reduced need for hospitalization or other services arising from increased utilization management by third party payors or from future medical and scientific advances; (v) reduced demand for the services of an Obligor that might result from decreases in population in such Obligor's service area; (vi) increased unemployment or other adverse economic conditions in an Obligor's service area which would increase the proportion of patients who are unable to pay fully for the cost of their care; (vii) any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Obligor; (viii) efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety measures, and increased outpatient care; (ix) regulatory actions which might limit the ability of an Obligor to undertake capital improvements to its facilities or to develop new services; (x) increased cost and/or limits on the availability of medical malpractice insurance; (xi) decrease in availability or receipt of grants, or in receipt of contributions or bequests, (xii) potential depletion of the Medicare trust fund and (xiii) the occurrence of

terrorist activities, or natural disasters, including floods and earthquakes, which could damage Obligor's facilities or otherwise impair the operations of Obligor and the generation of revenues from Obligor's facilities.

### **CONTINUING DISCLOSURE**

Pursuant to the Continuing Disclosure Agreement, the Obligated Group has agreed to provide certain annual financial information and notification of material events to Beneficial Owners of the Bonds. The form of the Continuing Disclosure Agreement containing the covenants made by the Borrower, on behalf of itself and future Members of the Obligated Group, thereunder for the benefit of the Beneficial Owners of the Bonds is attached in APPENDIX G—"FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made by the Obligated Group in order to assist the Underwriter in complying with the Rule. The Obligated Group has never failed to comply in any material respect with any previous undertaking with respect to the Rule to provide annual reports or notices of material events.

Failure by the Obligated Group to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Master Indenture or the Indenture. The holders of the Bonds are limited to the remedies described in the Continuing Disclosure Agreement. Failure by the Obligated Group to comply with the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, any such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

### **ABSENCE OF MATERIAL LITIGATION**

#### **Issuer**

There is no controversy or litigation of any nature now pending or, to the knowledge of its officers, threatened against the Issuer restraining or enjoining the execution, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Issuer taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of the Issuer relating to the execution or delivery of the Bonds.

#### **Borrower**

There is no litigation pending or, to the knowledge of the Borrower, threatened which could have a material adverse effect upon the business, operations, financial position or properties of the Obligated Group.

### **LEGAL MATTERS**

Certain legal matters incident to the delivery of the Bonds are subject to the approving opinion of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, as Bond Counsel to the Issuer. A complete copy of the proposed form of opinion of Bond Counsel is set forth as APPENDIX E. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Borrower by McNees, Wallace & Nurick LLC Harrisburg, Pennsylvania; by the Issuer by Nauman Smith Shissler & Hall, LLP, Harrisburg, Pennsylvania; and for the Underwriter by Pepper Hamilton, LLP, Philadelphia, Pennsylvania. These law firms undertake no responsibility for the accuracy, completeness or fairness of this Official Statement, except as otherwise stated in their respective opinions delivered upon the delivery of the Bonds, and none of such opinions is addressed to or may be relied upon by purchasers of the Bonds.

### **TAX MATTERS**

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the

Bonds, assuming the accuracy of the certifications of the Issuer and the Borrower and continuing compliance by the Issuer and the Borrower with the requirements of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on Bonds held by a corporation (other than an S corporation, regulated investment company, real estate investment trust, or real estate mortgage investment conduit) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Interest on Bonds held by foreign corporations may be subject to the branch profits tax imposed by the Code.

Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits, certain S corporations and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Bonds. No opinion is expressed as to these matters.

Payments of interest on tax-exempt obligations, including the Bonds are generally subject to IRS information reporting by the payor and "backup withholding" if the recipient has not furnished the payor with a completed Form W-9, certifying the recipient's tax identification number or basis for exemption.. "Backup withholding" means that the payor will withhold tax from the interest payments at the backup withholding rate, currently 28%.

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

In the opinion of Bond Counsel, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds.

On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision on the issue of whether the U.S. Constitution precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of obligations such as the Bonds, including whether interest on the Bonds is exempt from Pennsylvania income tax.

## **UNDERWRITING**

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter") at an aggregate purchase price of \$64,350,343.75 (which represents the par amount of the Bonds, less the Underwriter's discount of \$274,656.25). The Bond Purchase Agreement, which the Underwriter anticipates will be executed on October 22, 2007, provides that the Underwriter will be obligated to purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the Issuer and the Borrower. The Bond Purchase Agreement contains the agreement of the Borrower to indemnify the Underwriter and the Issuer against certain liabilities to the extent permitted by law. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriter.

## **INDEPENDENT AUDITORS**

The financial statements of the System as of and for the years ended June 30, 2007 and 2006, which includes supplemental data for the Obligated Group as of and for the year ended June 30, 2007, included in

this Official Statement in APPENDIX B, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing therein.

## **RATINGS**

The Bonds are expected to receive ratings of “Aaa” and “AAA” by Moody’s Investors Service (“Moody’s”) and by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), respectively, based on the issuance by the Insurer of its Municipal Bond Insurance Policy for the Bonds. The Bonds have also been assigned ratings of “A2” and “A” by Moody’s and S&P, respectively, without consideration of the Municipal Bond Insurance Policy.

The ratings reflect only the views of the respective ratings agency, and any explanation of the significance of such ratings should be obtained from Moody’s and S&P at the following addresses: Moody’s Investors Service, 99 Church Street, New York, NY 10007; and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., Public Finance Department, 55 Water Street, New York, NY 10041. In order to obtain such ratings, the Borrower furnished to the rating agencies certain information and materials, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that the ratings will be maintained for any given period of time or that they will not be revised downward or withdrawn entirely by a rating agency, if, in its judgment, circumstances so warrant. The Borrower undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds.

The Borrower expects to furnish to each rating agency such information and materials as it may request. The Borrower, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Bonds.

## **MISCELLANEOUS**

The attached Appendices are integral parts of this Official Statement and should be read together with the balance of this Official Statement.

All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.



This Official Statement is not to be construed as a contract or agreement between the Issuer or the Members of the Obligated Group and the purchasers or Holders of any Bonds.

The Issuer has authorized the execution and delivery of, and the Borrower and the Members of the Obligated Group have approved, this Official Statement.

**DAUPHIN COUNTY GENERAL AUTHORITY**

By: /s/ Henry M. Liptak  
Chairman

**APPROVED:**

**PINNACLE HEALTH SYSTEM**

By: /s/ Frederick Fetters  
Treasurer

**PINNACLE HEALTH HOSPITALS**

By: /s/ Frederick Fetters  
Treasurer

**PINNACLE HEALTH MEDICAL SERVICES**

By: /s/ Frederick Fetters  
Treasurer

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**APPENDIX A**  
**INFORMATION CONCERNING THE OBLIGATED GROUP**

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## **OVERVIEW AND BACKGROUND**

Pinnacle Health System (the “System”) is located in Harrisburg, Pennsylvania and was created on December 31, 1995, as a result of the consolidation of Capital Health System Services (“Capital”) and Polyclinic Health System (“Polyclinic”). In addition, on December 31, 1995, Pinnacle Health Hospitals (the “Hospital”) was formed as a result of the consolidation of Harrisburg Hospital and Seidle Memorial Hospital, both controlled by Capital, and Polyclinic Medical Center, controlled by Polyclinic. Capital and Polyclinic were long time competitors in the central Pennsylvania market. Effective August 1, 1998, Community General Osteopathic Hospital, Inc. was merged into the Hospital. The System is the largest healthcare system in central Pennsylvania and one of the largest in the Commonwealth of Pennsylvania. The System is a charitable organization committed to improving the health and quality of life in central Pennsylvania. The System has over 3,700 full time equivalent employees, over 1,100 physicians on its combined medical staff and 678 licensed beds in four hospital complexes. The System and its affiliates provide a full continuum of care to both adults and children. Services include comprehensive inpatient and outpatient medical, surgical, psychiatric, rehabilitation, and long-term care. Other services include primary and specialty physician care, home care, hospice, and radiation therapy. The Hospital, which owns and operates Harrisburg Hospital, Community General Osteopathic Hospital, Polyclinic Hospital, Seidle Memorial Hospital, and the Frederickson Outpatient Health Center, has Accreditation Council For Graduate Medical Education (ACGME) accredited teaching programs in internal medicine, surgery and American Osteopathic Association (AOA) accredited teaching programs in family practice, internal medicine, surgery, and orthopedics. In addition, it has affiliated programs with several other hospitals and universities. Pinnacle Health Medical Services (“Services”) operates 11 primary care physician and 10 specialty practices and five clinics providing over 299,000 physician visits a year.

The System, the Hospital and Services are Pennsylvania not-for-profit corporations which are exempt from Federal income taxes by virtue of being organizations described in Section 501(c)(3) of the Internal Revenue Code. The System, the Hospital and Services are governed by separate voluntary boards of directors whose members are community leaders committed to improving the quality of health in central Pennsylvania.

## **MEMBERS OF THE OBLIGATED GROUP**

The Obligated Group consists of the System, the Hospital and Services.

### **Pinnacle Health System**

The System is the sole corporate member of the Hospital and Services. It provides management services for the integrated delivery system controlled by the System. These services include planning and marketing, legal and government relations, community relations and fund raising, finance, managed care, operations and information systems management. Costs related to these activities are allocated to System affiliates under various formulas. The System operates a cash management system under which all cash is transferred from wholly owned/controlled affiliates to the System, which then makes all disbursements.

### Corporate Authority and Role

The System has no corporate members and is governed by a Board of Directors (the “System Board”). The System Board has full authority to conduct and manage the business affairs of the System and to elect and remove corporate officers and board members of the System affiliates and subsidiaries. With respect to the Hospital and Services, the System Board has the authority to appoint the Chairperson and Vice Chairperson of the Board of the Hospital and Services, approve annual operating and capital budgets, approve strategic plans, approve the issuance of all Hospital debt over \$500,000 for Services, approve by-

laws and articles of incorporation and any amendments thereto, approve investment policies, adopt employee benefit plans, approve any dissolution, merger or consolidation, approve the sale, leasing or transfer of assets, select independent auditors, approve the addition or deletion of material programs, and approve contracts with unrelated parties for the management of substantially all activities.

### Pinnacle Health System Affiliates

The System controls the operations of eight corporations:

#### Direct Care Providers:

- *Pinnacle Health Hospitals* - an acute care hospital operating from five sites.
- *Pinnacle Health Home Care & Hospice* – a home care and hospice services provider operating from three sites.
- *Pinnacle Health Medical Services* - operating 11 primary care physician and 10 specialty practice sites, five clinics and employing physicians throughout Central Pennsylvania.
- *Pinnacle Health Emergency Department Services, LLC* – providing emergency physician services in the Hospital’s emergency rooms.
- *Community Life Team* – an emergency medical service in the Harrisburg area.

#### Supporting Affiliates:

- *Pinnacle Health Foundation* - the fund raising arm of the System.
- *United Health Risk, Ltd.* - a captive insurance company incorporated in Bermuda and insuring certain System liability and property risks.
- *United Central Pennsylvania Reciprocal Risk Retention Group* – a Vermont reciprocal insurance company insuring certain System malpractice risks.

The System also participates in other joint ventures as described under the caption “COLLABORATIONS AND JOINT VENTURES.”

### **Pinnacle Health Hospitals**

The Hospital operates an acute care teaching hospital from five sites: Harrisburg Hospital, Polyclinic Hospital, Seidle Memorial Hospital, Community General Osteopathic Hospital and Frederickson Outpatient Health Center. It was formed by the consolidation of Harrisburg Hospital, Polyclinic Hospital, and Seidle Memorial Hospital on December 31, 1995. Community General Osteopathic Hospital, Inc. was merged into the Hospital on August 1, 1998.

### Corporate Authority and Role

The Board of Directors of the Hospital (the “Hospital Board”) has full power and authority to conduct and manage the business affairs of the Hospital, subject to the powers reserved to the System Board. The primary role of the Hospital Board is to carry out functions and exercise such powers as are required to satisfy regulatory requirements for licensure and accreditation of the Hospital.

### Governance

The Hospital is governed by a Board of Directors. The current Board is composed of the same members as the System Board.



## **Pinnacle Health Medical Services**

Services is the physician practice corporation for the system. It provides physician professional services from 11 primary care, 10 specialty care practices and five clinics. It provided over 299,000 physician visits in 2007. Services is also the general partner in the West Shore Surgery Center.

### Corporate Authority and Role

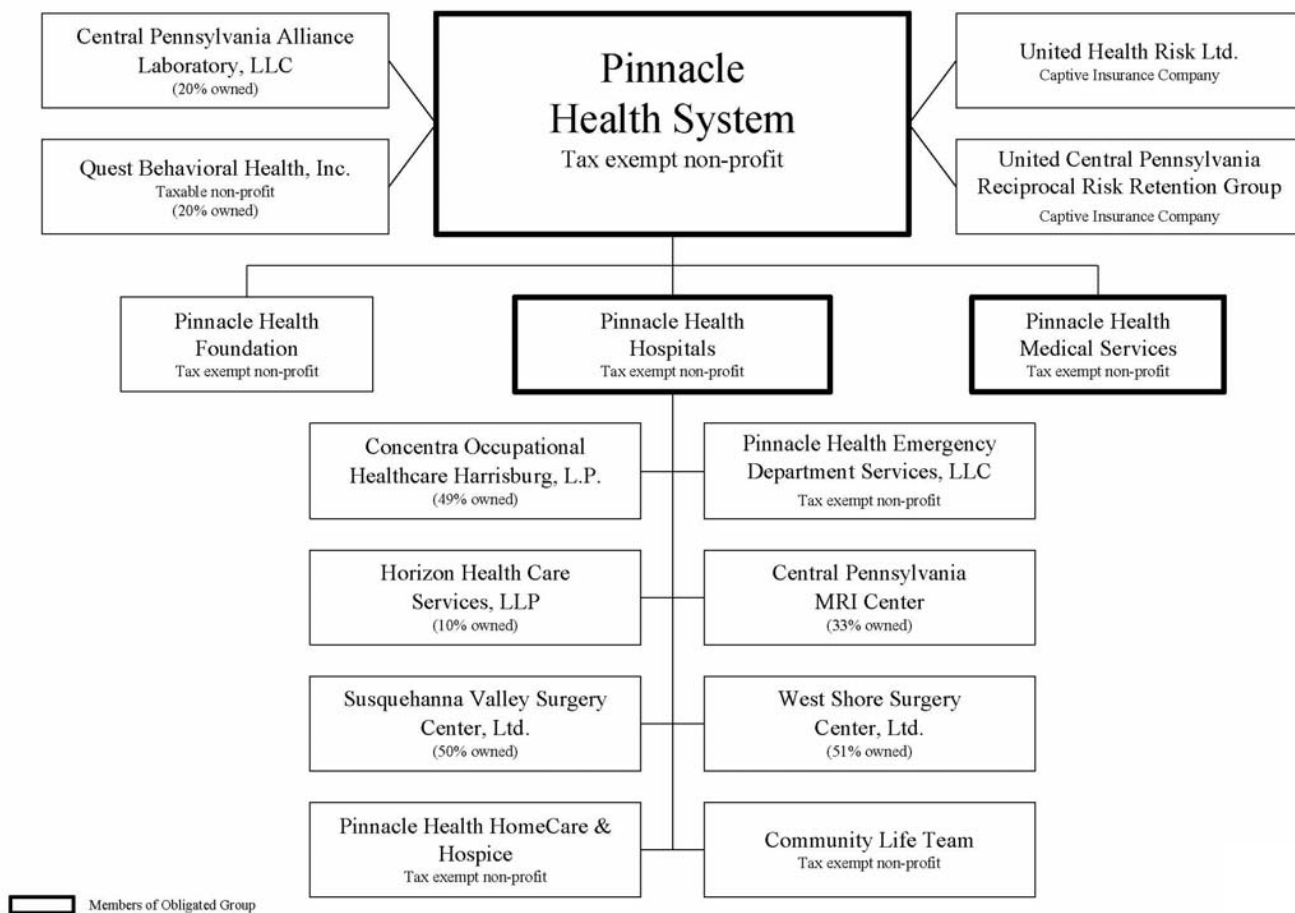
The Board of Directors of Medical services (the “Medical Services Board”) has full power and authority to conduct and manage the business affairs of the corporation, subject to the powers reserved to the System Board.

### Governance

Services is governed by a Board of Directors.

An organizational chart of the System, including the System, the Hospital, Services and their affiliates is set forth below:

## Pinnacle Health System Organization Chart



## **FACILITIES**

The principal facilities of the System consist of five sites:

The Harrisburg Hospital site is located in downtown Harrisburg. The site consists of 11.3 acres on which are located a hospital building totaling 561,254 square feet, two parking structures for 763 cars, an office building with 104,553 square feet, which is used for medical offices, education, and administration, a 58,100 square foot building that houses a consolidated laboratory and additional medical offices. A second office building totaling 117,526 square feet is located near the site and is used for administrative offices. Services include a wide range of acute inpatient, emergency and outpatient care. There are 410 licensed beds at this site.

The Community General Osteopathic Hospital site is located in Lower Paxton Township, Dauphin County, approximately five miles from both Harrisburg Hospital and Polyclinic Hospital. The site consists of 28.8 acres on which are located four buildings totaling 368,698 square feet, including a 78,473 square foot rehabilitation hospital. Services include acute inpatient, rehabilitation, emergency and outpatient care. There are 189 licensed beds at this site.

The Frederickson Outpatient Health Center is located in Hampden Township on the opposite side of the Susquehanna River from the City of Harrisburg. The site consists of 37.2 acres, on which is located a 132,602 square foot outpatient facility. The facility houses medical office space, an ambulatory surgery center and clinical areas providing a wide range of outpatient diagnostic and treatment services. In April 2007, the Hospital leased one-half acre of land adjacent to the facility to a developer for the construction of a 67,000 square foot medical office building.

The Polyclinic Hospital site is located in the uptown section of the City of Harrisburg. The site consists of 4.6 acres on which are located 3 buildings totaling 385,329 square feet and a parking structure for 108 cars. Services include psychiatry and outpatient care. There are 44 licensed beds at this site.

The Seidle Memorial Hospital site is located in Mechanicsburg on the opposite side of the Susquehanna River from Harrisburg. The site consists of 5.5 acres, on which is located a hospital building totaling 86,289 square feet. Services include skilled nursing, urgent care, and outpatient diagnostic and treatment services. There are 35 licensed beds at this site. In August 2007, the Hospital entered into a Letter of Intent to sell Seidle Memorial Hospital to a third party. It is anticipated that the sale will be completed by December 31, 2007.

Other facilities owned or leased by the System at various locations throughout the service area include rental housing and apartments, medical offices, imaging centers, warehouse space, and physical therapy centers.

## **SERVICES**

The Hospital provides a full range of diagnostic and therapeutic services to inpatients and outpatients, with particular emphasis on obstetrics and neonatology, cardiology and cardiovascular surgery, orthopedics, hematology and oncology, pediatrics, neurosurgery, renal transplant, and behavioral medicine.

Special services, facilities and programs provided by the Hospital include: a full range of women and children services including high risk obstetrics, a level three neonatal unit and outpatient health clinics; cardiology services, including cardiac catheterization, balloon angioplasty, open heart surgery and cardiac rehabilitation, nuclear cardiology; radiation oncology; renal dialysis; kidney transplantations; and

ambulatory surgery. The Hospital also maintains a 44-bed psychiatry unit, a 55-bed rehabilitation unit and 35 skilled nursing and convalescent beds.

Services provides physician and psychology professional services from 11 primary care, 10 specialty care and five clinics which provide over 299,000 physician visits in 2007.

### **COLLABORATIONS AND JOINT VENTURES**

The System participates in collaborative arrangements with other institutions either through the Hospital, Services or through other affiliates. The following is a list of significant relationships:

*Central Pennsylvania MRI Center ("CPMRI")* - a 33% owned joint venture between the Hospital, Holy Spirit Ventures, Inc., an affiliate of Holy Spirit Hospital, and non-referring physicians. CPMRI operates a freestanding MRI center located in Hampden Township, Cumberland County, approximately four miles from Seidle Memorial Hospital and seven miles from Harrisburg Hospital. Financing for CPMRI has been provided by equity invested by partners and bank loans.

*Concentra Occupational Healthcare Harrisburg, L.P.* - a 49% owned joint venture with Concentra Health Services, Inc. to provide occupational medicine in the Harrisburg area. The joint venture operates two centers and is funded by equity contributions from the partners.

*Central Pennsylvania Alliance Laboratory, LLC* - a 20% owned laboratory providing group purchasing and laboratory services to six hospitals. It is funded by equity contributions.

*Quest Behavioral Health, Inc.* - a 20% owned corporation, which manages behavioral health risk. It is funded by equity contributions.

*Horizon Health Care Services, LLP* - a 10% owned home infusion therapy partnership with Lancaster General Hospital and Reading Hospital. It is funded by equity contributions.

*Susquehanna Valley Surgery Center, LLC* - a 50% owned joint venture with physicians. Located on the Community General Osteopathic Hospital campus, the center has six operating rooms and is funded by equity contributions and bank loans.

*West Shore Surgery Center, Ltd.* - a 51% (49% by the Hospital and 2% by Services, the general partner) owned joint venture with physicians. Located at the Frederickson Outpatient Health Center, it has six operating rooms and is funded by equity contributions and bank loans.

## COMPETITIVE ENVIRONMENT

### Service Area

The Hospital has defined its Primary Service Area (PSA) as a grouping of contiguous zip codes from which it receives approximately 80 percent of its total inpatient discharges.

As defined, the Hospital's PSA consists of 32 contiguous zip codes from portions of four counties in the Greater Harrisburg Area: Dauphin, Cumberland, Perry, and York.

The table below contains a market share analysis for calendar years 2004 through 2006 for the Hospital for communities from which the Hospital drew more than 400 of its inpatient discharges since 2004. Zip code level data, as released by the Pennsylvania Health Care Cost Containment Council (PHC4), was used to produce the analysis.

PO Name	CY 2004			CY 2005			CY 2006		
	TOTAL Discharges	PHH Discharges	Share	TOTAL Discharges	PHH Discharges	Share	TOTAL Discharges	PHH Discharges	Share
Lower Paxton Twp	6,489	4,503	69.4%	6,886	4,857	70.5%	7,117	4,869	68.4%
Harrisburg	4,948	3,748	75.7	5,012	3,778	75.4	5,096	3,735	73.3
Mechanicsburg	7,188	2,315	32.2	7,146	2,459	34.4	7,496	2,578	34.4
Susquehanna Twp	3,213	2,349	73.1	3,392	2,429	71.6	3,587	2,564	71.5
Swatara Twp	3,726	2,468	66.2	3,649	2,446	67.0	3,668	2,395	65.3
Penbrook Boro	1,931	1,510	78.2	2,014	1,521	75.5	2,014	1,502	74.6
Middletown	2,815	1,516	53.9	2,806	1,535	54.7	2,787	1,422	51.0
Steelton	1,704	1,288	75.6	1,835	1,418	77.3	1,793	1,317	73.5
Camp Hill	4,598	1,250	27.2	4,364	1,321	30.3	4,296	1,296	30.2
New Cumberland	2,034	777	38.2	1,931	767	39.7	2,061	839	40.7
Enola	1,905	644	33.8	1,871	753	40.2	1,944	752	38.7
Hummelstown	1,937	616	31.8	2,003	679	33.9	2,035	688	33.8
Halifax	858	558	65.0	902	637	70.6	899	621	69.1
Millersburg	900	566	62.9	897	587	65.4	899	584	65.0
Dillsburg	1,657	512	30.9	1,663	547	32.9	1,728	548	31.7
Duncannon	1,205	437	36.3	1,222	480	39.3	1,217	514	42.2
Etters	951	383	40.3	943	420	44.5	1,036	432	41.7
Newport	929	409	44.0	945	422	44.7	982	425	43.3
Other PSA Communities	6,407	2,362	36.9	6,663	2,627	39.4	6,656	2,523	37.9
<b>TOTAL IN PSA</b>	<b>55,395</b>	<b>28,211</b>	<b>50.9%</b>	<b>56,144</b>	<b>29,683</b>	<b>52.9%</b>	<b>57,311</b>	<b>29,604</b>	<b>51.7%</b>

**Source:** Pennsylvania Health Care Cost Containment Council; The Market Planner Plus, Solucient.

**Note:** Communities are defined by the zip codes that approximate their boundaries.

### Population

The population of the PSA is forecasted to increase by 2.5 percent from CY 2006 to CY 2011. The age 55 and older population within the service area is forecasted to increase by 15.4 percent during that period.

	<u>CY 2006 Population</u>	<u>Forecasted CY 2011 Population</u>	<u>Forecasted Growth 2006-2011</u>	<u>% Growth 2006-2011</u>
Total Population	441,707	452,811	11,104	2.5%
55 and Older Population	115,436	133,243	17,807	15.4%

**Source:** The Market Planner Plus, Solucient using data from Claritas, Inc.

## Competitors and Market Share

Within its PSA, the Hospital competes with two acute care and one specialty rehabilitation hospital. To a lesser degree, the Hospital competes with a community hospital located west of the PSA.

Acute care hospitals within the PSA:

Holy Spirit Hospital – a licensed 332-bed acute, non-teaching, not-for-profit hospital owned by the Sisters of Christian Charity Healthcare Corporation, located in Cumberland County, with a 21.7 percent market share within the PSA.

Penn State Milton S. Hershey Medical Center – a licensed 479-bed academic medical center affiliated with the Pennsylvania State University College of Medicine, offering tertiary and quaternary services, located in Dauphin County, with a 16.3 percent market share within the PSA.

Specialty rehabilitation hospital within the PSA:

HealthSouth Rehab of Mechanicsburg – a licensed 103-bed, for-profit, rehabilitation hospital, located in Cumberland County, with a 1.4 percent market share in the PSA.

Competitor outside the PSA

Carlisle Regional Medical Center – a licensed 165-bed acute, non-teaching, for-profit hospital owned by Health Management Associates, Inc., located in Cumberland County, with a 0.8 percent market share in the PSA.

Other competitors located outside the PSA account for 8.2 percent of discharges originating from within the PSA.

The following table provides a comparative overview of the Hospital and its immediate competitors for calendar year 2006.

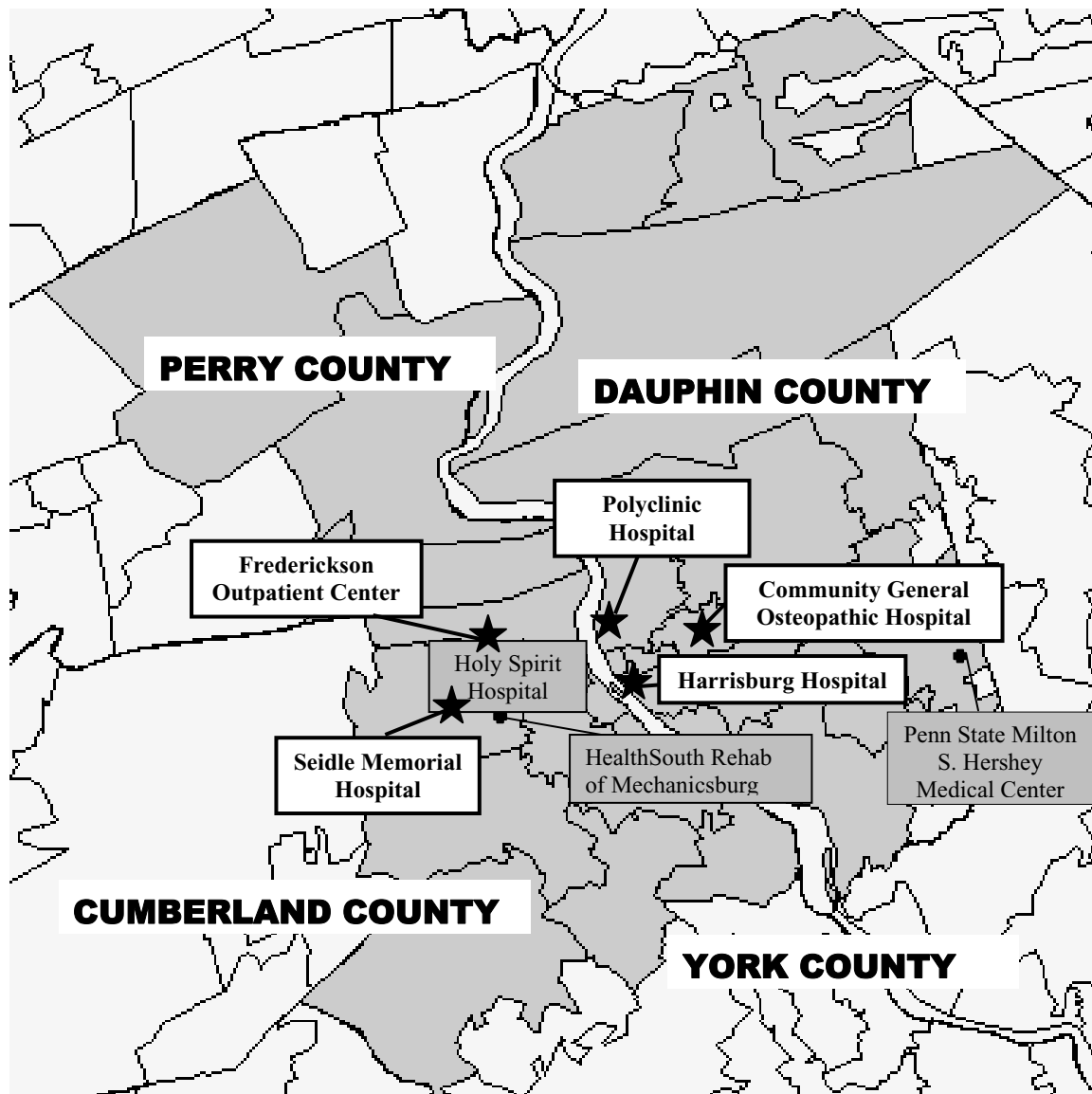
### Comparative Overview of Major Competitors

	Set-Up Beds*	CY 2006		ALOS	Occupancy*	CY 2006		Share from PinnacleHealth PSA**
		Total Dsch**	Total Pt Days**			PSA Dsch**	PSA Pt Days**	
<b>Pinnacle Health Hospitals</b>	635	37,463	175,945	4.70	71.6%	29,604	140,340	51.7%
<b><u>General Acute Care Hospitals within the PSA</u></b>								
Holy Spirit Hospital	302	15,908	76,669	4.82	67.1%	12,452	59,712	21.7%
Penn State Milton S Hershey Medical Center	449	27,159	151,752	5.59	88.1%	9,342	46,604	16.3%
<b><u>Specialty Rehab Hospital within the PSA</u></b>								
HealthSouth Rehabilitation of Mechanicsburg	83	1,008	16,718	16.59	56.4%	804	13,063	1.4%
<b><u>Providers Outside the PSA</u></b>								
Carlisle Regional Medical Center	165	6,665	31,500	4.73	49.7%	433	2,118	0.8%
<b>All Others</b>	N/A	1,894,783	9,818,558	5.18	N/A	4,676	51,478	8.2%
<b>Total/Average</b>	<b>1,634</b>	<b>1,982,986</b>	<b>10,271,142</b>	<b>5.18</b>		<b>57,311</b>	<b>313,315</b>	<b>100.1%</b>

\* FY 2005 - Pennsylvania Department of Health Annual Hospital Questionnaire (excludes skilled nursing beds) - Reports 2A&2B.

\*\* CY 2006 - The Market Planner Plus, Solucient; Pennsylvania Health Care Cost Containment Council.

The Map below illustrates locations of the Hospital, its primary service area and the locations of competitors.



## **BOARD OF DIRECTORS**

The System and Hospital are governed by a Board of Directors composed of the President and Chief Executive Officer, the President of the Medical Staff of the Hospital, the President of Pinnacle Health Auxiliary, the Chair of the Pinnacle Health Foundation, the Chair of Pinnacle Health Medical Services and 13 to 20 additional directors elected by the System Board. The terms of the System Board members expire based on classes assigned whereby each class will expire in one to four years following the 1998-1999 System Board. Vacancies will then be filled by a majority vote of the directors. Directors may not serve more than two consecutive four-year terms without a one-year absence. The Board meets seven times per year.

The current Directors of the System and Hospital are as follows:

<b><u>Member</u></b>	<b><u>Initial Year of Election</u></b>	<b><u>Principal Business Affiliation</u></b>
Paul B. Shannon, Chair	2001	Vice Chairman/President, Stabler Companies Inc.
Cynthia T. Tolsma, Vice Chair	2003	Vice President, Nationwide Insurance
Clarence E. Asbury	2007	Retired CPA, McKonly & Asbury
Edna V. Baehre, PhD.	2004	President, Harrisburg Area Community College
Ted Bernstein	2006	President, Just Cabinets Furniture Company
John O. Campbell	2005	Vice President, M&T Bank
Susan S. Cohen	2002	Retired-Exec Dir., Bipartisan Com. Pa. House of Rep.
George Grode	2007	Retired-Vice President, Highmark Blue Shield
Felix Gutierrez, MD	2005	Physician, Moffitt Heart & Vascular Group
Keith Haidet, MD	2006	Physician, Quantum Radiology, President, Med. Staff
M. Richard Kleiman	2005	Sr. Realtor, NAICIR
Paul A. Kunkel, MD	2004	Physician, Kunkel Surgery
Roger Longenderfer, MD	2001	President & CEO, Pinnacle Health System
Robert L. Lyon	2005	President & CEO, Millers Mutual Ins. Group
Deborah S. Miller	2004	Account Executive, Z-Band, Inc.
Douglas A. Neidich	2003	Gen. Manager, Amphenol InterCon Systems, Inc.
Frank R. Rudy, MD	2000	Physician, Pathology Assoc. of Central Pennsylvania
Karen Rugen	2006	Senior Vice President, Rite Aid Corporation



<b><u>Member</u></b>	<b><u>Initial Year of Election</u></b>	<b><u>Principal Business Affiliation</u></b>
Larry L. Sollenberger, MD	2004	Physician
Barbara J. Terry, RN	2002	Public Health Consultant
Helen Tzanis	2007	Retired, President Pinnacle Health Auxiliary
Dennis Walsh	2007	Partner, Bravo Group Governmental Relations

Services is governed by a Board of Directors composed of the President and Chief Executive Officer of the System and eight to twelve additional directors elected by the System Board. Services Board members serve one-year terms and may not serve more than eight consecutive one-year terms. The Board meets a minimum of four times per year.

The current Directors of Services are as follows:

<b><u>Member</u></b>	<b><u>Initial Year of Election</u></b>	<b><u>Principal Business Affiliation</u></b>
Deborah S. Miller, Chair	2004	Account Executive, Z-Band, Inc.
Robert C. Buckingham, MD, Vice Chair	2004	Retired Physician
Carole Forker Gibbons	2005	Retired
Dana Kellis, MD	2005	Chief Medical Officer, Pinnacle Health System
Roger Longenderfer, MD	2001	President & CEO, Pinnacle Health System
Neysa O. Maisel	2005	Community Volunteer
Brian Uniacke, MD	2006	Medical Director, Pinnacle Health Primary Care
Nathan H. Waters, Jr., Esq.	2003	Attorney, Harrisburg School District
R. Timothy Weston, Esq.	2006	Attorney, Kirkpartick, Lockhart, Preston, Gates Ellis, LLP

From time to time, the System and its affiliates do business with firms with which their directors are affiliated. Management believes that such transactions are at terms no less favorable to the System than could be obtained from unrelated parties. The System's conflict of interest policy permits such transactions only if the director discloses the conflict, abstains from voting on any matters related thereto and the action is approved by a majority of a quorum of the disinterested Board members.

The standing committees of the System Board are the Executive; Compensation, Finance and Audit; Investment; Governance; Professional Affairs; and Strategic Planning Committees. The Hospital and Services Boards have no standing committees.

### **PINNACLE HEALTH SYSTEM SENIOR MANAGEMENT**

The operations of the System are managed by the President and Chief Executive Officer and four Senior Vice Presidents. The System Board appoints the President and Chief Executive Officer. Other officers and members of senior management, including the System's Senior Vice Presidents and the Vice President for Business Development and Payer Relations for the System, are appointed by the President and Chief Executive Officer. Current members of senior management are as follows:

*Roger Longenderfer, MD, 59*, President and Chief Executive Officer. Dr. Longenderfer joined the System in October 1998 as Senior Vice President for Medical Affairs and assumed his present position on July 1, 2001. From 1994 to 1998, he served as Vice President for Medical Affairs at Mercy Hospital System (MHSO) in Oklahoma. He received his undergraduate degree from the Pennsylvania State University, received his medical degree from Hahnemann Medical College in 1979 and received his Masters in Business Administration from Oklahoma City University in 1998. He completed his family practice residency at Geisinger Medical Center in 1982. Dr. Longenderfer is a retired diplomat with the American Board of Family Practice and a member of the American College of Physician Executives, the American College of Healthcare Executives, and the American Academy of Family Practice. He is licensed to practice medicine in Oklahoma and Pennsylvania.

*Frederick G. Feters, CPA, 65*, Senior Vice President and Chief Financial Officer. Mr. Feters served as Senior Vice President and Chief Financial Officer of Polyclinic from 1993 until the consolidation forming the System in 1995. From 1989 to 1993, he served as Vice President and Chief Financial Officer of Cedars Medical Center in Miami, Florida, and from 1984 to 1989 as Senior Vice President and Chief Financial Officer of St. Luke's Health System in Phoenix, Arizona. From 1966 to 1984, he served with Arthur Young and Co. in Detroit, Michigan, including six years as a partner in the firm. He has a Bachelor of Arts degree with a major in accounting from Michigan State University and Juris Doctor Degree from the University of Michigan. He is a member of the Michigan Association of Certified Public Accountants, the American Association of Certified Public Accountants, the State Bar of Michigan and the Healthcare Financial Management Association. Mr. Feters will retire on October 31, 2007. A national search is underway to select his replacement.

*Philip W. Guarneschelli, 46*, Senior Vice President and Chief Operating Officer. Mr. Guarneschelli served as Senior Vice President for Support Services prior to assuming his current position. He has over twenty years experience in facilities and corporate real estate and hospital administration. Mr. Guarneschelli received his Bachelor of Science in business administration from the Indiana University of Pennsylvania in 1984 and his MBA from Allentown College. He is a past president of the local chapter of the Exchange Club, and executive board member for the Keystone Area Council of the Boy Scouts of America, and past president of the International Facilities Management Association.

*Christopher P. Markley, 49*, Senior Vice President, Community and Governmental Relations. Mr. Markley joined the System in 1988 after four years of private practice with the law firm of Pepper, Hamilton & Scheetz where he focused primarily on the representation of health care institutions. In addition, he served as an Adjunct Assistant Professor of Law at the Dickinson School of Law from 1989 to 1999. Mr. Markley has a Bachelor of Arts degree from Lafayette College with a major in International Affairs and a minor in Economics and a Juris Doctor degree from Dickinson School of Law. He is a member of the Pennsylvania Bar Association and the Dauphin County Bar Association.

*Dana Kellis*, M.D, 51, Senior Vice President for Medical Affairs and Chief Medical Officer. Prior to coming to the System in 2001, Dr. Kellis served as the Senior Vice President/Medical Director of Parkview Hospital in Fort Wayne, Indiana, a position he held since 1998. Prior to that, Dr. Kellis held several positions at Conemaugh Valley Memorial Hospital in Johnstown, Pennsylvania including Chairman, Department of Internal Medicine; Program Director, Internal Medicine Residency Program; Director, Medical Intensive Care Unit; Program Director, Transitional Year Residency Program and Associate Program Director, Internal Medicine Residency. He holds an MBA from the University of Pittsburgh's Katz School of Business and received his medical degree from Washington University School of Medicine in St. Louis, Missouri. He served his internship and residency in internal medicine at the Good Samaritan Medical Center in Phoenix, Arizona. He earned a B.S. in Chemistry from Brigham Young University in Provo, Utah. He is Board certified in Internal Medicine.

### **MEDICAL STAFF**

As of June 30, 2007, the Medical Staff of the Hospital consisted of 1,196 members. Members of the Medical Staff are assigned to one of the following staff categories: Active, Affiliate (no privileges) and Honorary (retired). Active members hold clinical privileges and provide patient care. The size of the categories of the Medical and Allied Health Staff are as follows:

<b><u>Category</u></b>	<b><u>Size</u></b>
Active Staff	803
Affiliate	80
Honorary	169
Allied Health Staff	144
	<u>1196</u>

The 803 members of the Active Staff include physicians (allopathic and osteopathic), oral surgeons and dentists and podiatrists. Allied health practitioners, such as psychologists, nurse practitioners, physician assistants and nurse midwives, are assigned to the Allied Health Staff and numbered 144 as of June 30, 2007.

Board certification in a specialty or sub-specialty, other than for department chairpersons, is not required for Medical Staff membership; however, 88% of the Active Staff is board-certified.

Members of the Medical Staff are either employed or community-based. Employed physicians (approximately 27.9% of the Active Medical Staff) are employed by the Hospital, Services or Pinnacle Health Emergency Department Services, LLC; all other physicians (approximately 72.1% of the Active Medical Staff) are categorized as community-based. The principal activities of the employed physicians include teaching, patient care and serving in various administrative capacities.

Exclusive contracts are in place System-wide for neonatology, pathology services and cardiac surgery.

As of June 30, 2007, the average age of the Active Staff members of Hospital was 49.5 years.

## Medical Staff Membership by Specialty

The following table summarizes by specialty the members of the Active Staff of the Hospital as of June 30, 2006, and admissions data for fiscal year 2007:

<b>Corporation Active and Courtesy Staff</b>					
	<b>Number of</b>	<b>Percent</b>	<b>Average</b>	<b>Admissions</b>	<b>Admissions as</b>
	<b>Physicians</b>	<b>Board Certified</b>	<b>Age</b>	<b>FY 2007</b>	<b>% of Total Admissions</b>
<b>MEDICINE DEPARTMENTS:</b>					
Cardiology	45	88.9%	48.0	4,658	12.47%
Gastroenterology	18	94.4	46.4	159	0.43
General Medicine	165	84.2	50.7	10,009	26.80
Hematology and Oncology	22	100.0	53.3	295	0.79
Infectious Diseases	5	100.0	48.6	166	0.44
Nephrology	10	100.0	47.2	23	0.06
Neurology	10	60.0	46.7	78	0.21
Pediatrics	86	91.9	48.8	5,473	14.65
Physical Medicine and Rehab	12	91.7	49.4	1,086	2.91
Pulmonary Diseases	8	100.0	50.9	246	0.66
<b>SURGERY:</b>					
Anesthesiology	49	89.8%	45.8	7	0.02%
Cardiovascular Surgery	11	81.8	50.2	615	1.65
General Surgery	35	77.1	52.1	2,464	6.60
Neurosurgery	4	100.0	58.0	782	2.09
Obstetrics/Gynecology	48	89.6	49.0	5,853	15.67
Ophthalmology	30	90.0	48.6	3	0.01
Oral Surgery	14	57.1	52.6	8	0.02
Orthopedic Surgery	43	90.7	49.3	3,662	9.80
Otolaryngology	9	100.0	50.1	64	0.17
Plastic and Maxillofacial Surg	8	87.5	55.5	61	0.16
Podiatry	13	53.8	38.7	6	0.02
Rheumatology	4	100.0	55.8	-	0.00
Urology	14	92.9	52.3	388	1.04
<b>OTHER:</b>					
Emergency Medicine	39	79.5%	46.8	143	0.38%
Pathology	9	100.0	54.4	-	0.00
Radiology	69	98.6	49.6	27	0.07
Psychiatry	23	78.3	52.0	1,077	2.88
<b>Total/Average</b>	<b>803</b>	<b>87.7%</b>	<b>49.5</b>	<b>37,353</b>	<b>100.00%</b>

The number of physicians on the Medical Staff as of June 30, 2007 increased by a net of three from June 30, 2006.

### Top Ten Admitters

The following table describes the top ten admitting physicians on the Medical Staff for the fiscal year ending June 30, 2007. These physicians accounted for approximately 16% of the total Hospital admissions. All of the physicians except the physical medicine and rehab physician, one pediatrician and two general medicine physicians belong to groups affiliated with the Hospital, which provides continuity of coverage and succession in the event of retirement or death.

#### Top Ten Admitting Physicians by Specialty

Specialty	Age	2007 Admissions	Admissions as % of Total
Pediatrics	63	943	2.53%
Physical Medicine & Rehab	43	762	2.04
Pediatrics	46	754	2.02
Pediatrics	71	643	1.72
Cardiology	42	593	1.59
Orthopedic Surgery	48	574	1.54
General Medicine	60	526	1.41
General Medicine	66	465	1.25
Pediatrics	48	454	1.22
General Medicine	58	418	1.12
<b>Total/Average</b>	<b>54.5</b>	<b>6,133</b>	<b>16.42%</b>

### EDUCATIONAL AFFILIATIONS AND PROGRAMS

#### Residents and Medical Students

The Hospital provides training for both medical students and residents in a number of specialties. Currently, there are Accreditation Council For Graduate Medical Education (ACGME) accredited residency programs in internal medicine and surgery, and American Osteopathic Association (AOA) accredited teaching programs in family practice, internal medicine, surgery, and orthopedics. There is also an ACGME accredited fellowship in Toxicology and AOA accredited fellowships in sports medicine and maternal and fetal medicine. These programs graduated 21 residents, 11 interns and one fellow in 2007.

There are also residents from Hershey Medical Center, York Hospital, Lancaster Regional Medical Center and Lehigh Valley Hospital who rotate through the Hospital. These programs include Surgery, Toxicology, Pediatrics, Emergency Medicine and OB/GYN. In 2007, a total of 212 residents rotated through these programs.

The Hospital also provides medical students opportunities for clinical experience. Agreements are in place with the Pennsylvania State University School of Medicine, the Philadelphia College of Osteopathic Medicine, the Drexel School of Medicine in Philadelphia, Pennsylvania and Erie College of Osteopathic Medicine. Medical students may select third or fourth year rotations in a number of specialties. In 2007, 329 medical students rotated through the Hospital's programs.

The Hospital has a modern surgery skills laboratory for the use of students, residents and the medical staff.

### **Nursing**

The Learning Institute at the System monitors the clinical experiences of all student nurses in the Hospital. Formal agreements are in place with nursing programs within south central Pennsylvania, which permit nurses to acquire their required clinical experience in the hospital setting. The Harrisburg Area Community College is a major affiliate in nursing education. The Hospital does not provide a hospital based nursing program.

### **Sponsored Training Programs**

The Hospital sponsors training programs in medical technology, radiological technology and ultrasound technology. The radiological technology program is a cooperative program with the Harrisburg Area Community College.

### **Research Activities**

The Hospital together with members of its medical staff is actively involved in pharmacological sponsored, device manufacturer sponsored and government sponsored research and investigator initiated trials. The Hospital generally provides funding for this work.

The Hospital is a participant in cancer prevention and cancer treatment trials in cooperation with the Fox Chase Cancer Center in Philadelphia, Pennsylvania. The Hospital participates in clinical trials sponsored by the Eastern Cooperative Oncology Group (“ECOG”) and the National Surgical Adjuvant Breast Project (“NSABP”). These are national groups for which the Hospital does clinical trials which are funded by the National Cancer Institute. The Hospital contracts with pharmaceutical companies to evaluate and study new anti-cancer treatments.

The Hospital also participates in numerous cardiac drug and device studies. These studies are conducted in conjunction with the vendors of the drugs and devices. Some are also conducted in cooperation with Duke University and others with the Society of Thoracic Surgeons. As of August 2007, the Hospital participated in 166 active trials, studies and research projects.

## **EMPLOYEES**

As of June 30, 2007, the Hospital employed 3,410 full-time equivalent (“FTE”) personnel consisting of 123 FTE management, 912 FTE nursing, 114 FTE physicians and residents, 763 FTE professional, and 1,498 FTE technical and non-professional. As of the same date, the System employed 48 FTE personnel consisting of managers, professional, and support staff. Services employed 287 FTE’s of which 49 FTE’s were physicians, six FTE’s were management, 47 FTE’s were professional, 12 FTE’s were nurses, and 173 FTE’s were technical and non-professional.

The System provides its employees with a comprehensive compensation program consisting of salaries, wages and flexible benefits that is competitive within the industry and the local market. Eligible employees have the availability of medical insurance, dental insurance, life insurance, disability insurance, a matched savings program, supplemental tax-sheltered annuity products, flexible spending accounts, retirement benefits, tuition reimbursement and paid time-off.

Approximately 13 service employees of the Hospital working at Polyclinic Hospital are represented by the Service Employees International Union, Local 1199 (“1199”). The current three-year contract with Local 1199 expires June 30, 2008.

The annual turnover rate for all System employees in fiscal year 2007 was approximately 11.7 percent.

### **Retirement Plans**

The Pinnacle Health System Pension Plan is a defined benefit pension plan covering employees employed before January 1, 2007. The plan was frozen for substantially all employees as of December 31, 2006. The plan pays pension benefits based on years of service and final average pay for service up to June 30, 2003. The plan was amended effective July 1, 2003 to provide for a benefit for service after that date based on a percentage of covered pay, based on age and service, plus interest except for certain grandfathered employees who retain the former benefit formula. As of June 30, 2007, the plan trustee reported that the benefit obligation exceeded the plan assets by \$30.4 million. The System provides additional retirement benefits through two defined contribution plans. One plan provides matching contributions and the other provides a non-matching benefit based on a percentage of pay.

## **LICENSURE, ACCREDITATIONS, MEMBERSHIPS AND DESIGNATIONS**

### **Licensure and Accreditations**

The Hospital is licensed by the Pennsylvania Department of Health to operate the following beds:

Medical / Surgical	413
Intensive Care	42
Obstetrics	29
OB/GYN Swing beds	10
Pediatric	18
Neonatal Intensive Care	32
Psychiatric	44
Rehabilitation	55
Skilled Nursing	35
<b>Total</b>	<b>678</b>

(Note: There are 31 Nursery Beds which do not require state licensure)

The Hospital is accredited by the Joint Commission on Accreditation of Health Care Organizations (“JCAHO”) with current accreditation approved until September 2007. Currently, JCAHO is reviewing the renewal application and the Hospital anticipates no issues regarding its accreditation renewal.

The Hospital is approved by the American College of Surgeons for its Community Hospital Cancer Program and is a regional cancer center through an affiliation with Fox Chase Cancer Center, one of the nation’s National Cancer Institute-designated comprehensive cancer centers. The Hospital’s blood bank is licensed by the Pennsylvania Department of Health (“PA-DOH”) and certified by the American Association of Blood Banks. The Hospital’s clinical and pathology laboratories are accredited by the Commissions on Laboratory Accreditation of the College of American Pathologists and the PA-DOH. The Hospital is licensed by the Nuclear Regulatory Commission to acquire radioactive material for diagnostic and therapeutic purposes.

**Memberships and Designations**

The System is a member of the Hospital and Health System Association of Pennsylvania, VHA Pennsylvania, Inc. and VHA, Inc. The Hospital is approved by the Emergency Health Services Federation, within the PA-DOH, as a medical command center.

**LITIGATION**

The System is party to various lawsuits arising from its operations. Most are covered by the System's insurance program and provision has been made in the financial statements for cases not covered by insurance. Management believes the ultimate outcome of these lawsuits will not be material.

**MALPRACTICE INSURANCE**

The System provides for malpractice risk through RRG, UHR, the Pennsylvania Mcare Fund and commercially insured excess insurance. See Note 12 to the audited financial statements.



## UTILIZATION

A summary of significant utilization data for the Hospital for the five fiscal years ended June 30, 2007 is contained in the following table:

		Pinnacle Health Hospitals Utilization Statistics				
		2003	2004	2005	2006	2007
<b>Set-Up and Staffed Beds:</b>						
	Acute	500	500	494	505	505
	Rehabilitation	44	44	44	55	55
	Psychiatric - >17yrs.	27	27	44	44	44
	Long Term Care	79	79	79	35	35
	Obstetrics	29	39	39	39	39
	Newborn Nursery	31	31	31	31	31
	Total	710	720	731	709	709
<b>Discharges:</b>						
	Acute	26,087	26,369	26,850	27,306	26,693
	Rehabilitation	1,375	1,354	981	850	1,075
	Psychiatric - >17yrs.	699	745	824	1,040	1,061
	Long Term Care	202	215	220	122	28
	Obstetrics	4,159	3,845	4,488	4,548	4,441
	Newborn Nursery	3,622	3,737	3,991	4,116	4,133
	Total	36,144	36,265	37,354	37,982	37,431
<b>Patient Days:</b>						
	Acute	136,202	132,658	134,155	134,941	129,454
	Rehabilitation	10,636	10,611	9,404	9,616	11,673
	Psychiatric - >17yrs.	6,923	6,958	7,300	9,080	8,409
	Long Term Care	26,704	27,026	25,613	19,576	12,222
	Obstetrics	10,193	10,352	12,083	12,334	12,149
	Newborn Nursery	7,931	8,456	9,311	9,496	9,450
	Total	198,589	196,061	197,866	195,043	183,357
<b>Average Length of Stay:</b>						
	Acute	5.22	5.03	5.00	4.94	4.85
	Rehabilitation	7.74	7.84	9.59	11.31	10.86
	Psychiatric - >17yrs.	9.90	9.34	8.86	8.73	7.93
	Long Term Care	132.20	125.70	116.42	160.46	436.50
	Obstetrics	2.45	2.69	2.69	2.71	2.74
	Newborn Nursery	2.19	2.26	2.33	2.31	2.29
	Average	5.49	5.41	5.30	5.14	4.90
	Average Without Long-Term Care	4.78	4.69	4.64	4.63	4.58
<b>Percent of Occupancy:</b>						
	Acute	74.63%	72.49%	74.40%	73.21%	70.23%
	Rehabilitation	66.23	65.89	58.56	47.90	58.15
	Psychiatric - >17yrs.	70.25	70.41	45.45	56.54	52.36
	Long Term Care	92.61	93.47	88.83	77.20	48.20
	Obstetrics	96.30	72.52	84.88	86.65	85.35
	Newborn Nursery	70.09%	74.53%	82.29%	83.92%	83.52%
	Average	76.63%	74.40%	74.16%	75.37%	70.85%
<b>Surgeries:</b>						
	Inpatient Surgeries	12,393	12,302	12,453	12,298	11,562
	Open Heart Surgery	1,012	787	691	734	713
	Total Inpatient Surgeries	13,405	13,089	13,144	13,032	12,275
<b>Outpatient Statistics:</b>						
	Emergency Visits	75,089	78,274	79,869	83,202	88,596
	Clinic Visits	255,416	249,900	282,950	292,040	305,570
	Ambulatory Surgery	16,034	16,930	16,295	15,967	15,390
<b>Medicare Case Mix Index:</b>						
		1.879	1.856	1.805	1.803	1.794

## **System Management's Discussion of Hospital Utilization**

Discharges at the Hospital increased in 2007 as compared to 2003. The 3% increase in 2005 as compared to 2004 resulted from growth in new programs including bariatric surgery, geriatric psychiatry, neurosurgery, toxicology and increased deliveries. From 2003 to 2007, the Medicare case mix index has generally decreased as a result of fewer open heart surgeries, increased deliveries and in 2007 reweighting of DRG's. Length of stay has steadily decreased as a result of improved management of cases and less acute patients being treated in the outpatient setting.

Total surgeries declined between 2003 and 2007 due primarily to the opening of two outpatient surgery centers that are joint ventures with Pinnacle surgeons. If the cases at the surgery centers are considered, both total surgeries and outpatient surgeries increased except in 2007. In 2007, the total surgeries declined 3.5% as a result of lower bariatric surgery, renovation of an endoscopy suite and competition from a competing surgery center.

Emergency visits increased steadily from 2003 to 2007 consistent with national trends.

## **FINANCIAL INFORMATION**

### **Financial Statements of Pinnacle Health System and Financial Information of the Obligated Group**

Appendix B to the Official Statement relating to the 2007 Bonds sets forth the audited consolidated balance sheets of the System and controlled entities and subsidiaries as of June 30, 2007 and 2006 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, together with the independent accountant's report thereon. The supplemental data included in the financial statements includes information related to the Obligated Group.

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

The following Summary of Revenues and Expenses of the Obligated Group for the years ended June 30, 2003 and 2004 was derived from the audited special purpose financial statements of the Obligated Group adjusted for the inclusion of Services in the Obligated Group. For the years ended June 30, 2005, and 2006 the Summary Statement of Revenues and Expenses of the Obligated Group was derived from the audited supplemental special-purpose financial statements of the Obligated Group. For the year ended June 30, 2007, the Summary Statement of Revenue and Expenses of the Obligated Group was derived from the consolidated financial statements and supplemental data of Pinnacle Health System.

The Summary of Revenues and Expenses of the Obligated Group should be read in conjunction with the financial statements and related notes of the System and controlled entities and subsidiaries and the independent accountant's report thereon included as Appendix B.

## Pinnacle Health System Obligated Group

### Summary of Revenues and Expenses (in thousands of dollars)

	Fiscal Years Ending June 30,				
	2003	2004	2005	2006	2007
Net Patient Service Revenue	\$ 409,911	\$423,979	\$460,839	\$488,075	\$496,332
Other Revenue	<u>12,319</u>	<u>14,280</u>	<u>14,396</u>	<u>13,980</u>	<u>12,733</u>
Total Revenue	422,230	438,259	475,235	502,055	509,065
Total Expenses	<u>420,725</u>	<u>433,711</u>	<u>460,160</u>	<u>489,741</u>	<u>491,782</u>
Income from Operations	1,505	4,548	15,075	12,314	17,283
Nonoperating Gains, Net	<u>5,556</u>	<u>13,159</u>	<u>19,088</u>	<u>21,382</u>	<u>18,087</u>
Revenues and Gains Over Expenses and Losses	<u>\$7,061</u>	<u>\$17,707</u>	<u>\$34,163</u>	<u>\$ 33,696</u>	<u>\$ 35,370</u>

### System Management's Discussion of Recent Financial Performance

In 2003, income from operations of \$1.5 million was a \$19.3 million improvement over the prior year's loss. The benefits of performance improvement programs that were started in the prior year began to be realized more fully. Net patient service revenue increased by 7.9% as a result of increased discharges and outpatient volumes, plus increased case mix and better payment rates from both Medicare and non-government payers. In addition, the Hospital received \$1.9 million of tobacco settlement money, an increase of \$1.6 million over the prior year. Other revenues of \$12.3 million decreased \$23,000 or 0.2% from the prior year, as a result of lower equity income. Total expenses of \$420.7 million increased \$10.6 million or 2.6% over the prior year. Salary expenses decreased \$4.7 million partially due to the outsourcing of the dietary employees, lower agency usage, and implementation of a productivity monitoring system to control labor costs. Employee benefit costs increased \$3.6 million or 10.0% due to higher pension expense and employee healthcare costs. Supplies expense increased by \$3.3 million or 4.1%, due to the introduction of drug eluting stents in the catheterization laboratory. Consulting costs related to the performance improvement project were \$3.6 million in 2003. Non-operating gains of \$5.6 million increased 776.3% over the prior year due to improvements in the equity market.

In 2004, income from operations was \$4.5 million. This was an increase of 202.2% over the prior year net income of \$1.5 million. Net patient revenues increased by \$14.1 million or 3.4% as a result of \$2.6 million relating to a favorable ruling from the Medicare program regarding the area wage index, \$500,000 relating to favorable cost report adjustments and increased volume and inflation. Funds received related to the tobacco settlement were \$1.4 million less than the previous year. Admissions, surgical procedures, emergency department visits and deliveries all showed improvement over the prior year. Other revenues of \$14.3 million increased 15.9% over the prior year due to increased rental income and increased equity income in the Susquehanna Valley Surgery Center. Expenses totaling \$433.7 million were \$13.0 million or 3.1% above the prior year. Salaries decreased \$157,000 due to a budgeted 3% merit increase that was totally offset by a 5.4% decrease in FTE's. Fringe benefit expenses increased \$7.4 million because of higher workers' compensation and pension expenses relating to revised actuarial estimates. Professional fees decreased \$3.8 million primarily due to the completion of the performance improvement project that occurred in the prior fiscal year. Supply costs increased \$4.7 million or 5.6% due to drug eluting stents in the catheterization laboratory, higher cost pacemakers, higher volume in surgery and costs related to an expanded neurosurgery program. Purchased services increased \$9.4 million or 23.8% due to increases in outsourcing for Environmental and Dietary Services, plus increases in the Hyperbaric Oxygen Wound

Care Program and the Information Services contract. Non-operating gains of \$13.2 million improved by \$7.6 million or 136.8% over the prior year due to improvements in investment performance.

In 2005, income from operations was \$15.1 million, an increase of 231.5% over the prior year's income of \$4.5 million. Net patient revenues of \$460.8 million increased \$36.9 million or 8.7% over the prior year. Volumes showed increases in several key areas including discharges, inpatient surgeries, newborn deliveries, emergency department, family care and specialty physician practices and clinic visits. In addition to the increased volumes, the Hospital received \$994,000 more tobacco settlement money than in the prior year, recognized \$2.7 million of additional revenue related to prior year cost report settlements and received better payment rates from several large payers. Other operating revenues of \$14.4 million increased \$116,000 or 0.8%. Total expenses of \$460.2 million increased \$26.4 million or 6.1% over the prior year. Salary expenses increased \$9.5 million or 5.6% as a result of approved annual merit increases and a 1.8% increase in FTE's due to increases in volumes, as well as the increase in salaries related to hiring physicians in specialty areas such as Hospitalists, Endocrinology and Neurology. Professional fees increased \$2.4 million or 23.1% due to fees for residents rotating to other hospitals and fees relating to increased volumes in the renal transplant program. Supplies increased by \$8.2 million or 9.2% as a result of volume increases especially in surgical services areas and increased usage of drug eluting stents and internal cardiac defibrillators in the catheterization laboratory. Non-operating gains of \$19.1 million increased \$5.9 million or 45.1%. Of the increase, \$3.4 million resulted from the sale of the Polyclinic Main, Kline and Education buildings and the remainder from improvements in the investment markets throughout the year.

In 2006, income from operations was \$12.3 million, a decrease of \$2.8 million or 18.3% from the prior year. Net patient revenues increased \$27.2 million or 5.9% as a result of admissions in the Hospital that were 1.4% higher than fiscal 2005, and the addition of employed physicians that generated patient revenues in Neurology and Pediatric Surgery in Services. Other operating revenues decreased \$416,000 or 2.9% due to lower rental income as a result of the sale of a portion of the Polyclinic Main, Kline and Education buildings in the prior year, and lower equity income from Susquehanna Valley Surgery Center. Total expenses of \$489.7 million were \$29.6 million or 6.4% higher than the prior year. Salary expense increased \$12.3 million or 6.8% as a result of FTE's that increased by 106.6 FTE's or 2.9%. This included the addition of employed physicians in certain specialty practices, a budgeted 3% merit increase as well as \$1.1 million of targeted salary adjustments. Fringe benefit expenses increased \$7.8 million or 16.2% as a result of the increased FTE's and higher expenses relating to pension and worker's compensation. Purchased services increased \$6.0 million or 8.7% as a result of an increase in the service level agreement relating to information services, an increase in fees relating to Hyperbaric wound therapy, as well as significant repair work performed at the Hospital. Non-operating gains increased \$2.3 million or 12.0%. Favorable investment returns during the year totaling \$25.3 million were \$9.3 million above the prior year. These were offset by a \$3.9 million loss on early extinguishment of debt due to refinancing a portion of the 1997 bonds, and in the prior year, the Hospital recorded a gain of \$3.1 million on the sale of the Polyclinic Main, Kline and Education buildings.

In fiscal year 2007, income from operations was \$17.3 million, an increase of \$5.0 million or 40.3% over the prior year. Net patient revenues increased \$8.3 million or 1.7%. During the year, the Hospital reduced contractual allowances by \$7.0 million relating to favorable prior year cost report adjustments. Other operating revenues decreased \$1.2 million due to lower equity income from three joint ventures, a decline in funding related to several grant programs and the discontinuation of a contract to provide Hospitalists services to an unrelated on-site long term acute care hospital. Total expenses of \$491.8 million were \$2.0 million or 0.4% above the prior year. Salaries increased \$4.6 million or 2.4% as a result of an increase of 0.8% in FTE's and routine budgeted merit increases of 3.0%. These were offset by reduced usage of temporary help. Fringe benefit expenses decreased by \$14.0 million or 25.2%. On December 31, 2006, the existing defined benefit pension plan was frozen resulting in a one-time pension

credit of \$9.0 million and a more cost-effective defined contribution plan was initiated. In addition to this, workers compensation expenses were lower than the prior year as a result of a favorable actuarial analysis and the cost and utilization of employee healthcare services was lower than fiscal 2006. Supplies expense decreased \$651,000 or 0.7% as a result of admissions that were 1.6% below the prior year, fewer surgical procedures and a decrease in the use of drug eluting stents. Bad debt expense increased \$4.1 million or 21.9% due to an increase in the number of self-pay patients and patients with higher deductibles and co-payments. Non-operating revenue decreased \$3.3 million or 15.4% as a result of losses relating to other-than-temporarily-impaired investments and less favorable results on interest rate exchange agreement.

## **SOURCES OF PATIENT SERVICE REVENUE**

The Hospital maintains agreements with the federal Medicare program administered by the Centers for Medicare and Medicaid Services of the United States Department of Health and Human Services, Capital Blue Cross (“Blue Cross”), Highmark Blue Shield (“Blue Shield”), certain other managed care payers, and other commercial insurance carriers for the provision of services to patients covered by these payers. In addition, the Hospital maintains agreements with the Commonwealth of Pennsylvania under the Medical Assistance (“Medicaid”) program (see “BONDHOLDERS’ RISKS” in the forepart of this Official Statement for further discussion of the Medicare and Medicaid programs).

The following table shows the distribution of gross patient service revenue of the Obligated Group by payer source.

### **Pinnacle Health System Obligated Group Gross Patient Service Revenue by Payor Source**

	<b><u>Fiscal Years Ended June 30</u></b>				
	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Blue Cross/Blue Shield	22.3%	23.8%	23.4%	22.9%	22.8%
Medical Assistance	3.0	3.4	2.7	3.2	3.4
Medicare	40.1	39.5	40.2	38.6	37.4
Commercial, Other Insurance, Managed Care, and Self Pay	<u>34.6</u>	<u>33.3</u>	<u>33.7</u>	<u>35.3</u>	<u>36.4</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

### **Blue Cross/Blue Shield**

Capital Blue Cross, the Blue Cross Plan for Central Pennsylvania and Highmark Blue Shield, the Blue Shield Plan for Central Pennsylvania each reimburses the Obligated Group for hospital and physician services based on various payment rates that include per diem and case rates for inpatient care and ambulatory surgery, and a discount from charges for all other outpatient care. All rates are adjusted for inflation based on an index of hospital cost.

## **Managed Care Programs and Commercial Insurance**

There are three dominant commercial payers that control the majority of the medical insurance business in the Hospital's primary service area. Highmark Blue Shield, Capital Blue Cross, and HealthAmerica/Health Assurance (a subsidiary of Coventry Corporation) account for roughly 74% of gross revenue that is generated from all non-government payers. Highmark Blue Shield and Capital Blue Cross are roughly equivalent in size and market share, and HealthAmerica/Health Assurance ranks third among these three dominant insurers.

These health plans offer a variety of products and plan designs to their employer customers including HMO, PPO, Point of Service, and more recently, "consumer directed" products. In its negotiations with each payer, the System negotiates a single reimbursement structure which establishes consistent reimbursement rates across all products and plan designs that the health plan offers in the market. All contracts with the major commercial payers are principally based on a DRG or case rate payment structure for inpatient care. Outpatient payment rates are based on a combination of fixed fee schedules and percent of charges. These contracts are typically in effect for multiple (2-4) year periods and include an annual inflation factor.

The small proportion of the commercially insured market that is not covered by the three major payors is shared by other health plans including: Aetna, Cigna, Geisinger Health Plan, United Healthcare, and a few national PPO networks.

In recent years, private insurance companies have entered the Medicare and Medicaid markets. The System contracts with a number of these companies as well. In all circumstances, the System has negotiated rates of reimbursement that exceed the payment rates that would otherwise be paid directly under the standard Medicare and Medicaid programs operated by the government.

The System does not participate in any exclusive contract arrangements with payers operating in the Harrisburg area.

## **Deductions from Revenue for Estimated Settlements**

Medicare cost reports of hospitals are subject to audit by the Medicare fiscal intermediary. When appropriate, accruals for estimated settlements with Medicare and other third-party payers are established by the Hospital with respect to unresolved items. 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 Revenues and Expenses in the year of resolution in accordance with accounting principles generally accepted in the United States of America. System management believes that adequate reserves for estimated settlements with Medicare and other third-party payers have been established based on information consistent with the current regulatory environment and contractual obligations.

## **FUTURE PLANS**

The Hospital is currently in the third year of a five-year master plan to renovate and expand Community General Osteopathic Hospital. The five-year project is currently estimated to cost approximately \$40 million and be financed from operating funds and future financing.

The Hospital is currently exploring the feasibility of constructing a short-stay surgical hospital ("SSH") which would be owned by the Hospital and a group of physicians. If opened, the SSH might materially adversely affect the Hospital's inpatient volume, though this adverse effect might also be partially offset by distributions of profits from the SSH to the Hospital and would not materially affect the financial

condition of the Obligated Group or ability to make payments on the Bonds. The SSH entity is not expected to become a Member of the Obligated Group.

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE SYSTEM AND SUPPLEMENTAL DATA RELATED TO  
THE OBLIGATED GROUP FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

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# **Pinnacle Health System**

(and controlled entities and subsidiaries)

## **Consolidated Financial Statements and Supplemental Data**

**June 30, 2007 and 2006**

**Pinnacle Health System**  
(and controlled entities and subsidiaries)  
**Index**  
**June 30, 2007 and 2006**

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**Report of Independent Auditors**

Board of Directors  
Pinnacle Health System

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 Pinnacle Health System and its controlled entities and subsidiaries (collectively, the "System") at June 30, 2007 and 2006, and the consolidated results of their operations, changes in net assets and 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 the Pinnacle Health System's 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 audits 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 discussed in Note 2 to the consolidated financial statements, the System changed the manner in which it accounts for defined benefit pension and other postretirement plans in 2007.

*PricewaterhouseCoopers LLP*

September 5, 2007

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidated Balance Sheets**  
**June 30, 2007 and 2006**

(in thousands of dollars)

	2007	2006
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 8,474	\$ 5,165
Investments	141,895	123,499
Accounts receivable, less allowance for doubtful accounts of approximately \$16,455 and \$13,978 in 2007 and 2006, respectively	66,501	68,671
Inventories	11,910	11,309
Prepaid expenses	5,845	5,228
Current portion of funds held by trustee	870	1,032
Current portion of self-insurance trust funds	2,540	4,065
Total current assets	238,035	218,969
Assets limited as to use		
Self-insurance trust funds, net of current portion	34,593	31,479
Board-designated funds	24,723	21,146
Funded depreciation	128,094	124,912
Funds held by trustee, net of current portion	5,317	5,093
Total assets limited as to use	192,727	182,630
Temporarily restricted funds	5,776	6,143
Investments permanently restricted as to use	21,563	18,655
Property, plant and equipment, net	261,836	259,660
Pledges receivable	2,404	3,184
Investments in and advances to joint ventures and affiliates	4,724	6,116
Deferred financing costs, net	6,475	6,757
Other assets	5,140	6,164
Total assets	\$ 738,680	\$ 708,278
<b>Liabilities and Net Assets</b>		
Current		
Current portion of long-term debt	\$ 4,154	\$ 4,659
Accounts payable and accrued expenses	21,955	22,649
Accrued salaries, wages and fees	8,920	6,811
Accrued vacation	12,451	12,064
Accrued insurance	18,021	19,157
Accrued retirement costs	293	265
Due to third-party payors	6,726	12,242
Advances from third-party payors	3,809	3,809
Total current liabilities	76,329	81,656
Long-term liabilities		
Accrued insurance costs, net of current portion	7,616	7,056
Accrued retirement costs, net of current portion	30,315	32,578
Interest rate swap agreement	-	229
Long-term debt, net of current portion	179,114	182,358
Total long-term liabilities	217,045	222,221
Minority interest in consolidated subsidiary company	1,415	1,590
Net assets		
Unrestricted net assets	415,648	376,669
Temporarily restricted net assets	6,678	6,865
Permanently restricted net assets	21,565	19,277
Total net assets	443,891	402,811
Total liabilities and net assets	\$ 738,680	\$ 708,278

The accompanying notes are an integral part of these consolidated financial statements.

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidated Statements of Operations**  
**Years Ended June 30, 2007 and 2006**

*(in thousands of dollars)*

	2007	2006
<b>Unrestricted revenues</b>		
Net patient service revenues	\$ 536,906	\$ 523,292
Other revenues	9,922	13,352
Net assets released from restrictions used for operations	1,632	1,741
Total revenues	<u>548,460</u>	<u>538,385</u>
<b>Expenses</b>		
Salaries and wages	217,524	210,410
Fringe benefits	45,994	59,754
Professional fees	12,910	13,607
Supplies	99,648	100,192
Purchased services	83,247	76,997
Interest	7,946	7,064
Bad debt expense	28,543	22,955
Depreciation and amortization	33,090	30,194
Total expenses	<u>528,902</u>	<u>521,173</u>
Income from operations	<u>19,558</u>	<u>17,212</u>
<b>Nonoperating gains (losses)</b>		
Investment income	18,067	23,368
Loss on disposal of assets	(939)	(75)
Loss from early extinguishment of debt	-	(3,852)
Nonoperating gains, net	<u>17,128</u>	<u>19,441</u>
Revenues and gains over expenses and losses prior to minority interest in consolidated subsidiary company	36,686	36,653
Minority interest in consolidated subsidiary company	<u>(1,200)</u>	<u>(1,277)</u>
Revenues and gains over expenses and losses	35,486	35,376
Change in net unrealized gains and losses on investments	15,602	(5,899)
Change in additional minimum pension liability	(12,631)	17,501
Acquisition of Community Life Team	(319)	-
Net assets released from restrictions for purchases of property and equipment	<u>1,831</u>	<u>489</u>
Increase in unrestricted net assets before cumulative effect of change in accounting principle	39,969	47,467
Adoption of SFAS 158	<u>(990)</u>	<u>-</u>
Increase in unrestricted net assets	<u>\$ 38,979</u>	<u>\$ 47,467</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2007 and 2006**

*(in thousands of dollars)*

	2007	2006
<b>Unrestricted net assets</b>		
Revenues and gains over expenses and losses	\$ 35,486	\$ 35,376
Change in net unrealized gains and losses on investments	15,602	(5,899)
Acquisition of Community Life Team	(319)	-
Change in additional minimum pension liability	(12,631)	17,501
Net assets released from restrictions for purchases of property and equipment	1,831	489
Increase in unrestricted net assets before cumulative effect of change in accounting principle	39,969	47,467
Adoption of SFAS 158	(990)	-
Increase in unrestricted net assets	38,979	47,467
<b>Temporarily restricted net assets</b>		
Contributions	2,263	3,273
Net realized and unrealized gains and losses on investments	1,018	333
Transfer to permanently restricted net assets	(5)	(9)
Net assets released from restrictions	(3,463)	(2,232)
(Decrease) increase in temporarily restricted net assets	(187)	1,365
<b>Permanently restricted net assets</b>		
Contributions	470	736
Net realized and unrealized gains and losses on investments	2,219	900
Income distributions	(406)	(380)
Transfer from temporarily restricted net assets	5	9
Increase in permanently restricted net assets	2,288	1,265
Increase in net assets	41,080	50,097
<b>Net assets</b>		
Beginning of year	402,811	352,714
End of year	\$ 443,891	\$ 402,811

The accompanying notes are an integral part of these consolidated financial statements.



**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2007 and 2006**

(in thousands of dollars)

	2007	2006
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 41,080	\$ 50,097
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(24,703)	(3,852)
Provision for bad debts	28,543	22,955
Curtailment gain on defined benefit pension plan	(18,009)	-
Adoption of SFAS 158	990	-
Depreciation and amortization	33,090	30,194
Loss on disposal of assets	939	75
Loss on extinguishment of debt	-	3,852
Amortization of deferred financing costs	282	287
Change in additional minimum pension liability	12,631	(17,501)
Equity in earnings of partnerships	(1,609)	(2,412)
Minority interest in consolidated subsidiary company	1,200	1,277
Restricted contributions and investment income received	(2,283)	(1,256)
Change in current assets and liabilities		
Increase in accounts receivable	(25,593)	(28,600)
Decrease (increase) in inventories and other assets	423	(5,056)
Increase in prepaid expenses	(617)	(596)
Decrease in accounts payable and accrued expenses	(694)	(3,671)
Increase (decrease) in accrued salaries, wages and fees and accrued vacation	2,496	(5,799)
Increase (decrease) in accrued insurance and retirement costs	1,578	(656)
(Decrease) increase in advances from and amounts due to third-party payors	(5,516)	464
Net cash provided by operating activities	<u>44,228</u>	<u>39,802</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(35,421)	(48,949)
Cash received from joint ventures and affiliates, net	3,001	2,154
(Purchase) sale of investments, including assets limited as to use, net	(4,644)	5,102
Proceeds from sale of assets	29	56
Net cash used in investing activities	<u>(37,035)</u>	<u>(41,637)</u>
<b>Cash flows from financing activities</b>		
Capitalization of deferred financing costs	-	(1,585)
Repayments of long-term debt	(5,035)	(55,647)
Proceeds from long-term debt	244	52,146
Contribution to minority interest	(1,376)	(1,280)
Restricted contributions and investment income received	2,283	1,256
Net cash used in financing activities	<u>(3,884)</u>	<u>(5,110)</u>
Net increase (decrease) in cash and cash equivalents	3,309	(6,945)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>5,165</u>	<u>12,110</u>
End of year	<u>\$ 8,474</u>	<u>\$ 5,165</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Pinnacle Health System**  
(and controlled entities and subsidiaries)  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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*(in thousands of dollars)*

**1. Description of Organization**

Pinnacle Health System ("Parent"), located in Harrisburg, Pennsylvania, consists of the following controlled entities and subsidiaries (collectively "the System").

- Pinnacle Health Foundation ("Foundation"), is a tax-exempt, nonprofit corporation, engaged in fund raising activities for the benefit of the controlled entities of the System.
- Pinnacle Health Hospitals ("Hospital"), is a tax-exempt, nonprofit, multi-facility acute care hospital.
- Pinnacle Health Home Care and Hospice ("PHHCH"), is a tax-exempt, nonprofit entity engaged in providing home nursing and hospice services.
- Pinnacle Health Medical Services ("PHMS"), is a tax-exempt, nonprofit entity engaged in the operation of physician practices and providing mental health services.
- Pinnacle Health Emergency Department Services, LLC ("PHEDS"), is a tax-exempt, nonprofit corporation engaged in providing professional services in the Pinnacle Health Emergency Department.
- United Health Risk, Ltd. ("UHR") is a wholly-owned, for profit, offshore captive insurance company.
- United Central Pennsylvania Reciprocal Risk Retention Group ("RRG") is a wholly-owned, for profit, Vermont captive insurance company.
- West Shore Surgery Center, LLP ("WSSC") is a limited liability partnership owned 2% by PHMS, the general partner, 49% by the Hospital and 49% by physicians.
- Community Life Team ("CLT"), is a tax-exempt, nonprofit entity that provides both emergency and non-emergency ambulance services to citizens in the Harrisburg, PA area and surrounding counties.

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Parent and its controlled entities and subsidiaries. The accounts of the controlled entities have been included in the consolidated financial statements to reflect the results of operations of entities under common control. All significant intercompany transactions have been eliminated.

**Pinnacle Health System**  
(and controlled entities and subsidiaries)  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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*(in thousands of dollars)*

**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. These significant estimates include the accounts receivable allowance for doubtful accounts, contractual allowances, estimated third-party settlements, accrued pension liabilities, accrued retirement costs and accrued insurance costs. Actual results could differ from those estimates as they are prepared based on certain assumptions which are subject to change.

**Reclassification of Prior Year Balances**

Certain 2006 balances have been reclassified to conform to the 2007 presentation.

**Net Patient Service Revenues**

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods for tentative and final settlements.

**Allowance for Doubtful Accounts**

Patient receivables are recorded at their estimated net realizable value. The allowance for doubtful accounts is estimated based upon historical collection rates.

**Charity Care**

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues.

**Revenues and Gains Over/Under Expenses and Losses**

The consolidated statements of operations include revenues and gains over/under expenses and losses. Changes in unrestricted net assets which are excluded from revenues and gains over/under expenses and losses, consistent with industry practice, include unrealized gains and certain losses on investments other than certain investment partnerships and other than temporary impairments on investments, changes in the additional minimum pension liability, adoption of certain new accounting pronouncements and net assets released from donor restrictions to be used for purchases of property and equipment.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash management funds with original maturities of three months or less, excluding amounts whose use is limited by Board-designation or other arrangements under trust agreements. The System maintains cash and cash equivalents in local banks.

**Pinnacle Health System**  
(and controlled entities and subsidiaries)  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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*(in thousands of dollars)*

**Investments**

Investments in common stock with readily determinable fair values and all investments in debt securities, including funds held in trust by others, are measured at estimated fair value in the consolidated balance sheets. Cash management funds, whose use is limited by Board-designation or other arrangements under trust agreements, are carried at cost which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues and gains over/under expenses and losses unless the income or loss is restricted by donor or law. Except for certain investment partnerships and other than temporary impairments on investments, certain unrealized gains and losses are excluded from revenues and gains over/under expenses and losses and are reflected as changes in net assets. Realized gains and losses are determined by an average cost basis and included as nonoperating gains (losses) in the consolidated statements of operations.

Investment partnerships include limited partnerships and limited liability corporations that do not price shares on a daily basis or require notice to redeem shares. The partnerships invest in securities traded in foreign and domestic markets and are carried in the balance sheet at net asset value as determined by the general partner.

The System periodically evaluates securities for other than temporary impairment. At the time a security is determined to be other than temporarily impaired, the System records a realized loss in the statements of operations. Any subsequent increase in the security's market value is reported as an unrealized gain.

**Inventories**

Inventories are stated at lower of cost (first-in, first-out method) or market.

**Assets Limited as to Use**

Assets limited as to use include Board-designated funds, funded depreciation and the portion of self-insurance trust funds and funds held by trustee that have not been reflected as current assets to meet the current portion of self-insured liabilities and long-term debt. Self-insurance trust funds represent monies designated to fund current and future liabilities for payment of professional liability and workers' compensation claims. Board-designated funds and funded depreciation represent funds designated by the Board of Directors for capital acquisition and replacement and debt retirement.

**Property, Plant and Equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Gains and losses resulting from the sale or disposal of property, plant and equipment are included in nonoperating gains (losses).

**Investments in and Advances to Joint Ventures and Affiliates**

The System, through its controlled entities and subsidiaries, maintains an ownership interest in several joint ventures which provide various clinical and nonclinical services. Under the terms of the agreements, the System may be required from time to time to make additional cash contributions and provide working capital advances to the joint ventures. These investments are accounted for by the equity method since the ownership interest is between 20% and 50% and control is not exercised.

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**Deferred Financing Costs**

Deferred financing costs are amortized over the life of the bonds using the effective interest method. During 2006, the System capitalized costs of \$1,585, incurred as a result of the issuance of the Series 2005 Health System Revenue Bonds.

**Accrued Insurance Costs**

Accrued insurance costs consist of estimated liabilities for reported and incurred but not reported claims related to professional liability, workers' compensation and employee health care. The System discounts its liabilities for professional liability and workers' compensation claims. As of June 30, 2007 and 2006, the discount rate was 4%.

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets, excluding interest and dividend income earned on such assets which is unrestricted, have been restricted by donors to be maintained by the System in perpetuity.

**Donor Restricted Gifts**

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

**Income Taxes**

The System is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for RRG. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

**Fair Value of Financial Instruments**

Financial instruments include cash and cash equivalents, accounts receivable, investments, and long-term debt. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and investments approximates its fair value as of June 30, 2007 and 2006.

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

- **Investments:** The estimated fair values for investment securities including assets limited as to use, temporarily restricted funds, and investments permanently restricted as to use as of June 30, 2007 and 2006 are based on estimated fair values as disclosed in Notes 5 and 10.

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- **Long-term debt:** The fair value of the System's long-term debt is estimated using discounted cash flow analyses based on prevailing market rates at June 30, 2007 and 2006 for similar types of borrowing arrangements. The fair value of the System's long-term debt as of June 30, 2007 and 2006 is approximately \$187,829 and \$191,553, respectively.

**Supplemental Disclosure of Cash Flow Information**

For the years ended June 30, 2007 and 2006, the System incurred interest costs of \$7,945 and \$7,613 and capitalized interest costs of \$0 and \$549, respectively. Interest paid for the years ended June 30, 2007 and 2006 was \$7,773 and \$7,370, respectively. There were no income taxes paid in fiscal 2007 and 2006.

During 2007 and 2006, capital lease obligations of \$813 and 7,581 were incurred when the System entered into three building leases. These obligations are considered to be a noncash financing activity.

**Accounting for Defined Benefit and Other Postretirement Benefits**

The FASB issued "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement No. 87, 88, 106, and 132(R)" ("SFAS 158") in September 2006. Included in SFAS 158 is a requirement for an entity to recognize in its balance sheet, the overfunded or underfunded status of its defined benefit postretirement plans measured as the difference between the fair value of the plan assets and the benefit obligation. For a pension plan, this would be the projected benefit obligation; for any other postretirement plan, the benefit obligation would be the accumulated postretirement benefit obligation. SFAS 158 also eliminates early measurement dates by requiring the pension plan obligation to be measured as of the date of the entity's balance sheet. The requirement to recognize the funded status of the pension plans is effective for the System's year ending June 30, 2007. The requirement to measure the pension obligation as of the entity's balance sheet date is effective for fiscal years ending after December 15, 2008 (June 30, 2009 for the System). The System has adopted the recognition and disclosure provisions of this new Statement as of June 30, 2007, and the impact from these changes are reflected in Note 11 - Retirement Plans and other Post Retirement Benefits. The measurement date for the System's Retirement Plans and other Post Retirement Benefits will be changed from March 31 to June 30 for the year ended June 30, 2008.

**Recently Issued Accounting Pronouncements**

The Financial Accounting Standards Board ("FASB") has released two statements related to fair value accounting. Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157") defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159") allows the option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements. The fair value option established by FAS 159 permits the System to elect to measure eligible items at fair value on an instrument-by-instrument basis and then report the unrealized gains and losses for those items in the System's earnings. Both FAS 157 and FAS 159 are effective for the fiscal years beginning after November 15, 2007. The System has not yet determined the impact, if any, on its financial statements. Upon adoption, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for the fiscal period.

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**3. Net Patient Service Revenues**

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

- **Medicare:** Inpatient acute care, skilled nursing care and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medical education, psychiatry and transplant costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are reimbursed based on the ambulatory payment classification. The System is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary.
- **Medicaid:** Inpatient services are rendered to Medicaid program beneficiaries based on a patient classification system similar to Medicare. Outpatient services are reimbursed on a predetermined fee schedule.
- **Capital Blue Cross and Highmark Blue Shield:** Inpatient acute care services and certain outpatient procedures rendered to Blue Cross and Blue Shield program beneficiaries are paid at prospectively determined rates per discharge or per procedure. Other outpatient services are reimbursed at a discount from established rates.
- **Other Payors:** The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue received under agreements with third-party payors is subject to audit and retroactive adjustment. Adjustments related to settlements with third-party payors are included in the determination of revenues and gains over/under expenses and losses in the year in which such adjustments become known. Such adjustments resulted in an increase of approximately \$7,001 and \$1,849 in 2007 and 2006, respectively, due to changes in estimates.

**4. Charity Care and Community Service**

The System provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than the established rates. Criteria for charity care consider family income levels, household size and ability to pay. Federal poverty guidelines are used as a means to determine the patient's ability to pay. Individuals who qualify for charity care do not have insurance or other coverage.

The System maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and the estimated cost of those services furnished under its charity care policy. The System provides community service programs to the community at large. A report is issued annually to inventory community benefits in furtherance of its exempt purpose.

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Charges foregone for charity care service to individuals were approximately \$3,736 and \$3,728 for 2007 and 2006, respectively. Such amounts have been excluded from net patient service revenues. The cost incurred to provide such care was approximately \$1,447 and \$1,461 for 2007 and 2006, respectively.

**5. Investments**

Investments, exclusive of funds held by trustee, at June 30, 2007 and 2006, consist of:

	2007	2006
<b>Investments</b>		
Cash management funds	\$ 7,903	\$ 5,923
U.S. Government obligations	19,821	19,597
Collateralized securities	3,450	10,711
Corporate obligations	46,579	36,498
Other fixed income investments	7,317	6,115
Domestic common stock	24,130	22,256
Other domestic equity investments and pooled trusts	21,363	14,504
Foreign equity investments	10,588	7,239
Accrued income	744	656
	<u>\$ 141,895</u>	<u>\$ 123,499</u>
<b>Assets whose use is limited</b>		
Self-insurance trust funds		
Cash management funds	\$ 2,637	\$ 1,646
U.S. Government obligations	6,002	4,979
Collateralized securities	2,345	6,614
Corporate obligations	21,333	17,361
Other fixed income investments	4,546	4,689
Accrued income	270	255
	<u>37,133</u>	<u>35,544</u>
Less: Current portion	<u>2,540</u>	<u>4,065</u>
	<u>\$ 34,593</u>	<u>\$ 31,479</u>
<b>Board-designated funds</b>		
Cash management funds	\$ 72	\$ 190
Other fixed income investments	5,752	5,250
Domestic common stock	8,961	8,345
Other domestic equity investments and pooled trusts	5,916	4,596
Foreign equity investments	4,012	2,739
Accrued income	10	26
	<u>\$ 24,723</u>	<u>\$ 21,146</u>



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	2007	2006
<b>Funded depreciation</b>		
Cash management funds	\$ 6,023	\$ 4,365
U.S. Government obligations	13,956	10,499
Collateralized securities	4,951	15,852
Corporate obligations	52,108	44,486
Other fixed income investments	3,672	3,136
Domestic common stock	21,908	23,727
Other domestic equity investments and pooled trusts	15,300	13,638
Foreign equity investments	8,680	7,948
Real estate	829	579
Accrued income	667	682
	<u>\$ 128,094</u>	<u>\$ 124,912</u>
<b>Temporarily restricted funds</b>		
Cash management funds	\$ 390	\$ 57
Other fixed income investments	1,493	1,536
Fixed income securities	-	2
Domestic common stock	1,832	2,492
Other domestic equity investments and pooled trusts	1,428	1,310
Foreign equity investments	631	740
Accrued income	2	6
	<u>\$ 5,776</u>	<u>\$ 6,143</u>
<b>Investments permanently restricted as to use</b>		
Cash management funds	\$ 44	\$ 99
Other fixed income investments	2,830	2,513
Domestic common stock	4,361	3,928
Other domestic equity investments and pooled trusts	2,857	2,233
Foreign equity investments	2,076	1,377
Funds held in trust by others	9,390	8,493
Accrued income	5	12
	<u>\$ 21,563</u>	<u>\$ 18,655</u>

Investment partnerships, which are nonreadily marketable investments, included in the above totaled \$36,277 and \$48,999, respectively, at June 30, 2007 and 2006.

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Investment income, including interest and dividend income, realized gains or losses on sales of securities, unrealized gains and losses from certain investment partnerships, and unrestricted income from temporarily restricted funds and investments permanently restricted as to use, is comprised of the following for the years ended June 30, 2007 and 2006:

	2007	2006
<b>Investment income</b>		
Interest and dividend income	\$ 12,242	\$ 11,569
Realized gains on sales of securities	5,864	8,890
(Loss) gain on swap contracts	(39)	2,909
	<u>\$ 18,067</u>	<u>\$ 23,368</u>
<b>Other changes in unrestricted net assets</b>		
Change in net unrealized gains and losses on investments	<u>\$ 15,602</u>	<u>\$ (5,899)</u>

The System's investments are managed by investment managers and bank trust departments. Because the System's investments include a variety of financial instruments, the related values as presented in the consolidated financial statements are subject to various market fluctuations which include changes in the equity markets, interest rate environment and general economic conditions.

During the years ended June 30, 2007 and 2006, the System recorded realized losses on investments related to "other than temporary" impairments of \$2,769 and \$661, respectively, which are included in investment income in the consolidated statement of operations. During year ended June 30, 2007, all fixed income investments where the market value was below cost totaling \$2,300 were considered to be other than temporarily impaired.

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

Temporarily restricted net assets are available for the following purposes at June 30, 2007 and 2006:

	2007	2006
<b>Health care services</b>		
Purchase of equipment	\$ 428	\$ 1,328
Health education	4,973	4,337
Research and development	398	407
Indigent care	879	793
	<u>\$ 6,678</u>	<u>\$ 6,865</u>

Permanently restricted net assets include investments held in perpetuity by others for the benefit of the Hospital of \$9,390 and \$8,493 and investments to be held in perpetuity by the Foundation for the benefit of the Hospital and PHHCH of \$12,175 and \$10,784, respectively, at June 30, 2007 and 2006. The income from these investments is expendable to support health care services and is reported as nonoperating income in the consolidated statements of operations.

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**7. Property, Plant and Equipment**

Property, plant and equipment at June 30, 2007 and 2006 consists of:

	<b>2007</b>	<b>2006</b>
Land	\$ 11,403	\$ 9,621
Land improvements	6,410	6,177
Building and building improvements	348,541	333,110
Equipment	285,030	268,594
	<u>651,384</u>	<u>617,502</u>
Accumulated depreciation and amortization	(397,711)	(368,426)
Construction in progress	8,163	10,584
	<u>\$ 261,836</u>	<u>\$ 259,660</u>

Included in equipment at June 30, 2007 and 2006 are capitalized computer software costs of \$26,542 and \$23,701, respectively. Amortization of capitalized computer software costs amounted to \$2,189 and \$1,707 in 2007 and 2006, respectively. Accumulated amortization of capitalized computer software costs amounted to \$21,148 and \$19,040 at June 30, 2007 and 2006, respectively.

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**8. Long-Term Debt**

Long-term debt at June 30, 2007 and 2006 consists of:

	2007	2006
Dauphin County General Authority, Health System Revenue Bonds, Series 2005, due at various dates through 2028 with interest at a variable weekly interest rate. (3.73% and 3.95% at June 30, 2007 and 2006, respectively )	\$ 54,505	\$ 55,000
Dauphin County General Authority, Health System Revenue Bonds, Series 2004, due at various dates through 2035 with interest set at an auction rate. (3.78% and 3.65% at June 30, 2007 and 2006, respectively).	50,900	50,900
Dauphin County General Authority, Health System Revenue Bonds, Series 1999, due at various dates through 2028 with interest from 4.10% to 5.13% and an average rate of 5.11%. The bonds are callable at 101% of par in 2009, 100.25% of par in 2010, and 100% of par thereafter, except for \$9,415, which are not callable.	16,610	17,360
Dauphin County General Authority, Hospital Revenue Bonds, Series 1997, due at various dates through 2027 with interest from 5.10% to 5.75% and an average rate of 5.68%. The bonds are callable at 101% of par in 2007, 100.5% of par in 2008 and 100% of par thereafter.	43,870	44,920
VHA of Pennsylvania, Inc. Capital Asset Financing Program, Series 1985A through 1985M, issued by Health Care Facilities Authority of Sayre, variable rate (4.632% and 4.638% at June 30, 2007 and 2006, respectively), due at various dates through 2020.	8,873	10,875
Various capital leases and loans at various interest rates	8,510	7,962
	183,268	187,017
Less: current portion	4,154	4,659
	<u>\$ 179,114</u>	<u>\$ 182,358</u>

The Series 1997, 1999, 2004 and 2005 Bonds, and the VHA of Pennsylvania, Inc. Bonds, were issued under a Master Trust Indenture which contains certain covenants of the Hospital, Parent and PHMS, the members of the Obligated Group ("Obligated Group"), including, but not limited to, covenants regarding the payment of debt service on all the Master Notes and Master Guarantees issued there under, rates and charges, liquidity, indebtedness, transfers of assets, the incurrence of additional indebtedness and the granting of security interests in property to collateralize such indebtedness. The Obligated Group has pledged its gross revenues as collateral for the bonds. As long as the 2004 and 2005 Bonds are outstanding the Trustee is required to make effective a mortgage on a substantial portion of the Hospital's assets if the Obligated Group fails to meet certain debt service and liquidity requirements.

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A summary of scheduled principal repayments on long-term debt is as follows:

<b>Fiscal Year</b>	<b>Debt</b>
2008	\$ 4,154
2009	3,015
2010	2,592
2011	3,286
2012	3,446
Thereafter	166,775
	<u>\$ 183,268</u>

**9. Interest Rate Swaps**

Effective July 7, 2003, the System entered into an interest rate basis swap agreement with a notional amount of \$25,000 under which the System pays the counterparty, Citibank, N.A. ("Citibank"), the BMA Municipal Bond Index rate and in exchange Citibank pays the System 78.50% of LIBOR. Interest payments are due quarterly and commenced on October 7, 2003. The termination date of the agreement is July 7, 2013.

Effective July 7, 2003, the System also entered into an interest rate swap with a notional amount of \$25,000 under which the System pays Citibank a variable rate equal to the BMA Municipal Bond Index and in exchange Citibank pays the System a fixed rate of 2.22%. Interest payments are due quarterly and commenced on October 7, 2003. The termination date of the agreement is July 7, 2008.

As of June 30, 2007, the System recorded an asset of \$190 and as of June 30, 2006 the System recorded a liability of \$226, and a related gain, which was recorded in investment income in the consolidated statement of operation, related to the change in the fair value of this swap.

As of July 14, 2005, in conjunction with the 2005 Series Bonds, the Hospital entered into an interest rate swap agreement with an initial notional amount of \$55,000. The notional amount decreases as principal payments are made on the 2005 Series Bonds. Under the agreement the Hospital pays the counterparty, Citibank, a fixed rate of 3.36% and in exchange Citibank pays the Hospital 61.80% of LIBOR plus 0.32%. Payments are made monthly beginning October 5, 2005. As of June 30, 2007 and 2006, the Hospital recorded an asset totaling \$2,349 and \$2,616, respectively, and a related loss, which was recorded in investment income in the consolidated statements of operation, related to the change in the fair value of this swap.

**10. Funds Held by Trustee**

Certain funds are required to be established and controlled by the trustee during the period the Series 1997, 1999, 2004, and 2005 Bonds are outstanding.

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The Debt Service Fund is used to make semiannual interest payments and annual principal payments on the Series 1997, 1999, 2004 and 2005 Bonds. In addition, the trustee maintains a Revenue Fund to collect payments on the Series 1997 and 1999 Bonds from the System. The Debt Service Reserve is used to hold funds set aside for the payment of debt service on the 2004 Bonds in the event the Obligated Group is unable to make such payments. The current portion of funds held by trustee at June 30, 2007 and 2006 consists of short-term investments totaling \$870 and \$1,032, respectively.

Nonoperating gains include \$345 and \$305 interest earned on the funds held by trustee for the years ended June 30, 2007 and 2006, respectively.

**11. Retirement Plans**

The Parent sponsors a noncontributory defined benefit pension plan (the "Plan") covering substantially all of its employees and employees of certain wholly owned subsidiaries employed prior to January 1, 2007. The Parent also sponsors a supplemental noncontributory defined benefit pension plan covering certain executives of the controlled entities of the System. The supplemental plan is unfunded and the Hospital has recorded a liability of \$4,036 and \$3,509 at June 30, 2007 and 2006, respectively.

Pension costs are funded to the limits specified by the Employee Retirement Income Security Act of 1974, as amended. From time to time, the System may contribute additional amounts to the Plan as it deems appropriate, subject to funding limitations. During fiscal year 2008, the System expects to contribute approximately \$5,733 to the Plan.

Other benefits provided by the System are a defined benefit postretirement health plan covering employees of the former Capital Area Health Foundation who retired by December 31, 1996, and a defined benefit postretirement life plan for retired employees of the System.

On June 30, 2007, the System adopted the recognition and disclosure provisions of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). This new Statement requires employers to recognize the funded status (i.e., the difference between the fair value of plan assets and benefit obligations) of all defined benefit postretirement plans in the statement of financial position, with corresponding adjustments to net assets. The adjustment to net assets at adoption represents the net unrecognized actuarial losses/gains and unrecognized prior service costs, both of which were previously netted against the plan's funded status in the consolidated balance sheet pursuant to the provisions of Statement Nos. 87 and 106. These amounts will be subsequently recognized as net periodic postretirement cost in accordance with the System's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic postretirement cost in the same periods will be recognized in the change in net assets. These amounts will be subsequently recognized as a component of net periodic postretirement cost on the same basis as the amounts recognized in net assets at adoption of SFAS No. 158. Additionally, the Statement provides guidance regarding the classification of plan assets and liabilities in the consolidated balance sheet.

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The following is the effect of the adoption of FAS 158 as of June 30, 2007:

	<b>Before Application of SFAS 158</b>	<b>Adjustments</b>	<b>After Application of SFAS 158</b>
Prepaid pension	\$ 15,802	\$ (15,802)	\$ -
Intangible asset	\$ 20	\$ (20)	\$ -
Accrued liability	\$ (45,270)	\$ 14,832	\$ (30,438)
Net assets	\$ 36,943	\$ 990	\$ 37,933

Included in net assets at June 30, 2007, are the following amounts that have not yet been recognized in net periodic postretirement benefit costs: unrecognized net actuarial loss of \$36,917 and \$1,498 for the Pension Plan and Postretirement Benefits Plans, respectively, and unrecognized prior service benefits of \$198 and \$283 for the Pension Plan and Postretirement Benefit Plans, respectively.

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The following is the status of the various employee benefit plans as of the measurement dates of March 31, 2007 and 2006.

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Change in benefit obligations</b>				
Benefit obligation at beginning of year	\$ 235,284	\$ 231,736	\$ 4,828	\$ 4,736
Service cost	3,882	4,844	59	65
Interest cost	13,066	13,152	260	265
Participant contributions	-	-	38	46
Curtailment (gain) loss	(18,009)	-	-	-
Expenses paid from assets	(184)	-	-	-
Benefit payments	(7,031)	(6,731)	(719)	(310)
Actuarial (gain) loss	3,657	(7,717)	84	26
Other	-	-	37	-
Benefit obligation at end of year	<u>\$ 230,665</u>	<u>\$ 235,284</u>	<u>\$ 4,587</u>	<u>\$ 4,828</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 182,993	\$ 160,771	\$ -	\$ -
Actual return on plan assets	17,055	19,377	-	-
Participant contributions	-	-	-	46
Employer contributions	9,400	9,576	-	264
Benefit payments	(7,031)	(6,731)	-	(310)
Fair value of plan assets at end of year	<u>\$ 202,417</u>	<u>\$ 182,993</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status reconciliation</b>				
Funded status	\$ (28,247)	\$ (52,290)	\$ (4,587)	\$ (4,828)
Unrecognized net actuarial loss	37,816	55,927	599	515
Net prior service benefit	(198)	(9,474)	(283)	(581)
Contributions made after measurement date	2,395	2,395	-	-
	<u>\$ 11,766</u>	<u>\$ (3,442)</u>	<u>\$ (4,271)</u>	<u>\$ (4,894)</u>

The accumulated benefit obligation at March 31, 2007 and 2006 is \$230,012 and \$213,123, respectively.

Effective December 31, 2006, the System amended the Plan by freezing benefits for all participants. Additional retirement benefits are provided through increased contributions to the defined contribution plans. This amendment to the Plan generated a curtailment gain and a reduction to the benefit plan obligation in the amount of \$18,009 for the year ended June 30, 2007.

As a result of the benefit obligation exceeding the fair value of the Plan assets, as of June 30, 2007 and 2006, the System recorded an additional minimum pension liability of \$36,517 and \$23,720 related to the Plan and \$426 and \$592 related to the Supplemental Plan, respectively. These amounts are included in accrued retirement costs, net of current portion, in the consolidated balance sheets.



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The assumptions used in the measurement of the System's net periodic benefit obligations are shown in the following table:

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Weighted-average assumptions at the years ending June 30</b>				
Discount rate	6.00%	6.00%	6.00%	6.00%
Rate of compensation increase	4.04%	4.01%	4.00%	4.00%

The following table provides the components of net periodic benefit cost for the years ended June 30, 2007 and 2006:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ 3,882	\$ 4,844	\$ 59	\$ 65
Interest cost	13,066	13,152	260	265
Expected return on plan assets	(15,598)	(13,605)	-	-
Amortization of prior service cost	(289)	(1,623)	(298)	(298)
Amortization of net actuarial loss	2,303	6,231	-	1
Net periodic benefit cost	<u>\$ 3,364</u>	<u>\$ 8,999</u>	<u>\$ 21</u>	<u>\$ 33</u>

The assumptions used in the measurement of the System's benefit cost are shown in the following table:

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Weighted-average assumptions at the years ending June 30</b>				
Discount rate	6.00%	5.75%	6.00%	5.75%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	4.42%	4.14%	4.00%	4.00%

A 10.00% annual rate of increase in the per capita costs of covered health care benefits was assumed for 2006 gradually decreasing to 5.00% by the year 2011.

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**Sensitivity Analysis, Postretirement Benefits**

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. At March 31, 2007, a one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<b>One-Percentage-Point</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on total of service and interest cost components	\$ 7	\$ (6)
Effect on postretirement benefit obligation	\$ 134	\$ (121)

Expected benefit payments for the five years ended June 30 are as follows:

	<b>Pension Plan</b>	<b>Other Benefits</b>
2008	\$ 9,010	\$ 264
2009	9,530	277
2010	10,171	288
2011	10,980	296
2012	11,731	294
2013 and thereafter	70,419	1,517
	<u>\$ 121,841</u>	<u>\$ 2,936</u>

The pension plan's asset allocation at March 31, 2007 and 2006, by asset category, is as follows:

	<b>2007</b>	<b>2006</b>
<b>Pension plan assets</b>		
Equity securities	68.5%	67.8%
Fixed income securities	28.1%	29.3%
Tactical allocation	2.4%	2.5%
Cash and cash equivalents	1.0%	0.4%
	<u>100.0%</u>	<u>100.0%</u>

The primary investment objective for the Plan assets is to achieve maximum rates of return commensurate with safety of principal. Target asset allocation, credit quality and diversification guidelines and restrictions are approved by the Investment Committee of the Board of Directors of the Parent. The Plan asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of the target allocation. Target asset allocations are based on asset and liability studies.

The target asset allocation for the portfolio is 64.0% equity and 28.5% debt securities, 2.5% tactical allocation and 5.0% cash equivalents.

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In May 2006, the System approved an amendment to the Plan that froze benefits for substantially all participants as of December 31, 2006. Effective January 1, 2007, additional retirement benefits were provided through increased contributions to defined contribution plans. The freeze resulted in a credit to pension expense of approximately \$9.0 million in the fiscal year ending June 30, 2007.

The System sponsors defined contribution plans covering substantially all of its employees and employees of certain wholly- and partially-owned subsidiaries. The plans allow participating employees to contribute a percentage of their annual salary subject to current Internal Revenue Service ("IRS") limitations. Employee contributions are matched by the System at various percentages. The System's contributions to the savings plans are \$7,184 and \$3,240 in 2007 and 2006, respectively.

**12. Insurance Coverage**

The System maintains self-insurance trust funds for workers' compensation and professional liability claims. The System's contributions to its self-insurance trust funds and the related self-insured liabilities are based on actuarial assumptions and methodologies, which are reviewed continuously with any adjustments resulting therefrom reflected in current operations. Management believes that the accrual for self-insured liabilities is adequate as of June 30, 2007; however, it is reasonably possible the estimated reserve for self-insurance claims could change in the near term due to the inherent variability in determining such estimates.

Effective December 31, 2002, primary professional and general liability insurance is provided through the System's wholly owned for profit captive insurance company, RRG. Professional liability is provided on a claims-made basis meeting statutory limit requirements of \$500 per claim subject to a \$2,500 annual aggregate for the Hospital, and a \$1,500 annual aggregate for physician and skilled nursing claims. Additional coverage of \$500 per claim and \$1,500 in the aggregate is provided by the Mcare Fund (formerly the Medical Professional Liability Catastrophic Fund – "CAT Fund") established under the Medical Care Availability and Reduction of Error Act ("Mcare Act"). Coverage for general liability is on an occurrence basis providing \$1,000 per claim subject to a \$2,000 aggregate.

Prior to December 31, 2002, malpractice coverage was provided by commercial carriers on a claims-made basis with statutory/primary limits of \$500 per claim and \$2,500 for hospital claims and \$1,500 for physician and skilled nursing claims in the aggregate with additional coverage of \$700 per claim and \$2,100 in the aggregate by the Mcare Fund. Coverage for general liability was on an occurrence basis providing \$1,000 per claim subject to a \$1,000 aggregate.

Prior to December 31, 2002, a portion of the System's malpractice and general liability coverage was provided by Medical Inter Insurance Company ("MIIX"). For the year ended December 31, 2002 coverage was provided under a large deductible program. Under this contract, the System is responsible for indemnity claim liability. MIIX provides claim management service and is responsible for claim expenses. The System has accrued a liability sufficient to cover those claims that have not met the deductible. Prior to December 31, 2001, MIIX provided a portion of the System's malpractice coverage under traditional policies. In August 2004, the New Jersey Department of Banking and Insurance filed an application for an Order to Show Cause seeking to place MIIX in rehabilitation. MIIX continues to operate in solvent runoff under approval of the New Jersey Department of Banking and Insurance. Management believes MIIX will continue to pay claims under the policy.

**Pinnacle Health System**  
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*(in thousands of dollars)*

Effective January 1, 2007, the System maintains excess liability coverage with a \$4,000 self-insured retention layer for professional and general liability exposure. In addition, the company purchased separate \$10,000 limits of excess liability for both professional and general liability claims. Effective January 1, 2006, coverage included a \$2,000 self-insured retention with an \$8,000 annual aggregate limit for professional and general liability exposure. Effective January 1, 2004 through December 31, 2005, a shared \$8,000 excess layer over a \$1,000 self-insured retention layer. Effective January 1, 2004 through December 31, 2005, a shared \$8,000 excess layer over a \$1,000 self-insured retention layer. Claims in the \$8,000 excess layer are shared 50% by a commercial insurance carrier and 50% self-insured. Self insured exposure is re-insured through the Parent's wholly owned captive, UHR. Effective January 1, 2003 through December 31, 2003, the System maintained excess liability coverage of \$4,000 per claim and in the aggregate provided through UHR, with an additional \$5,000 per claim and in the aggregate provided by a commercial insurance carrier. Prior to January 1, 2003, the System maintained excess liability coverage with a commercial carrier in the amount of \$25,000 over the above limits.

At June 30, 2007 and 2006, the System also maintained Directors and Officers liability coverage with limits of \$15,000, and Excess Worker's Compensation coverage over a self-insured retention of \$500.

The actuarially computed liability to all health care providers (hospitals, physicians, and others) participating in the Mcare Fund at June 30, 2007 is expected to be substantially in excess of the amount the Mcare Fund has available to pay these claims. The Commonwealth of Pennsylvania has indicated that the unfunded liability will be funded exclusively through surcharge assessments in future years as claims are settled and paid. No provision has been made for any future Mcare Fund assessments in the accompanying June 30, 2007 and 2006 consolidated financial statements as the System's portion of the Mcare Fund unfunded liability could not be reasonably estimated.

**13. Significant Concentrations of Credit Risk**

The System's operations are located in Harrisburg, Pennsylvania. Its primary service area includes Harrisburg, Pennsylvania and the surrounding Greater Harrisburg Metropolitan Area. Financial instruments which subject the System to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and patient receivables.

The System typically maintains cash and cash equivalents and temporary investments in local banks. Cash and cash equivalents and temporary investments are insured by the FDIC up to a limit of \$100.

**Pinnacle Health System**  
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*(in thousands of dollars)*

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2007 and 2006 was as follows:

	2007	2006
Medicare	30 %	32 %
Medicaid	21	16
Capital Blue Cross/Highmark Blue Shield	14	19
HMO	5	8
Other third-party payors	13	14
Patients	17	11
	<u>100 %</u>	<u>100 %</u>

**14. Commitments and Contingencies**

**Operating Leases**

The System has entered into various lease arrangements for equipment, office space, and storage. As of June 30, 2007, the System's lease commitments for the years ended June 30, 2008, 2009, 2010, 2011 and 2012 are \$3,056, \$2,504, \$2,324, \$2,078, and \$1,809 respectively, and \$17,160 in the aggregate for the years thereafter.

**Letters and Line of Credit**

At June 30, 2007 and 2006, the System had unused lines of credit of \$3,000, which bear interest at variable rates of interest (6.8% at June 30, 2007 and 2006).

The System was contingently liable for outstanding letters of credit in the amounts of approximately \$340 for the years ended June 30, 2007 and 2006, to satisfy the requirements of professional liability insurance policies and current construction site work.

**Loan Commitment and Debt Guarantees**

The System is a general partner in one partnership at June 30, 2007 and two partnerships at June 30, 2006, and would be liable for the outstanding debt of these partnerships should the partnerships be unable to meet their obligation under the debt agreements. As of June 30, 2007 and 2006, the outstanding debt totaled approximately \$206 and \$2,696, respectively. As of June 30, 2007, these partnerships have sufficient funds to meet their obligations under the debt agreements.

**Purchase Commitments**

The System has outstanding purchase commitments related to various projects of approximately \$3,409 and \$12,547 at June 30, 2007 and 2006, respectively.

**Regulatory Compliance**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations through the years ended June 30, 2007 and 2006. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid program.

**Pinnacle Health System**  
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The Health Insurance Portability and Accountability Act ("HIPAA") is a federal legislation that was enacted in 1996. The System implemented the privacy provisions by the deadline of April 14, 2003 and was in compliance with HIPAA's Standardized Transactions and Code Sets ("TCS") provision by the deadline of October 16, 2003. The finalized Security Provisions were implemented by the System by the April 25, 2005 deadline.

**15. Functional Expenses**

The System provides general health care services to residents within its geographical area. Expenses related to providing these services for the years ended June 30, 2007 and 2006 are approximately as follows:

	<b>2007</b>	<b>2006</b>
Health care services	\$ 406,000	\$ 400,000
General and administrative	123,000	121,000
	<u>\$ 529,000</u>	<u>\$ 521,000</u>

**Report of Independent Auditors on Supplemental Data**

Board of Directors  
Pinnacle Health System

The report on our audit of the consolidated financial statements of Pinnacle Health System and its controlled entities and subsidiaries (collectively, the "System") as of June 30, 2007 and for the year then ended appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operation, changes in net assets, and cash flows of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations and cash flow of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

September 5, 2007

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidating Balance Sheet**  
**June 30, 2007**

**Schedule I**

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Eliminations	Obligated Group	RRG & UHR Combined	Foundation	PHEDS	PHHCH	WSSC	CLT	Eliminations	Consolidated Balances
<b>Assets</b>													
<b>Current</b>													
Cash and cash equivalents	\$ 1,534	\$ 1,294	\$ 437	\$ -	\$ 3,255	\$ 1,745	\$ 2,293	\$ -	\$ 1	\$ 1,180	\$ -	\$ -	\$ 8,474
Investments	94,513	-	-	-	94,513	27,307	20,074	-	-	-	1	-	141,895
Accounts receivable, net	173	57,034	2,601	-	59,808	2,740	260	904	1,882	806	176	(75)	66,501
Inventories	-	11,340	161	-	11,501	-	-	-	78	331	-	-	11,910
Prepaid expenses	233	5,060	165	-	5,458	51	-	53	91	163	29	-	5,845
Due from related parties	632	512	-	-	1,144	-	-	-	25	-	-	(1,169)	-
Current portion of funds held by trustee	-	870	-	-	870	-	-	-	-	-	-	-	870
Current portion of self-insurance trust funds	-	2,540	-	-	2,540	-	-	-	-	-	-	-	2,540
<b>Total current assets</b>	<b>97,085</b>	<b>78,640</b>	<b>3,364</b>	<b>-</b>	<b>179,089</b>	<b>31,843</b>	<b>22,627</b>	<b>957</b>	<b>2,077</b>	<b>2,480</b>	<b>206</b>	<b>(1,244)</b>	<b>238,035</b>
<b>Assets limited as to use</b>													
Self-insurance trust funds, net of current portion	-	34,593	-	-	34,593	-	-	-	-	-	-	-	34,593
Board-designated funds	-	12,796	-	-	12,796	-	11,927	-	-	-	-	-	24,723
Funded depreciation	-	128,094	-	-	128,094	-	-	-	-	-	-	-	128,094
Funds held by trustee, net of current portion	-	5,317	-	-	5,317	-	-	-	-	-	-	-	5,317
<b>Total assets limited as to use</b>	<b>-</b>	<b>180,800</b>	<b>-</b>	<b>-</b>	<b>180,800</b>	<b>-</b>	<b>11,927</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>192,727</b>
<b>Temporarily restricted funds</b>	<b>-</b>	<b>3,391</b>	<b>-</b>	<b>-</b>	<b>3,391</b>	<b>-</b>	<b>2,314</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,776</b>
Temporarily restricted funds - related parties	-	-	-	-	-	-	3,462	-	-	-	-	(3,462)	-
Investments permanently restricted as to use	-	21,472	-	-	21,472	-	12,174	-	92	-	-	(12,175)	21,563
Property, plant and equipment, net	119	251,137	7,616	-	258,872	-	-	-	665	1,442	857	-	261,836
Pledges receivable	-	904	-	-	904	-	2,404	-	-	-	-	(904)	2,404
Investments in and advances to joint ventures and affiliates	20,302	6,984	41	-	27,307	-	-	-	-	-	-	(22,583)	4,724
Deferred financing costs, net	-	6,474	-	-	6,474	-	-	-	-	-	1	-	6,475
Other assets	360	4,708	72	-	5,140	-	-	-	-	-	-	-	5,140
<b>Total assets</b>	<b>\$ 117,966</b>	<b>\$ 554,490</b>	<b>\$ 11,093</b>	<b>\$ -</b>	<b>\$ 683,449</b>	<b>\$ 31,843</b>	<b>\$ 54,908</b>	<b>\$ 957</b>	<b>\$ 2,905</b>	<b>\$ 3,922</b>	<b>\$ 1,064</b>	<b>\$ (40,368)</b>	<b>\$ 738,680</b>



**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidating Balance Sheet**  
**June 30, 2007**

**Schedule I**

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Elimin- ations	Obligated Group	RRG & UHR Combined	Foundation	PHEDS	PHHCH	WSSC	CLT	Elimin- ations	Consolidated Balances
<b>Liabilities and Net Assets</b>													
<b>Current</b>													
Current portion of long-term debt	\$ -	\$ 3,847	\$ 143	\$ -	\$ 3,990	\$ -	\$ -	\$ -	\$ -	\$ 108	\$ 131	\$ (75)	\$ 4,154
Accounts payable and accrued expenses	673	18,685	991	-	20,349	126	173	92	509	687	19	-	21,955
Accrued salaries, wages and fees	734	6,715	811	-	8,260	-	-	253	344	4	59	-	8,920
Accrued vacation	434	9,754	1,154	-	11,342	-	-	461	582	-	66	-	12,451
Accrued insurance	-	6,199	-	-	6,199	11,822	-	-	-	-	-	-	18,021
Accrued retirement costs	-	293	-	-	293	-	-	-	-	-	-	-	293
Due to related parties	-	-	228	-	228	-	941	-	-	2	-	(1,171)	-
Due to third-party payors	-	6,726	-	-	6,726	-	-	-	-	-	-	-	6,726
Advances from third-party payors	-	3,809	-	-	3,809	-	-	-	-	-	-	-	3,809
<b>Total current liabilities</b>	<b>1,841</b>	<b>55,028</b>	<b>3,327</b>	<b>-</b>	<b>61,196</b>	<b>11,948</b>	<b>1,114</b>	<b>806</b>	<b>1,435</b>	<b>801</b>	<b>275</b>	<b>(1,246)</b>	<b>76,329</b>
<b>Long-term</b>													
Accrued insurance costs, net of current portion	-	7,586	-	-	7,586	-	-	-	-	30	-	-	7,616
Accrued retirement costs, net of current portion	699	29,460	156	-	30,315	-	-	-	-	-	-	-	30,315
Long-term debt, net of current portion	-	173,350	5,647	-	178,997	-	-	-	-	76	1,129	(1,088)	179,114
<b>Total long-term liabilities</b>	<b>699</b>	<b>210,396</b>	<b>5,803</b>	<b>-</b>	<b>216,898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>1,129</b>	<b>(1,088)</b>	<b>217,045</b>
Minority interest in consolidated subsidiary company	-	-	-	-	-	-	-	-	-	1,415	-	-	1,415
<b>Net assets</b>													
Unrestricted net assets	115,326	262,299	1,963	-	379,588	19,895	34,941	151	1,307	1,600	(340)	(21,494)	415,648
Temporarily restricted net assets	-	4,294	-	-	4,294	-	6,678	-	71	-	-	(4,365)	6,678
Permanently restricted net assets	-	21,473	-	-	21,473	-	12,175	-	92	-	-	(12,175)	21,565
<b>Total net assets</b>	<b>115,326</b>	<b>288,066</b>	<b>1,963</b>	<b>-</b>	<b>405,355</b>	<b>19,895</b>	<b>53,794</b>	<b>151</b>	<b>1,470</b>	<b>1,600</b>	<b>(340)</b>	<b>(38,034)</b>	<b>443,891</b>
<b>Total liabilities and net assets</b>	<b>\$ 117,866</b>	<b>\$ 554,490</b>	<b>\$ 11,093</b>	<b>\$ -</b>	<b>\$ 683,449</b>	<b>\$ 31,843</b>	<b>\$ 54,908</b>	<b>\$ 957</b>	<b>\$ 2,905</b>	<b>\$ 3,922</b>	<b>\$ 1,064</b>	<b>\$ (40,368)</b>	<b>\$ 738,680</b>

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidating Statement of Operations**  
**Year Ended June 30, 2007**

**Schedule II**

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Elimin- ations	Obligated Group	RRG & UHR Combined	Foundation	PHEDS	PHHCH	WSSC	CLT	Elimin- ations	Consolidated Balances
<b>Unrestricted revenues</b>													
Net patient service revenues	\$ -	\$ 474,260	\$ 22,072	\$ -	\$ 496,332	\$ -	\$ -	\$ 12,757	\$ 16,995	\$ 8,698	\$ 2,226	\$ (102)	\$ 536,906
Other revenues	11,423	11,599	654	(12,340)	11,336	5,335	132	-	238	-	1,059	(8,178)	9,922
Net assets released from restrictions used for operations	2	1,074	321	-	1,397	-	161	-	71	-	3	-	1,632
Total revenues	11,425	486,933	23,047	(12,340)	509,065	5,335	293	12,757	17,304	8,698	3,288	(8,280)	548,460
<b>Expenses</b>													
Salaries and wages	5,812	173,316	17,716	-	196,844	-	-	6,864	10,134	1,878	1,804	-	217,524
Fringe benefits	1,858	36,335	3,645	(159)	41,679	-	-	1,077	2,486	284	470	(12)	45,994
Management and support	-	10,056	963	(11,019)	-	-	421	80	180	-	60	(721)	-
Professional fees	2,649	8,953	970	(172)	12,400	273	14	170	782	34	37	(800)	12,910
Supplies	171	94,800	1,170	-	96,141	-	63	21	979	2,308	136	-	99,648
Purchased services and other	1,099	78,226	3,715	(990)	82,050	1,521	343	1,596	1,526	1,430	278	(5,497)	83,247
Interest	-	7,790	131	-	7,921	-	-	-	-	17	92	(84)	7,946
Bad debt expense	-	21,310	1,305	-	22,615	-	-	5,161	-	(38)	805	-	28,543
Depreciation and amortization	29	31,652	451	-	32,132	-	-	-	334	363	241	-	33,090
Total expenses	11,618	462,438	30,066	(12,340)	491,782	1,794	841	14,969	16,411	6,296	3,923	(7,114)	528,902
Income (loss) from operations	(193)	24,495	(7,019)	-	17,283	3,541	(548)	(2,212)	893	2,402	(635)	(1,166)	19,558
<b>Nonoperating gains (losses)</b>													
Investment income	9,838	9,181	8	-	19,027	1,357	2,617	-	-	48	-	(4,982)	18,067
Loss on disposal of assets	(7)	(749)	(184)	-	(940)	-	-	-	(5)	-	6	-	(939)
Nonoperating gains (loss), net	9,831	8,432	(176)	-	18,087	1,357	2,617	-	(5)	48	6	(4,982)	17,128
Revenues and gains over (under) expenses and losses prior to minority interest in consolidated subsidiary company	9,638	32,927	(7,195)	-	35,370	4,898	2,069	(2,212)	888	2,450	(629)	(6,148)	36,686
Minority interest in consolidated subsidiary company	-	-	-	-	-	-	-	-	-	(1,200)	-	-	(1,200)
Revenues and gains over (under) expenses and losses	\$ 9,638	\$ 32,927	\$ (7,195)	\$ -	\$ 35,370	\$ 4,898	\$ 2,069	\$ (2,212)	\$ 888	\$ 1,250	\$ (629)	\$ (6,148)	\$ 35,486

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended June 30, 2007**

**Schedule III**

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Elimin- ations	Obligated Group	RRG & UHR Combined	Foundation	PHEDS	PHHCH	WSSC	CLT	Elimin- ations	Consolidated Balances
<b>Unrestricted net assets</b>													
Revenues and gains over (under) expenses and losses	\$ 9,638	\$ 32,927	\$ (7,195)	\$ -	\$ 35,370	\$ 4,898	\$ 2,069	\$ (2,212)	\$ 888	\$ 1,250	\$ (629)	\$ (6,148)	\$ 35,486
Change in net unrealized gains and losses on investments	4,756	8,230	-	-	12,986	68	2,618	-	-	-	(3)	(67)	15,602
Change in additional minimum pension liability	-	(12,631)	-	-	(12,631)	-	-	-	-	-	-	-	(12,631)
Acquisition of Community Life Team	-	-	-	-	-	-	-	-	-	-	-	-	(319)
Capital contributions	4,423	(13,268)	7,514	-	(1,331)	-	-	1,772	(1,052)	-	611	-	-
Net assets released from restrictions for purchases of property, plant and equipment	-	1,783	48	-	1,831	-	-	-	-	-	-	-	1,831
Distributions	-	-	-	-	-	-	-	-	-	(1,235)	-	1,235	-
Change in interest rate swap	-	-	-	-	-	-	-	-	-	1	-	(1)	-
Increase (decrease) in unrestricted assets before cumulative effect of change in accounting principle	18,817	17,041	367	-	36,225	4,966	4,687	(440)	(164)	16	(340)	(4,981)	39,969
Adoption of SFAS 158	-	(990)	-	-	(990)	-	-	-	-	-	-	-	(990)
Increase (decrease) in unrestricted assets	18,817	16,051	367	-	35,235	4,966	4,687	(440)	(164)	16	(340)	(4,981)	38,979
<b>Temporarily restricted net assets</b>													
Contributions	-	1,548	-	-	1,548	-	2,263	-	74	-	-	(1,622)	2,263
Net realized and unrealized gains on investments	-	707	-	-	707	-	1,018	-	6	-	-	(713)	1,018
Transfer to permanently restricted funds	-	-	-	-	-	-	(5)	-	-	-	-	-	(5)
Net assets released from restrictions	-	(2,763)	-	-	(2,763)	-	(3,463)	-	(60)	-	-	2,823	(3,463)
(Decrease) increase in temporarily restricted assets	-	(508)	-	-	(508)	-	(187)	-	20	-	-	488	(187)
<b>Permanently restricted net assets</b>													
Contributions	-	465	-	-	465	-	470	-	5	-	-	(470)	470
Transfer from temporarily restricted funds	-	5	-	-	5	-	5	-	-	-	-	(5)	5
Income Distributions	-	(402)	-	-	(402)	-	(406)	-	(4)	-	-	406	(406)
Net realized and unrealized gains on investments	-	2,207	-	-	2,207	-	1,322	-	12	-	-	(1,322)	2,219
Increase in permanently restricted assets	-	2,275	-	-	2,275	-	1,391	-	13	-	-	(1,391)	2,288
Increase (decrease) in net assets	18,817	17,818	367	-	37,002	4,966	5,891	(440)	(131)	16	(340)	(5,884)	41,080
<b>Net assets</b>													
Beginning of year	96,509	270,248	1,596	-	368,353	14,929	47,903	591	1,601	1,584	-	(32,150)	402,811
End of year	\$ 115,326	\$ 288,066	\$ 1,963	\$ -	\$ 405,355	\$ 19,895	\$ 53,794	\$ 151	\$ 1,470	\$ 1,600	\$ (340)	\$ (38,034)	\$ 443,891

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidating Statement of Cash Flows**  
**Year Ended June 30, 2007**

**Schedule IV**

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Elimin- ations	Obligated Group	RRG & UHR Combined	Foundation	PHEDS	PHHCH	WSSC	CLT	Elimin- ations	Consolidated Balances
<b>Cash flows from operating activities</b>													
Change in net assets	\$ 18,817	\$ 17,818	\$ 367	\$ -	\$ 37,002	\$ 4,966	\$ 5,891	\$ (440)	\$ (131)	\$ 16	\$ (340)	\$ (5,884)	\$ 41,080
Adjustments to reconcile change in net assets to net cash provided by operating activities													
Net realized and unrealized gain on investments	(5,575)	(13,810)	-	-	(19,385)	(960)	(4,344)	-	(16)	-	3	(1)	(24,703)
Provision for bad debts	-	21,310	1,305	-	22,615	-	-	5,161	-	(39)	805	-	28,543
Curtailment gain on defined benefit pension plan	-	(18,009)	-	-	(18,009)	-	-	-	-	-	-	-	(18,009)
Adoption of SFAS 158	-	990	-	-	990	-	-	-	-	-	-	-	990
Depreciation and amortization	29	31,652	451	-	32,132	-	-	-	334	383	241	-	33,090
Loss (gain) on disposal of assets	8	748	185	-	941	-	-	-	5	-	(6)	(1)	939
Amortization of deferred financing costs	-	283	-	-	283	-	-	-	-	-	(1)	-	282
Change in additional minimum pension liability	-	12,631	-	-	12,631	-	-	-	-	-	-	-	12,631
Equity in earnings of partnerships	195	(1,804)	-	-	(1,609)	-	-	-	-	-	-	-	(1,609)
Minority interest in net gain of WSSC	-	-	-	-	-	-	-	-	-	1,200	-	-	1,200
Restricted contributions and investment income received	-	(2,271)	-	-	(2,271)	-	(2,283)	-	(12)	-	-	2,283	(2,283)
Change in assets and liabilities													
(Increase) decrease in accounts receivable	(154)	(18,176)	(1,969)	-	(20,299)	(61)	740	(4,891)	47	217	(981)	(365)	(25,593)
Decrease (increase) in inventories and other assets	(231)	788	(109)	-	448	-	-	-	(1)	(24)	-	-	423
(Increase) decrease in prepaid expenses	25	(524)	(45)	-	(544)	(27)	1	(15)	3	(5)	(29)	-	(617)
(Decrease) increase in accounts payable and accrued expenses	(2,863)	(44)	558	-	(2,349)	1,471	119	(50)	(42)	137	19	-	(695)
Increase (decrease) in accrued salaries, wages, fees and vacation	(336)	1,943	379	-	1,986	-	-	235	151	(1)	125	-	2,496
Increase (decrease) increase in accrued insurance and retirement costs	40	1,017	-	-	1,057	708	-	-	(137)	(50)	-	-	1,578
(Decrease) increase in advances to related parties	325	(21)	(615)	-	(311)	-	287	-	24	-	-	-	-
(Decrease) increase in advances from and amounts due to third-party payors	-	(5,516)	-	-	(5,516)	-	-	-	-	-	-	-	(5,516)
Net cash provided by (used in) operating activities	10,280	29,005	507	-	39,792	6,097	411	-	225	1,834	(164)	(3,968)	44,227

**Pinnacle Health System**  
**(and controlled entities and subsidiaries)**  
**Consolidating Statement of Cash Flows**  
**Year Ended June 30, 2007**

**Schedule IV**

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Elimin- ations	Obligated Group	RRG & UHR Combined	Foundation	PHEDS	PHHCH	WSSC	CLT	Elimin- ations	Consolidated Balances
<b>Cash flows from investing activities</b>													
Purchase of property, plant and equipment	(9)	(32,949)	(867)	-	(33,825)	-	-	-	(219)	(279)	(1,099)	2	(35,420)
Cash received (invested in) from joint ventures, net	(4,775)	1,706	(1)	-	(3,070)	-	-	-	-	-	-	6,071	3,001
(Purchase) sale of investments, including assets limited as to use, net	(3,736)	4,974	-	-	1,238	(4,352)	(2,853)	-	(17)	-	(4)	1,344	(4,544)
Proceeds from sale of assets	-	22	-	-	22	-	-	-	-	-	7	-	29
Net cash (used in) provided by investing activities	(8,520)	(26,247)	(868)	-	(35,835)	(4,352)	(2,853)	-	(236)	(279)	(1,086)	7,417	(37,034)
<b>Cash flows from financing activities</b>													
Repayments of long-term debt	(226)	(4,424)	(59)	-	(4,709)	-	-	-	-	(176)	(234)	84	(5,035)
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-	-	-	1,494	244
Contribution to minority interest	-	-	-	-	-	-	-	-	-	(1,376)	-	-	(1,376)
Capitalization of deferred financing costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted contributions and investment income received	-	2,271	-	-	2,271	-	2,283	-	12	-	-	(2,283)	2,283
Net cash (used in) provided by financing activities	(226)	(2,153)	(59)	-	(2,438)	-	2,283	-	12	(1,552)	1,260	(3,449)	(3,854)
Net increase (decrease) in cash and cash equivalents	1,534	605	(420)	-	1,719	1,745	(159)	-	1	3	-	-	3,309
<b>Cash and cash equivalents</b>													
Beginning of year	-	679	857	-	1,536	-	2,452	-	-	1,177	-	-	5,165
End of year	\$ 1,534	\$ 1,284	\$ 437	\$ -	\$ 3,255	\$ 1,745	\$ 2,293	\$ -	\$ 1	\$ 1,180	\$ -	\$ -	\$ 8,474

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**APPENDIX C**  
**SUMMARY OF PRINCIPAL DOCUMENTS**

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## **DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF PRINCIPAL DOCUMENTS**

The following definitions apply to the summaries hereinafter set forth, and to terms not otherwise defined in this Official Statement. In certain cases, the definitions given below are an abbreviation or paraphrase of the definitions given such words in the financing documents and reference is made to the financing documents on file with the Bond Trustee and the Master Trustee for a complete statement.

“Acceptable Rating Agency” shall mean Standard & Poor’s Ratings Group (“S & P”) or Moody’s Investors Service (“Moody’s”) or their respective successors, or upon the discontinuation of such rating services, any other nationally-recognized rating service as shall be designated by an Officer’s Certificate delivered to the Bond Trustee. Whenever “highest rating category,” “one of the two highest rating categories” or a phrase of similar import is used, such phrase refers to the rating category or categories of the appropriate rating service or services without regard to any refinement or gradation of such rating category or categories by numerical modifier or otherwise, unless otherwise specifically stated.

“Account” means each Remarketing Account, Borrower Purchase Account and Liquidity Facility Purchase Account established within a Bond Purchase Fund.

“Act” shall mean the Pennsylvania Municipality Authorities Act, 53 Pa. Cons. Stat §§ 5601-5622 (2007), which represents the codification of the Municipalities Authority Act of 1945.

“Alternate Liquidity Facility” means a Liquidity Facility issued to replace a Liquidity Facility to purchase Bonds other than ARS tendered for purchase as provided in the Indenture and any amendment or assignment of a Liquidity Facility which results in a change in the Liquidity Facility Provider.

“ARS” means, on any date, the Bonds when bearing interest as auction rate securities as provided in Exhibit A to the Indenture.

“ARS Rate Period” has the meaning given in Appendix D to this Official Statement.

“Assets” shall mean Operating Assets and Non-Operating Assets.

“Auction” has the meaning given in Appendix D to this Official Statement.

“Auction Agent” has the meaning given in Appendix D to this Official Statement.

“Auction Agreement” has the meaning given in Appendix D to this Official Statement.

“Auction Date” has the meaning given in Appendix D to this Official Statement.

“Auction Period” has the meaning given in Appendix D to this Official Statement.

“Auction Period Rate” has the meaning given in Appendix D to this Official Statement.

“Authority” or “Issuer” means the Dauphin County General Authority and its successors and assigns.

“Authorized Denominations” means (a) with respect to Bonds which are subject to a Long-Term Interest Rate Period, \$5,000 or any integral multiple thereof, (b) with respect to Bonds which are ARS, “Authorized Denominations” as defined in Appendix D to this Official Statement, and (c) with respect to Bonds which are not described in the preceding clause (a) or clause (b), \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

“Available Moneys” means (a) with respect to any payment date occurring during any period in which the Bonds are entitled to the benefit of a Liquidity Facility, (i) moneys which have been paid to the Trustee by the Borrower and have been on deposit with the Trustee for at least one year plus one day during, at and prior to which no Event of Bankruptcy shall have occurred, and the proceeds from investment of such moneys, and (ii) any other moneys provided that the Trustee shall have received an opinion of Counsel experienced in bankruptcy matters to the effect that the application of such moneys would not constitute an avoidable preference under Section 547 or 550 of the United States Bankruptcy Code in the event of the occurrence of an Event of Bankruptcy, and (b) with respect to Bank Bonds or any payment date not occurring during a period in which the Bonds other than Bank Bonds are entitled to the benefit of a Liquidity Facility, any moneys furnished to the Trustee and the proceeds from the investment thereof.

“Average Annual Debt Service” means the total amount of the principal of and interest on the Bonds payable over the stated period to maturity thereof, divided by the number of Fiscal Years in such stated period.

“Balloon Long-Term Indebtedness” shall mean Long-Term Indebtedness, 25% or more of the principal of which matures in the same Fiscal Year (on a date which is not less than 365 days from the date of computation), after taking into account all scheduled redemptions or prepayments over the life of the Indebtedness.

“Bank Bonds” means Bonds purchased by the Liquidity Facility Provider or its assignee pursuant to a Liquidity Facility.

“Bank Bond Rate” means the rate set forth in the Liquidity Facility.

“Basic Agreements” means each of the Indenture, the Bonds and the Borrower Security Instruments.

“Beneficial Owner” means any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

“Board” shall mean the governing body of the Issuer.

“Bond Counsel” means an attorney at law or firm of attorneys selected by the Issuer and reasonably acceptable to the Trustee, the Insurer and the Borrower, of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Bond Fund” means the fund by that name created in the Indenture.

“Bond Insurer” shall mean any Person which has issued a Bond Insurance Policy with respect to any Indebtedness secured by a Master Note or a Master Guaranty.

“Bond Insurance Policy” shall mean an insurance policy issued by a Bond Insurer insuring or guaranteeing the payment of the principal of and interest on Indebtedness secured by a Master Note or Master Guaranty.

“Bond Interest Term” means, with respect to any Bond, each period established in accordance with the Indenture during which such Bond bears interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means, with respect to each Bond, a non-variable interest rate on such Bond established periodically in accordance with the Indenture.

“Bond Purchase Fund” means each trust fund established with a Tender Agent pursuant to the Indenture.

“Bondholder” or “Holder” means, as of any time, the registered owner of any Bond as shown in the register kept by the Trustee as bond registrar.

“Bonds” means the Bonds from time to time Outstanding under the Indenture.

“Book Value”, when used in connection with Property, Plant and Equipment or other Property, means the value of such property, net of accumulated depreciation, as it is carried on the books in conformity with generally accepted accounting principles.

“Borrower” or “Hospital” means Pinnacle Health Hospitals, a non-profit corporation, organized and existing under the laws of the Commonwealth of Pennsylvania, and its successors and assigns.

“Borrower Bonds” means the Bonds held by the Tender Agent for and on behalf of the Borrower or any nominee for (or any Person who owns such Bonds for the sole benefit of) the Borrower pursuant to the Indenture and the Tender Agent Agreement.

“Borrower Representative” means the person or each alternate designated to act for the Borrower by written certificate furnished to the Issuer and the Trustee, containing the specimen signature of such person and signed on behalf of the Borrower by the Chief Financial Officer, the Treasurer or any Executive Vice President, Senior Vice President or Vice President of the Borrower.

“Borrower Security Instruments” means each of the Loan Agreement, the 2007 Note and such additional or supplemental notes and other instruments as the Borrower, the Obligated Group or any other Person from time to time may enter into in favor of the Trustee for the purpose of securing or supporting the obligations of the Borrower to pay all or any portion of the Loan Payments or for the purpose of securing all or any portion of the Bonds, by written agreement of the Borrower and the Trustee, each as from time to time in effect.

“Broker-Dealer” has the meaning given in Appendix D to this Official Statement.

“Broker-Dealer Agreement” has the meaning given in Appendix D to this Official Statement.

“Business Day” means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Harrisburg, Pennsylvania, the City of New York, New York, the city where the Insurer is located or any other municipalities in which the principal offices of the Trustee or the Auction Agent are located.

“Capital Additions” means any and all additions or improvements to the Hospital Premises or other Property of a Member.

“Capitalization” means the principal amount of all Long-Term Indebtedness Outstanding, plus the equity accounts of the Obligated Group (i.e., unrestricted fund balances including shareholder equity).

“Closing Date” means the date of delivery of the Bonds to the Underwriter against payment therefor.

“Closing Receipt” means the settlement reconciliation and closing statement with respect to the issuance and delivery of the Bonds, executed by the Issuer, the Borrower, the Underwriter and the Trustee and delivered on the Closing Date.

“Code” means the Internal Revenue Code of 1986, as from time to time amended, and any regulations promulgated thereunder which are applicable to the Bonds, including without limitation any Treasury Regulations or Temporary or Proposed Regulations, as the same shall from time to time be amended including (until modified, amended or superseded) Treasury Regulations or Temporary or Proposed Regulations under the Internal Revenue Code of 1954, as amended, as applicable to the Bonds.

“Commitment Indebtedness” means the obligation of any Member of the Obligated Group to repay amounts disbursed pursuant to a commitment from a financial institution to refinance when due, or finance the purchase or payment of, Long-Term Indebtedness incurred in accordance with the provisions of the Master Indenture.

“Commonwealth” shall mean the Commonwealth of Pennsylvania.

“Completion Indebtedness” means any Long-Term Indebtedness incurred by any Member of the Obligated Group for the purpose of financing the completion of construction or equipping of facilities for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary either: (a) to provide funds for a completed and equipped facility of the type and scope contemplated at the time that such Long-Term Indebtedness was originally incurred, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformity with the documents pursuant to which such Long-Term Indebtedness was originally incurred, or (b) to provide funds for the improvement, replacement or substitutions for, or additions to, facilities of any Member of the Obligated Group for which Long-Term Indebtedness has been incurred, necessitated by faulty design, damage to or destruction to such facilities, or enactment of legislation or the promulgation of regulations or a ruling by a government agency affecting the construction or operation of such facility or its use or operation by such Member.

“Consultant” shall mean a Person or firm, no member, director or officer of which is an officer or employee of any Member of the Obligated Group, and which is a professional consultant having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears and who is not unsatisfactory to the Master Trustee.

“Consultant’s Certificate” shall mean a certificate executed by the Consultant or an authorized officer or employee thereof.

“Conversion” means a conversion of the Bonds from one Interest Rate Period to another Interest Rate Period (including the establishment of a new interest period within the Long-Term Interest Rate Period) as provided in the Indenture.

“Conversion Date” means the effective date of a Conversion of the Bonds.

“Corporate Trust Office” means a designated office of the Master Trustee at which its corporate trust business is conducted, which at the date of this Official Statement is located at 213 Market Street, Harrisburg, Pennsylvania 17101.

“Cost” or “Costs” in connection with the Project means all expenses which are properly chargeable thereto under generally accepted accounting principles or which are incidental to the financing, acquisition, construction and installation of the Project.

“Costs of Collection” means all reasonable attorneys’ fees and out-of-pocket expenses incurred by the Trustee and all costs and expenses associated with travel on behalf of the Trustee, which costs and expenses are directly or indirectly related to the Trustee’s efforts to collect or enforce the Bonds, the Indenture or the Borrower Security Instruments, or any of the Trustee’s rights, remedies, powers, privileges, or discretion against

or in respect of the Borrower thereunder (whether or not suit is instituted in connection with any of the foregoing).

“Co-Trustee” means any Co-Trustee appointed by the Trustee pursuant to the provisions of the Indenture.

“Counsel” means an attorney or a firm of attorneys admitted to practice law in the highest court of any state in the United States of America or in the District of Columbia.

“Current Assets” means cash and cash equivalent deposits, marketable securities, accounts receivable, accrued interest receivable and any other assets of the Obligated Group ordinarily considered current assets under generally accepted accounting principles except that, regardless of generally accepted accounting principles, Current Assets: (i) shall not include portions of Pooled System Funds which are attributable to deposits made therein by the Hospital or any entity which is not a Member of the Obligated Group; and (ii) shall include cash and cash equivalent deposits, marketable securities, funded depreciation and board-designated funds that have not been restricted for use by action of the Governing Body to pay part of the costs of a particular capital project.

“Current Liabilities” means those items ordinarily considered current liabilities under generally accepted accounting principles.

“Current Ratio” means the ratio determined by dividing the aggregate of the Current Assets by the aggregate of the Current Liabilities of the Members of the Obligated Group.

“Daily Interest Rate” means a variable interest rate for the Bonds established in accordance with the Indenture.

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the Bonds.

“Day of Operating Expenses” means operating expenses of the Members of the Obligated Group, minus depreciation and amortization expense, divided by the number of calendar days for the applicable period.

“Debt Service Coverage Ratio” means the ratio, for the applicable twelve-month period, of Income Available for Debt Service to Maximum Annual Debt Service.

“Debt Service Requirements” means, with respect to any Fiscal Year, the sum of amounts required to be set aside in such Fiscal Year for payment of principal or redemption price of and interest on Bonds.

“Debt Service Reserve Fund” means the fund by that name created in the Indenture.

“Default” means any Event of Default or any event or condition which, with the passage of time or giving of notice or both, would constitute an Event of Default.

“Derivative Transaction” means any Interest Rate Hedge or Interest Rate Swap Agreement.

“DTC” means The Depository Trust Company, New York, New York.

“Early Termination Payment” shall mean, with respect to a Derivative Transaction, any payment obligation of the Obligated Group thereunder due upon the early termination of any transaction governed by such Derivative Transaction, other than an Insured Early Termination Payment.

“Event of Bankruptcy” means the commencement of a case by or against the Borrower or any member of the Obligated Group, as debtor, under the United States Bankruptcy Code or under any similar state law, unless such case shall have been dismissed and such dismissal shall be final and not subject to appeal.

“Event of Default” or “event of default” shall mean one or more of the events of default set forth in the Master Indenture, the Loan Agreement or the Indenture, as the context shall indicate.

“Expiration Date” means the termination date of the Liquidity Facility or an Alternate Liquidity Facility, as extended from time to time.

“Favorable Opinion of Bond Counsel” means, with respect to any action relating to the Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the Trustee, the Borrower, the Insurer and the Remarketing Agent or the Broker-Dealers, as applicable, to the effect that such action is permitted under the Indenture 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 customary exceptions).

“Financial Statements” shall mean the consolidated or combined financial statements of the System and its affiliates audited by Independent Accountants and including supplemental data regarding members of the Obligated group, prepared in accordance with generally accepted accounting principles.

“Fiscal Year” shall mean, for any Member of the Obligated Group, the fiscal year of the Hospital and, with respect to the Issuer, shall mean the period of twelve consecutive calendar months adopted by the Issuer as its fiscal year.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Issuer and the Trustee, with the consent of the Insurer.

“Flexible Auction Period” has the meaning given in Appendix D to the Official Statement.

“Governing Body” shall mean, when used with respect to any Member of the Obligated Group, its board of directors, board of trustees or other board or group of individuals in which the corporate or analogous powers of the Member are vested.

“Government Obligations” shall mean direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America (including stripped securities, if stripped by the issuing agency).

“Governmental Restrictions” shall mean federal, state or other applicable governmental laws or regulations affecting any Member of the Obligated Group, and its facilities, or any reimbursement provider, which place restrictions and limitations directly or indirectly on (i) the fees and charges to be fixed, charged and collected or revenues to be earned by such Member of the Obligated Group or (ii) the timing of receipt of such revenues.

“Gross Revenue Fund” means the fund by that name created with the Master Trustee pursuant to the Master Indenture.

“Gross Revenues” shall mean all operating and non-operating revenues, received by or on behalf of any Member, and all rights to receive the same, whether in the form of accounts, general intangibles, chattel paper,

documents, instruments or money, whether now owned or hereafter acquired, all as defined in the Uniform Commercial Code, and all the proceeds thereof, and any insurance proceeds or condemnation awards, excluding, however, any gifts, grants, bequests, funds, donations and contributions, and income therefrom, to the extent specifically restricted by the donor, settlor or grantor to a particular purpose inconsistent with the use for the payment of principal of, redemption premium and interest on Master Notes or Master Guaranties.

“Guaranty” or “Guaranties” shall mean all obligations of any Member of the Obligated Group guaranteeing any obligation of any other Person which would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master Indenture, unless the obligation of such other Person is other than for payment of a sum certain. The foregoing notwithstanding, “Guaranty” or “Guaranties” shall not incur an obligation of a Member in respect of a guaranty of not more than \$500,000 in principal amount of the debt or obligation of any Person, if such guaranty is made by the Member in connection with the recruitment, hiring or retention of such Person as an employee of the Member.

“Hospital” or “Borrower” means Pinnacle Health Hospitals, a non-profit corporation, organized and existing under the laws of the Commonwealth of Pennsylvania, and its successors and assigns.

“Hospital Premises” shall mean, as of any particular time, (i) the real property and improvements described in the Mortgage (as defined below under “MORTGAGE”) and (ii) any other Property of any Member of the Obligated Group which has been financed with the proceeds of Indebtedness secured by a Master Note or a Master Guaranty or which is used in the provision of health care services, and (iii) all renewals, replacements and repairs thereof.

“Income Available for Debt Service” shall mean, with respect to the Obligated Group, as to any period of time, (a) excess of Total Revenues over all operating and non-operating expenses (which shall include realized (but not unrealized) investment income, but shall not include the termination value and unrealized gains and losses of any Interest Rate Hedge or Interest Rate Swap Agreement or related unrealized gains and losses), plus (b) depreciation, amortization and interest expense associated with Long-Term Indebtedness, any other non-cash charges and deferred income, less (c) entrance fees and other sums required to be placed in escrow pursuant to the Pennsylvania Continuing Care Provider Act or similar applicable law, all as determined in accordance with generally accepted accounting principles consistently applied; provided, that no determination thereof shall take into account any revenue or expense of a Person which is not a Member, any revenues of Pooled System Funds which are payable to any Person not a Member of the Obligated Group, or any extraordinary gains or losses attributable to the disposition of Property, Plant and Equipment or the extinguishment of debt, net of third-party reimbursement. If the fiscal year of any Member ends on a date other than the last day of a Fiscal Year, the Income Available for Debt Service of such Member for its fiscal year ending within the Fiscal Year under consideration shall be deemed to be its Income Available for Debt Service for such Fiscal Year.

“Indebtedness” shall mean all obligations for borrowed money, or installment sales and capitalized lease obligations, incurred, guaranteed or assumed by a Member (other than to another Member).

“Indebtedness Ratio” means the ratio determined by dividing the aggregate principal amount of Indebtedness of the Members of the Obligated Group then Outstanding by the sum of (a) the aggregate principal amount of such Indebtedness and (b) total unrestricted net assets (or, in the case of for-profit Members, shareholders’ equity) of the Members (as reflected in or derived from the most recent Obligated Group Financial Statements).

“Indenture” or “Bond Indenture” means the Trust Indenture dated as of October 1, 2007 between the Issuer and the Trustee.

“Independent Counsel” means an attorney or firm of attorneys duly admitted to practice law before the highest court of any State of the United States and who is not a full-time employee of the Issuer or the Borrower.

“Independent Public Accountant” shall mean, when used with respect to the provisions of the Master Indenture, a Person who is a certified public accountant, under the laws of any state, and who is appointed by a Member. If such Person be an individual he shall not be, and if such Person be a partnership or corporation it shall not have a partner, director, officer or employee who is, a member of the Governing Body of any Member or an officer or employee of any Member, but such Person may be regularly retained by or under contract with a Member. “Independent Public Accountant” shall mean, when used with respect to the provisions of the Bond Indenture, a Person who is a certified public accountant under the laws of the Commonwealth appointed by the Board or the Hospital, to conduct audits, examinations and reports relating to the financial affairs of the Issuer or the Hospital, respectively, and not unsatisfactory to the Bond Trustee. If such Person be an individual he shall not be, and if such Person be a partnership or corporation it shall not have, a partner, director, officer or employee who is, a member of the Board, an officer or employee of the Issuer, a member of a Board of Directors of the Hospital or an officer or employee of the Hospital, but such Person may be regularly retained by or under contract with the Issuer and/or the Hospital.

“Initial Period” has the meaning given in Appendix D to this Official Statement.

“Insurance Policy” means the municipal bond insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“Insured Early Termination Payment” means, with respect to a Derivative Transaction, any payment obligation of the Obligated Group thereunder due upon the early termination of any transaction governed by such Derivative Transaction that is insured under an insurance policy issued by an insurer that has also issued a bond insurance policy with respect to Related Bonds.

“Insured Swap” shall mean any Derivative Transaction wherein the Regularly Scheduled Payments are insured under a swap insurance policy from a Bond Insurer who has also insured the Related Bonds, having an outstanding principal amount at least equal to the notional amount of the Derivative Transaction.

“Insured Swap Payments” shall mean any payment obligation of the Obligated Group due pursuant to an Insured Swap that is insured under a swap insurance policy.

“Insurer” means initially Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

“Interest Accrual Date” with respect to the Bonds other than ARS means: (a) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period; (b) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month; (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date; and (d) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

“Interest Payment Date” means: (a) with respect to the Bonds other than ARS, (i) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day; (ii) for any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month; (iii) for any Long-Term Interest Rate Period, each May 15 and November 15; (iv) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term; (v) for each Interest Rate Period, the day next succeeding the last day thereof; and (vi) for Bank Bonds, each Interest Payment Date for Bank Bonds set forth in the Liquidity Facility; and (b) with respect to Bonds which are ARS, each ARS Interest Payment Date (as defined in Appendix D to this Official Statement).



“Interest Rate Hedge” means an agreement, expressly identified in an Officer’s Certificate as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or ARS Rate Period.

“Interest Rate Swap Agreement” means an agreement which is an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar), including without limitation any Interest Rate Hedge.

“Investment Agreement” means any guaranteed investment contract, forward purchase agreement and reserve fund put agreement acceptable to the Insurer.

“Issuer” means the Dauphin County General Issuer and its successors and assigns.

“Issuer Agreements” means each of the Indenture, the Loan Agreement, the Bonds and the Purchase Contract.

“Issuer Representative” means the person or each alternate designated to act for the Issuer by written certificate furnished to the Borrower and the Trustee, containing the specimen signature of such person and signed on behalf of the Issuer by the Chairman or the Vice Chairman of the Issuer.

“Joint Indebtedness” shall mean any Long-Term Indebtedness for which one or more Members of the Obligated Group and one or more Other Persons are jointly and severally liable.

“Lien” shall mean any mortgage or pledge of, security interest in, or encumbrance on, any Property of any Member of the Obligated Group that secures or is in favor of any Indebtedness or any other obligation to a Person other than a Member.

“Liquidity Facility” means a letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement acceptable to the Insurer issued by a Liquidity Facility Provider to provide liquidity support to pay the Tender Price of the Bonds (other than ARS) tendered for purchase in accordance with the provisions of the Indenture and any Alternate Liquidity Facility delivered pursuant to the Indenture and with terms that are not inconsistent with the terms of the Indenture.

“Liquidity Facility Provider” means the provider of a Liquidity Facility, and its successors and permitted assigns, each having been approved by the Insurer, and upon the effective date of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions or other Person or Persons issuing such Alternate Liquidity Facility, their successors and assigns, subject to the approval of the Insurer. If any Alternate Liquidity Facility is issued by more than one bank, financial institution or other Person, notices required to be given to the Liquidity Facility Provider may be given to the bank, financial institution or other Person under such Alternate Liquidity Facility appointed to act as agent for all such banks, financial institutions or other Persons.

“Liquidity Facility Purchase Account” means each account with that name established within the Bond Purchase Fund pursuant to the Indenture.

“Loan Agreement” means the Loan Agreement, dated as of October 1, 2007 between the Issuer and the Borrower, and any amendments and supplements thereto.

“Loan Payment” means a payment by the Borrower pursuant to the Loan Agreement or the 2007 Note of amounts which correspond to interest, or principal and interest on account of debt service on the Bonds, plus related fees and expenses, all in accordance with the Loan Agreement and the 2007 Note.

“Long-Term Debt Service Requirements” shall mean, for any specified period, (a) the amounts payable as lease rentals in respect of any or all Long Term Indebtedness in the form of capitalized leases, (b) the amounts payable to the Holders of Master Notes or Master Guaranties (or to a trustee or paying agent for such Holders) in respect of the principal of any or all Master Notes or Master Guaranties issued as Long-Term Indebtedness under the Master Indenture (including scheduled mandatory redemptions or prepayments of principal) and the interest on such Master Notes or Master Guaranties, and (c) the amounts payable to any or all holders of Long-Term Indebtedness other than capitalized leases and Master Notes or Master Guaranties under the Master Indenture (or to any trustee or paying agent for such holders) in respect of the principal of such Long-Term Indebtedness (including mandatory redemptions or prepayments of principal) and the interest on such Long-Term Indebtedness. Notwithstanding the foregoing, the amounts deemed payable in respect of any Long-Term Indebtedness shall not include interest which is funded from the proceeds thereof or any amounts payable from funds available (without reinvestment) in a Qualified Escrow (other than amounts so payable solely by reason of a Member’s failure to make payments from other sources). In addition, calculations of the Long-Term Debt Service Requirements shall be subject to adjustment as and to the extent permitted or required by the Master Indenture.

“Long-Term Indebtedness” shall mean all Indebtedness of any Member of the Obligated Group for the payment of money to any Person other than a Member, including any Master Notes and Master Guaranties issued under the Master Indenture to evidence or secure Long-Term Indebtedness, whether due and payable in all events or upon the performance of work, possession of property or satisfaction of other specified conditions, except: (a) Short-Term Indebtedness, Subordinated Indebtedness and Non-Recourse Indebtedness; (b) current obligations payable out of current revenues, including current payments for the funding of pension plans and contributions to self-insurance programs; (c) obligations under contracts for supplies, services and pensions, allocable to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid; and (d) rentals payable under leases that are not capitalized under generally accepted accounting principles.

“Long-Term Interest Rate” means a term, non-variable interest rate established in accordance with the Indenture.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect.

“Majority of the Bondholders” means the Holders of more than 50 percent of the aggregate principal amount of Outstanding Bonds.

“Mandatory Standby Tender” means the mandatory tender of the Bonds pursuant to the Indenture upon receipt by the Trustee of written notice from the Liquidity Facility Provider that an event with respect to the Liquidity Facility has occurred which requires or gives the Liquidity Facility Provider the option to terminate such Liquidity Facility upon notice. Mandatory Standby Tender shall not include circumstances where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

“Master Guaranty” means any Guaranty issued and delivered under the Master Indenture.

“Master Indenture” means the Master Trust Indenture dated as of August 15, 1991, from the Hospital to Dauphin Deposit Bank and Trust Company (now Manufacturers and Traders Trust Company), as Master Trustee, as previously supplemented and amended, and as amended and restated by the Amended and Restated

Master Trust Indenture dated as of October 1, 2007, by and among the Hospital, the System, Services and the Master Trustee.

“Master Note” shall mean any note issued, authenticated and delivered under the Master Indenture. References to a series of Master Notes or to Master Notes of a series shall mean the Master Notes or series of Master Notes issued pursuant to a single Supplemental Indenture. The term Master Note when prefaced by “2007” shall mean the Master Note issued as security for the Bonds.

“Maximum Annual Debt Service” under the Indenture means the maximum amount of principal of and interest on the Bonds required to be paid in any Fiscal Year over the life thereof, and under the Master Indenture means the greatest Long-Term Debt Service Requirements for the current Fiscal Year or any succeeding Fiscal Year over the remaining term of all Master Notes and Master Guaranties issued under the Master Indenture. If under the Master Indenture any calculation of the Debt Service Coverage Ratio is required to be made for any period ending between the date of incurrence of any Long-Term Indebtedness to finance or refinance any construction or renovation and the completion date of such construction or renovation, the Maximum Annual Debt Service to be used for the purposes of such calculation shall be deemed equal to the sum of (a) the Maximum Annual Debt Service on all Long-Term Indebtedness, excluding the Long-Term Indebtedness incurred to finance or refinance the construction or renovation in question, and (b) the Long-Term Debt Service Requirements on the excluded Long-Term Indebtedness for the period in question. The foregoing adjustments may not be made for the purposes of incurring debt pursuant to the Master Indenture. The foregoing adjustments may be made for the purposes of required projections or forecasts, but only if the projection or forecast period extends through the first two Fiscal Years following the completion of the construction or renovation in question and if the required Debt Service Coverage Ratio (adjusted only for Fiscal Years ending before completion of the construction or renovation) is projected or forecasted to be achieved for each Fiscal Year during such period.

“Maximum Bank Bond Interest Rate” means the lesser of (a) the rate of 25% per annum and (b) the Maximum Lawful Rate.

“Maximum Bond Interest Rate” means (a) with respect to Bonds other than ARS, the lesser of 12% per annum and the Maximum Lawful Rate and (b) with respect to ARS, “Maximum Rate” as defined in Appendix D to this Official Statement.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law, but in no event shall such rate exceed 25%.

“Member” shall mean any Person who or which is at any time a member of the Obligated Group pursuant to the provisions of the Master Indenture.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Issuer and the Trustee, with the consent of the Insurer.

“Net Revenues” with respect to any Fiscal Year, shall mean the excess of Gross Revenues over operating expenses (i) of the Obligated Group, and (ii) of any Person for which a Member has guaranteed indebtedness or liabilities, as applicable, arising out of operation or ownership of (A) the Hospital Premises and other properties and facilities of the Members of the Obligated Group and (B) property or facilities acquired with proceeds of indebtedness or liabilities of any person so guaranteed, as shown by (1) the statement of revenues and expenses of the Obligated Group required to be delivered to the Master Trustee pursuant to the Master Trust Indenture, or (2) the financial statements of such Person, but before deducting the aggregate

amount of all depreciation expense, financing expense, interest expense on and payments made for indebtedness, to the extent that such expenses and payments are included as expenses in the statements of revenues and expenses referred to above, plus amortization of indebtedness for such Fiscal Year; excluding, however, any gain or loss on the extinguishment of debt or the sale or disposal of capital assets, and any extraordinary gain or loss occurring because of a change in the method of third party reimbursement.

“Non Scheduled Payments” shall mean any payments under any Derivative Transaction that are not Regularly Scheduled Payments, including but not limited to Early Termination Payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

“Non-Recourse Indebtedness” shall mean any Indebtedness (a) incurred pursuant to the Master Indenture, (b) secured solely as permitted under the Master Indenture and (c) the holder of which has no claim for any payments in respect thereof against the general credit of any Member or against any properties or revenues other than the properties or revenues subject to the liens or security interest permitted for Non-Recourse Indebtedness by the Master Indenture.

“Noteholder” means the registered owner of any Master Note.

“Obligated Group” means all Persons that at the time are Members of the Obligated Group, whether or not a particular Person has issued any Master Note or Master Guaranty under the Master Indenture.

“Officers’ Certificate” when used with respect to provisions of the Indenture, means a statement signed by a Responsible Officer of the Hospital or the Issuer, as the case may be, and when used with respect to provisions of the Master Indenture, means a certificate signed by an authorized officer of the appropriate Member of the Obligated Group.

“Operating Assets” shall mean any or all land, leasehold interests, buildings, machinery, equipment, hardware and inventory of the Obligated Group, whether separately or together with other such assets.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds who is not unsatisfactory to the Master Trustee and whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means an opinion or opinions in writing signed by counsel who may (except as otherwise expressly provided in the Bond Indenture) be counsel to the Issuer and/or the Hospital, and/or any Member and/or counsel who renders the initial opinion to the purchasers of the Bonds, who shall not be unsatisfactory to the Bond Trustee or the Master Trustee.

“Optional Tender Indebtedness” means any Indebtedness which (a) has a stated maturity later than 365 days after the date of incurrence, (b) is incurred as Long-Term Indebtedness pursuant to the Master Indenture, and (c) is subject to repurchase or repayment as to principal on specified dates, upon the occurrence of specified events or upon demand by the holder thereof (including any indebtedness which is subject to such repurchase or repayment within 365 days from the date of incurrence). For the purposes of the Master Indenture, the term ‘Optional Tender Indebtedness’ shall also include commercial paper and other similar instruments issued under a program which has an expected term in excess of 365 days and which provides for the periodic issuance of debt obligations to repurchase, redeem or otherwise retire debt obligations previously issued under the program.

“Other Person” means a Person other than a Member of the Obligated Group.

“Outstanding” with reference to obligations or instruments issued under the Master Indenture, means (a) all Master Notes issued, authenticated and delivered under the Master Indenture other than (i) Master Notes as to which all required payments of principal, premium and interest have been fully paid or have been duly provided

for pursuant to the Master Indenture, and (ii) Master Notes surrendered to, and required to be canceled by, the Master Trustee or otherwise replaced, as provided in the Master Indenture, and (b) all Master Guaranties issued under the Master Indenture unless the Master Trustee has received from the Holder thereof a written release of all claims thereunder against the signer and all other Members.

“Outstanding Bonds” or “Bonds outstanding” means the amount of principal of the Bonds which has not at the time been paid, exclusive of (a) Bonds in lieu of which others have been authenticated under the Indenture, (b) principal of any Bond which has become due (whether by maturity, call for redemption or otherwise) and for which provision for payment as required herein has been made, and (c) for purposes of any direction, consent or waiver under the Indenture, Bonds which are owned by the Issuer or the Borrower and deemed not to be outstanding; provided that Bonds paid by payments made under the Insurance Policy shall be deemed to be Outstanding Bonds until the Insurer is reimbursed in full.

“Participant” means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

“Paying Agent” means the Trustee or any other paying agent appointed in accordance with the Indenture.

“Payment Date” means each Interest Payment Date or any other date on which any principal of, premium, if any, or interest on any Bond is due and payable for any reason, including without limitation upon any redemption of Bonds pursuant to the Indenture.

“Payment Obligations” means the payment obligations of the Borrower to the Insurer or any Liquidity Facility Provider, including any interest, fees, costs and other similar amounts required to be paid by the Borrower pursuant to any such obligation.

“Pennsylvania” or “Commonwealth” means the Commonwealth of Pennsylvania.

“Permitted Liens” means those liens listed and described in the Master Indenture.

“Person” means a corporation, association, partnership, limited liability company, joint venture, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

“Policy” means the municipal bond insurance policy issued by the Insurer in order to secure the scheduled payment as and when due of the principal of and interest on the Bonds.

“Pooled System Funds” shall mean those funds and accounts created and maintained by any Member of the Obligated Group and shown on the balance sheet of such Member into which such Member or any other Person deposits its cash and securities on a custodial basis, which are invested by such Member on a pooled basis or loaned to such Member or any other Person from time to time. Pooled System Funds shall include, but not be limited to, such Member’s Cash Management Account and pooled funded depreciation accounts.

“Principal Office” means, with respect to the Trustee or the Tender Agent, the address of such Person identified as its Notice Address in the Indenture or otherwise notified in writing by such Person to the Issuer, the Borrower, the Trustee, the Tender Agent, the Insurer and the Remarketing Agent.

“Project Fund” means the fund by that name created in the Indenture.

“Property” shall mean any and all rights, titles and interests in and to any and all property of the Members of the Obligated Group whether real or personal, tangible or intangible and wherever situated.

“Property, Plant and Equipment” shall mean all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

“Purchase Contract” means the Purchase Contract among the Borrower, the Issuer and the Underwriter relating to the Bonds.

“Qualified Escrow” shall mean a segregated escrow fund or other similar fund or account which (a) is irrevocably established as security for Long-Term Indebtedness previously incurred and then Outstanding (referred to as “Prior Indebtedness”) or for Long-Term Indebtedness, if any, then to be incurred to refund Outstanding Prior Indebtedness (referred to as “Refunding Indebtedness”), (b) is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder, (c) is subject to a perfected security interest in favor of such holder, trustee or agent, (d) is held in cash or invested in Defeasance Obligations (as defined in the Master Indenture), and (e) is required by the documents establishing such fund or account to be applied toward a Member’s payment obligations in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

“Qualified Investments” means investments identified in Exhibit B to the Indenture and such other investments as are permitted by the Insurer by notice in writing to the Trustee.

“Qualified Provider” shall mean any financial institution or insurance company which is a party to a Derivative Transaction if the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Derivative Transaction), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the three highest rating categories (without modifier) of an Acceptable Rating Agency at the time of the execution and delivery of the Derivative Transaction.

“Rating Agency” means, as of any date, each of Moody’s, if Bonds are then rated by Moody’s, Fitch, if the Bonds are then rated by Fitch, and S&P, if Bonds are then rated by S&P.

“Rating Category” means a generic securities rating category, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

“Record Date” (a) with respect to the Bonds other than ARS, means (i) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (ii) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (iii) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period, the fifteenth day immediately preceding that Interest Payment Date or, in the event that an Interest Payment Date shall occur less than 15 days after the first day of a Long-Term Interest Rate Period, that first day and (b) with respect to any Bonds which are ARS, has the meaning given in Appendix D to this Official Statement.

“Refunding Indebtedness” shall mean Long-Term Indebtedness incurred for the purpose of, and the proceeds of which are required to be applied, either upon incurrence or thereafter, to the payment, purchase or redemption of all or any portion of the principal of, premium, if any, or interest on Outstanding Long-Term

Indebtedness. (The conversion of Long-Term Indebtedness from Variable Rate Indebtedness to Long-Term Indebtedness bearing a fixed interest rate or from one type of Variable Rate Indebtedness to another type of Variable Rate Indebtedness or from Long-Term Indebtedness bearing a fixed interest rate to Variable Rate Indebtedness pursuant to the terms of the Related Financing Documents shall not be considered to be incurrence of indebtedness.)

“Regularly Scheduled Payments” shall mean any payments scheduled (at the time such Derivative Transaction is executed) for payment on dates related to interest payment days under the Related Bonds and which are intended to be “interest-like” when the interest on the Related Bonds and such payments are reviewed together.

“Reimbursement Amounts” means all amounts owing to the Insurer on account of payments by the Insurer under the Insurance Policy.

“Related Bonds” shall mean bonds issued by or for the benefit of one or more Members of the Obligated Group to which the Derivative Transaction is identified as relating.

“Related Documents” as used with reference to the Indenture, means the Indenture, the Loan Agreement and any other transaction document, including any underlying security agreement and the Mortgage from the Hospital to the Master Trustee delivered pursuant to the Trust Indenture.

“Related Financing Documents” as used with reference to the Master Indenture, means any sublease, lease, indenture, supplemental indenture, loan agreement, reimbursement agreement, mortgage, escrow agreement, termination agreement or other document, instrument or agreement that evidences or secures any Indebtedness or otherwise sets forth obligations to be performed by any Member in respect thereof.

“Remarketing Account” means each account with that name established within the Bond Purchase Fund pursuant to the Indenture.

“Remarketing Agent” means the entity and its successors appointed by the Borrower from time to time to act as Remarketing Agent for the Bonds, subject to the approval of the Insurer.

“Remarketing Agreement” means the Remarketing Agreement between the Borrower and the Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of the Remarketing Agent under the Indenture, as amended from time to time.

“Request” means a request by the Tender Agent under a Liquidity Facility or an Alternate Liquidity Facility for the payment of the Tender Price of Bonds in accordance with the terms of the Indenture.

“Required Reserve Amount” means an amount equal to the lesser of (i) 10% of Bonds proceeds, (ii) Maximum Annual Debt Service on the Bonds, and (iii) 125% of Average Annual Debt Service on the Bonds. For purposes of calculating the Required Reserve Amount, the Bonds shall be deemed to bear interest at a fixed interest rate specified in the Indenture.

“Reserve Fund Surety Bond” means, subject to the approval of the Insurer as to both the provider and the terms of such Reserve Fund Surety Bond, either (a) a letter of credit issued by an issuer the debt obligations of which are rated by Moody’s and S&P in one of their two highest rating categories, or (b) one or more surety bonds, issued by an insurance company rated in the highest rating category, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise, by A.M. Best & Company, S&P or Moody’s, authorizing the Trustee to make one or more draws to fund the Debt Service Reserve Fund and any such surety bond issued to the Trustee in substitution therefor or in addition thereto.

“Reserved Rights” means amounts payable to the Issuer under the Loan Agreement with respect to administrative fees, costs and expenses and indemnification and the right of the Issuer to receive notices under the Loan Agreement.

“Responsible Officer” means, with respect to the Trustee, any officer or authorized representative in its Principal Office or similar group administering the trusts hereunder or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers to whom a particular matter is referred by the Trustee because of such officer’s or authorized representative’s knowledge of and familiarity with the particular subject.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Issuer and the Trustee, with the consent of the Insurer.

“Securities Act” means the Securities Act of 1933, as amended, and any successor thereto.

“Securities Depository” means DTC or, if applicable, any successor securities depository appointed pursuant to the Indenture.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended, and any successor thereto.

“Senior Swap Payments” shall mean any Insured Swap Payments (on an Insured Swap) and any Regularly Scheduled Payments (on an Uninsured Swap).

“Services” shall mean Pinnacle Health Medical Services, a nonprofit corporation organized and existing under the laws of the Commonwealth, including any successor obligor under the Master Indenture, as obligor under the Master Indenture.

“Short-Term Indebtedness” shall mean all Indebtedness for payments of principal and interest with respect to money borrowed from a Person other than a Member for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less, excluding, however, Optional Tender Indebtedness and Non-Recourse Indebtedness.

“Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms, during which the Bonds bear interest at one or more Bond Interest Term Rates.

“SIFMA Swap Index” means, 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 & Financial Markets Association (formerly the Bond Market Association) (“SIFMA”) or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee and effective from such date.

“Subordinate Swap Payments” means, with respect to an Insured Swap, any Uninsured Swap Payments and, with respect to an Uninsured Swap, any Non Scheduled Payments.

“Subordinated Indebtedness” shall mean indebtedness that shall be subordinated to all Master Notes and Master Guaranties issued under the Master Indenture.

“Supplemental Indenture” or “indenture supplemental” or “supplemental indenture” shall mean with reference to the Bond Indenture any indenture now or hereafter duly authorized and entered into in accordance



with the provisions of the Bond Indenture; and with reference to the Master Indenture, shall mean an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose, among others, of creating a particular series of Master Notes or a particular Master Guaranty issued thereunder.

“System” means Pinnacle Health System, a corporation not-for-profit incorporated under the Pennsylvania Nonprofit Corporation Law of 1988, 15 Pa. C.S.A. §5101 et seq., the sole member of the Hospital and, at the date of this Official Statement, a Member of the Obligated Group together with the Hospital and Services.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, and exempt from federal income taxes under Section 501(a) of the Code, except for unrelated business taxable income subject to federal income tax under Section 511 of the Code.

“Tender Agent” means each Person qualified under the Indenture to act as Tender Agent with respect to the Bonds other than ARS and so appointed by the Borrower and so acting from time to time, and its successors, and initially shall mean the Trustee.

“Tender Agent Agreement” means an agreement among the Borrower, a Remarketing Agent and a Tender Agent whereby such Tender Agent undertakes to perform the duties of the Tender Agent under the Indenture with respect to the Bonds, as amended from time to time.

“Tender Date” means the date on which Bonds are required to be purchased upon optional or mandatory tender pursuant to the Indenture.

“Tender Price” means the purchase price to be paid to the Holders of Bonds purchased pursuant to the Indenture, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Tender Date (if the Tender Date is not an Interest Payment Date); provided, however, that in the case of a Conversion or attempted Conversion from a Long-Term Interest Rate Period on a date on which the Bonds being converted would otherwise be subject to optional redemption if such Conversion did not occur, the Tender Price shall also include the optional redemption premium, if any, provided for such date under the Indenture.

“Total Operating Revenues” means net patient service revenue plus other operating revenue, both as shown on the audited financial statements of the Obligated Group.

“Total Revenues” means, for any Fiscal Year, the sum of the following for any one or more of the Members or, as the context requires, of the entire Obligated Group: (a) all amounts constituting operating revenues under generally accepted accounting principles, before deduction of operating expenses, but after deduction of (i) contractual allowances and discounts and (ii) provisions for free care and doubtful accounts; and (b) all amounts constituting nonoperating revenues under generally accepted accounting principles, adjusted for the period in question to exclude all income on Qualified Escrows.

“Trust Estate” means the property and other rights assigned by the Issuer to the Trustee in the granting clauses of the Indenture.

“Trust Indenture Act” means the Trust Indenture Act of 1939, as amended, and any successor thereto.

“Trustee” or “Bond Trustee” means Manufacturers and Traders Trust Company, as Trustee under the Indenture.

“2007 Note” means the 2007 Master Note, dated the date of issuance of the Bonds, delivered by the Obligated Group pursuant to the Master Indenture.

“Undelivered Bond” means any Bond that is the subject of an optional or mandatory tender for purchase and is not properly delivered to the Tender Agent on the relevant Tender Date in accordance with the Indenture.

“Underwriter” means Citigroup Global Markets Inc.

“Uniform Commercial Code” means the Pennsylvania Uniform Commercial Code, 13 Pa.C.S.A. §§ 1101, et seq., as amended.

“Uninsured Swap” shall mean a Derivative Transaction which is not an Insured Swap.

“Uninsured Swap Payments” shall mean any payment obligation of the Obligated Group due pursuant to a Derivative Transaction other than Insured Swap Payments.

“United States Obligations” means direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America, which obligations are noncallable.

“Unrestricted Cash and Investments” means (a) the sum of the following unrestricted and unencumbered items: cash, cash equivalents, long-term marketable securities and liquid investments, less (b) the aggregate face amount of any Short-Term Indebtedness. Unrestricted and unencumbered cash, cash equivalents, long-term marketable securities and liquid investments shall exclude the following: trustee-held funds, Bond Funds, construction funds, debt service reserve funds, malpractice funds, litigation reserves, self-insurance and captive insurer funds, pension and retirement funds, the set-aside or reserve for any liability other than operating expense, and the amount realized from the sale or factoring of accounts receivable.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which is, under the terms thereof, subject to change prior to maturity.

“Weekly Interest Rate” means a variable interest rate for the Bonds established in accordance with the Indenture.

“Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect for the Bonds.

## **THE BOND INDENTURE**

The following summarizes certain provisions of the Bond Indenture; however, it is not a comprehensive description, and reference is made to the full text of the Bond Indenture for a complete recital of its terms.

### **Pledge and Assignment**

The Issuer pledges to the Trustee all right, title and interest of the Issuer in and to the Loan Agreement and the 2007 Note, including but not limited to the present and continuing right to make claim for, collect, receive and receipt for any of the sums, amounts, income, revenues, issues and profits and any other sums of money payable or receivable under the Loan Agreement (except for Reserved Rights) and the 2007 Note, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer is or may become entitled to do under the Loan Agreement and the 2007 Note; all moneys and securities from time to time held by the Trustee under the terms of the Indenture, other than moneys held in the Bond Purchase Fund; and any and all other property rights and interests of every kind and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, alienated, demised, released, conveyed,

assigned, transferred, mortgaged for the Bonds, pledged, hypothecated or otherwise subjected to the Trust Estate as additional security by the Borrower or the Issuer or any other person on their behalf.

### **Trustee-Held Funds Created by the Indenture**

The Indenture creates and establishes the following funds with the Trustee: the Project Fund, the Bond Fund and the Debt Service Reserve Fund. Moneys from time to time in the various Funds created under the Indenture are to be held by the Trustee, in trust, for the benefit of the Holders of the Bonds and secured, invested and applied as provided in the Indenture.

Project Fund. Upon the issuance and delivery of the Bonds, proceeds of the sale thereof shall be applied to the current refunding of the 1997 Bonds and a portion of the 2004 Bonds, to the payment or reimbursement to the Borrower of the Costs of the Project and to the payment of Costs of Issuance in the respective amounts set forth on the Closing Receipt. Amounts to be applied to the payment of Costs of the Project and Costs of Issuance shall be deposited in the Project Fund. The Trustee will make disbursements from the Project Fund as provided in the Closing Receipt or at the written direction of the Borrower. Any balance remaining in the Project Fund as of December 31, 2007 will be transferred to the Bond Fund and applied as a credit against payments due from the Borrower under the Loan Agreement.

Bond Fund. Loan Payments made by the Borrower under the Loan Agreement shall be deposited into the Bond Fund. Funds (if any) remaining in the Project Fund shall be transferred to the Bond Fund in accordance with the Indenture. The Trustee shall use the amounts on deposit in the Bond Fund to pay the principal of, premium, if any, and interest on the Bonds when due.

Debt Service Reserve Fund. There shall be created a special fund to be known as the “Dauphin County General Issuer Debt Service Reserve Fund - Pinnacle Health Hospitals” which shall be held in trust by the Trustee for the benefit of holders of the Bonds into which initially no amounts shall be deposited. In accordance with Section 26 of the Loan Agreement, upon the occurrence of certain events specified therein, the Borrower may be required to deposit into the Debt Service Reserve Fund an amount equal to the Required Reserve Amount. The Debt Service Reserve Fund may consist of cash, Qualified Investments or, with the consent of the Insurer, a Reserve Fund Surety Bond. The Trustee shall transfer money from the Debt Service Reserve Fund to the Bond Fund to the extent that the money in the Bond Fund may at any time be insufficient to pay the principal of the Bonds or the interest due thereon, as the same shall become due and payable. The Trustee shall give written notice to the Insurer within two Business Days after any invasion of the Debt Service Reserve Fund to meet the requirements of the Bond Fund. If the money on deposit in the Debt Service Reserve Fund is not sufficient to eliminate the deficiency in the Bond Fund, the Trustee, without further direction or authorization of the Issuer or the Borrower shall draw upon any Reserve Fund Surety Bond in an amount necessary to make the required payment of principal of or interest on the Bonds.

If at any time the funding requirements of the Debt Service Reserve Fund shall be satisfied in whole or in part by a Reserve Fund Surety Bond with a term that is less than the term during which Bonds will be Outstanding, if such Reserve Fund Surety Bond is not replaced at least three (3) Business Days prior to its expiration with another Reserve Fund Surety Bond for an additional term the Trustee, without further direction or authorization of the Issuer or the Borrower shall draw the full amount of such Reserve Fund Surety Bond and deposit the proceeds of such draw in the Debt Service Reserve Fund. A Reserve Fund Surety Bond shall contain provisions permitting such a draw prior to its expiration. Such draw shall be effected in the manner required by the terms of the Reserve Fund Surety Bond, at least three (3) business days prior to the date when funds are required to pay debt service on the Bonds or the date of expiration of such Reserve Fund Surety Bond, as applicable.

The Debt Service Reserve Fund shall be valued on May 15 and November 15, beginning on the first May 15 or November 15 after the Debt Service Reserve Fund is first funded. Qualified Investments then

constituting part of the Debt Service Reserve Fund will be valued at cost if maturing in one year or less, or at fair market value if the maturity is longer than one year. Any Reserve Fund Surety Bond then in force and effect shall be valued at the outstanding undrawn amount thereof. If on any valuation date the amount in the Debt Service Reserve Fund, as so valued, is less than the Required Reserve Amount, the Trustee shall give notice of such deficiency to the Borrower and the Issuer; provided, however, that failure to give such notice or any defect therein shall not affect the obligation of the Borrower to make good the deficiency in the Debt Service Reserve Fund as provided in the Indenture.

On or before the first day of each month following any withdrawal of money from the Debt Service Reserve Fund or a draw upon a Reserve Fund Surety Bond to eliminate any deficiency in the Bond Fund, or following any valuation date on which the value of the Debt Service Reserve Fund is less than the Required Reserve Amount, the Trustee shall deposit in the Debt Service Reserve Fund the additional payments made by the Borrower to restore the value of the Debt Service Reserve Fund as required by the Loan Agreement until the value of the Debt Service Reserve Fund (including any Reserve Fund Surety Bond) is not less than the Required Reserve Amount; provided, however, that such additional Borrower payments shall be applied first to reimbursement of the issuer of a Reserve Fund Surety Bond for draws made against such Reserve Fund Surety Bond, together with the interest at the applicable rate then due on the amounts drawn and remaining unreimbursed, and then to replenishment of the amount then required to be maintained in the Debt Service Reserve Fund.

If on any valuation date the amount on deposit in the Debt Service Reserve Fund, valuing any securities in compliance with the provisions of the Indenture, exceeds the Required Reserve Amount, the Trustee shall notify the Issuer and the Borrower of such excess and shall invest such excess in Qualified Investments that constitute obligations the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code or restrict the yield on the investment of such excess so that the yield thereon, as computed in accordance with Section 148 of the Code and applicable Treasury Regulations, does not exceed the "yield" on the Bonds (unless the Trustee shall have received an opinion from nationally recognized bond counsel to the effect that such investment in tax-exempt obligations and such restriction upon investment yield is not required to preserve the tax-exempt status of the Bonds), or (2) at the Request of the Borrower, shall transfer such excess as provided below.

If on any date the amount on deposit in the Debt Service Reserve Fund (including securities and any Reserve Fund Surety Bond) exceeds the Required Reserve Amount and no Event of Default shall have occurred and be continuing, the Trustee upon Request of the Borrower shall transfer such excess to the Borrower, provided, however, that if any amounts to be transferred represent original proceeds of the Bonds, such transfer shall be made only upon receipt by the Trustee of an opinion of nationally recognized bond counsel to the effect that such transfer is permitted by the Act and will not adversely affect the tax-exemption of interest on the Bonds.

Upon Request of the Borrower, the Trustee shall establish a separate account within the Debt Service Reserve Fund for the deposit of money contributed by the Borrower to replace the Reserve Fund Surety Bond and/or any Bond proceeds then on deposit therein, as follows: To the extent of the Borrower contribution and the investment income thereon, the amount of the Reserve Fund Surety Bond may be reduced or the Bond proceeds (if any) in the Debt Service Reserve Fund shall be transferred, but only upon written direction of the Borrower, either (i) to a construction fund or account for application therein as specified in such written direction of the Borrower, or (ii) to the Bond Fund for credit against Loan Agreement payments due for the period specified in such Request; provided, however, that such reduction in the Reserve Fund Surety Bond and/or such transfer shall not result in a deficiency in the Debt Service Reserve Fund.

## **Investment of Funds under the Indenture**

Any moneys held as a part of the Project Fund or any other fund other than the Bond Fund or the Bond Purchase Fund shall be invested or reinvested by the Trustee as directed by a Borrower Representative, in any Qualified Investments. Any moneys held as a part of the Bond Fund shall be invested or reinvested by the Trustee at the written direction of the Borrower in United States Obligations with such maturities as will assure full and timely payment of amounts required to be paid from the Bond Fund, but in any event which mature no later than 30 days from the date of acquisition thereof. All such investments shall at all times be a part of the fund from which the moneys used to acquire such investments were drawn and all income and profits on such investments shall be credited to, and losses thereon shall be charged against, such fund.

## **Bond Purchase Fund**

In connection with the conversion of the Bonds from ARS to Bonds subject to an Interest Rate Period other than an ARS Rate Period, the Bond Purchase Fund shall be established with and maintained as a separate trust fund with the Tender Agent, and within the Bond Purchase Fund the following separate trust accounts: a Remarketing Account, a Liquidity Facility Purchase Account, and a Borrower Purchase Account. Upon receipt of the proceeds of a remarketing of Bonds on a Tender Date, the Tender Agent shall deposit such proceeds in the Remarketing Account for application to the Tender Price of such Bonds. Upon receipt from the Liquidity Facility Provider of immediately available funds transferred pursuant to the Indenture, the Tender Agent shall deposit such money in the Liquidity Facility Purchase Account for application to the Tender Price of the Bonds required to be purchased on a Tender Date to the extent that the money on deposit in the Remarketing Account is not sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds shall be immediately returned to the Liquidity Facility Provider. Upon receipt from the Borrower of any funds for the purchase of tendered Bonds, the Tender Agent shall deposit such money in the Borrower Purchase Account for application to the Tender Price of the Bonds required to be purchased on a Tender Date to the extent that the money on deposit in the Remarketing Account and the Liquidity Facility Purchase Account are not sufficient. Any amounts deposited in the Borrower Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds shall be immediately returned to the Borrower.

## **Defaults and Remedies**

The occurrence of any one or more of the following events shall constitute an “Event of Default” under the Indenture:

- (a) failure to pay interest on any Bond when due and payable;
- (b) failure to pay any principal of or premium on any Bond when due and payable, whether at stated maturity or pursuant to any redemption requirement;
- (c) failure by the Issuer to observe or perform any other covenant, condition or agreement on its part to be observed or performed in this Indenture or the Bonds, for a period of 30 days after written notice of such failure shall have been given to the Borrower and the Issuer by the Trustee; provided, however, that if such observance or performance is capable of cure and requires work to be done, actions to be taken or conditions to be remedied which by its or their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default under this subsection (c) shall be deemed to have occurred or to exist if and so long as the Issuer or the Borrower, as the case may be, shall have commenced such work, action or remediation within such 30-day period and provided written notice thereof to the Trustee and shall diligently and continuously prosecute the same to completion; provided such cure is effected within 90 days of the date of such notice;

- (d) an “Event of Default” shall occur under the Loan Agreement;
- (e) an “Event of Default” shall occur under the Master Indenture.

Within five days after actual knowledge by a Responsible Officer of the Trustee of an Event of Default, the Trustee shall give written notice, by registered or certified mail, to the Issuer, the Borrower, the Insurer, the Liquidity Facility Provider, the Master Trustee, and the Bondholders.

Subject to the rights of the Insurer under the Indenture, upon the occurrence of any Event of Default described in subsection (a), (b), (d) or (e) of Section 801 known to a Responsible Officer of the Trustee, the Trustee shall, but only upon the written request of the Insurer (so long as the Policy is in effect and the Insurer is not in default thereunder) or a Majority of the Bondholders (with the prior written consent of the Insurer unless the Insurer is in default under the Policy), declare all Bonds then outstanding to be due and payable immediately, and, upon such declaration, all principal and interest accrued thereon shall become immediately due and payable, and there shall be an automatic corresponding acceleration of the Borrower’s obligation to make all payments required to be made under the Loan Agreement and the 2007 Note in an amount sufficient to pay immediately all principal of and accrued and unpaid interest on the accelerated Bonds. Interest shall accrue on the Bonds to the date of payment (even if after the date of acceleration).

The provisions of the preceding paragraph, however, are subject to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, each Paying Agent, each Tender Agent, each Remarketing Agent, each Auction Agent, each Broker-Dealer and each Liquidity Facility Provider and all Events of Default other than nonpayment of the principal of Bonds which shall have become due by such declaration shall have been remedied, then, in every such case, such Event of Default shall be deemed waived and such declaration and its consequences rescinded or annulled, and the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Issuer, each Paying Agent, the Borrower and the Master Trustee and shall give notice thereof to all Holders of Outstanding Bonds; but no such waiver, rescission or annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon. The provisions of this paragraph are subject to the rights of the Insurer pursuant to the Indenture.

Subject to the rights of the Insurer under the Indenture, upon the continuance of an Event of Default, if so requested by the Insurer or a Majority of the Bondholders (with the consent of the Insurer unless the Insurer is in default under the Policy), and if satisfactory indemnity has been furnished to it, the Trustee shall exercise such of the rights and powers conferred by the Indenture, the Borrower Security Instruments or any other Related Agreement as the Trustee, being advised by counsel, shall deem most effective to enforce and protect the interests of the Bondholders; provided that the Trustee may take action with respect to the Loan Agreement only to enforce the rights expressly and specifically assigned to the Trustee under the Granting Clauses of the Indenture.

The Insurer (so long as the Insurer is not in default under the Policy) or a Majority of the Bondholders (with the consent of the Insurer so long as the Insurer is not in default under the Policy) shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, the Borrower Security Instruments, the Auction Agreement or any other Basic Agreement or for the appointment of a receiver or any other proceedings thereunder; provided that such direction shall be in accordance with applicable law and the Indenture and, if applicable, the Borrower Security

Instruments, the Auction Agreement or such other Basic Agreement, and provided that the Trustee shall be indemnified to its satisfaction.

No Bondholder shall have any right to institute any proceeding for the enforcement of the Indenture or any right or remedy granted thereby unless an Event of Default is continuing, the Trustee is deemed to have notice or knowledge thereof, a Majority of the Bondholders (with the consent of the Insurer, unless the Insurer is in default under the Policy) shall have made written request to the Trustee, afforded the Trustee reasonable opportunity to exercise its powers, offered to the Trustee indemnity satisfactory to it, and the Trustee shall have failed or refused to exercise its power or to institute such proceeding. The Holders shall have no right to affect or prejudice the lien of the Indenture and any proceedings shall be for the benefit of the Holders of all Bonds then outstanding. Notwithstanding the foregoing, each Bondholder shall have a right of action to enforce the payment of the principal of and premium, if any, and interest on any Bond held by it at and after the maturity thereof, from the sources and in the manner expressed in such Bond. This paragraph is subject to the rights of the Insurer under the Indenture.

### **Defeasance**

Outstanding Bonds shall be deemed to have been paid under the Indenture if the Trustee shall have paid to the Holders of such Bonds, or shall be holding in trust for and shall have irrevocably committed to the payment of such Outstanding Bonds (i) moneys sufficient for the payment of all principal of and interest and premium, if any, on such Bonds to the date of maturity or redemption, as the case may be, or (ii) cash or United States Obligations the payments on which when due, without reinvestment, will provide moneys which, together with moneys, if any, so held and so committed, shall be sufficient for the payment of all principal of and interest and premium, if any, on such Bonds to the date of maturity or redemption, as the case may be; provided, that if any of such Bonds are deemed to have been paid prior to the earlier of the redemption or the maturity thereof, the Trustee, the Issuer, the Borrower and the Insurer shall have received an opinion of Bond Counsel that such payment and the holding of such United States Obligations and moneys, if any, shall not in and of itself cause interest on the Bonds to be included in gross income for federal income tax purposes, and a report in form and substance acceptable to the Insurer, the Trustee and the Borrower of a firm of certified public accountants acceptable to the Insurer, the Trustee and the Borrower verifying that the payments on such United States Obligations, if paid when due and without reinvestment, will, together with any moneys so deposited, be sufficient for the payment of all principal of and interest and premium, if any, on such Bonds to the date of maturity or redemption, as the case may be; and provided, further, that if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice and provided, further, that Bonds paid by payments made under the Insurance Policy shall be deemed to be Outstanding Bonds until the Insurer is paid all Reimbursement Amounts.

Notwithstanding any other provision of this paragraph, entitled "Defeasance" to the contrary, in connection with the provision for payment of any Bonds which bear interest at the Daily Interest Rate or the Weekly Interest Rate, the amounts deposited shall be sufficient to pay interest on such Bonds, calculated at the Maximum Bond Interest Rate. In addition, any amounts so deposited also shall be available to pay the Tender Price of any such Bonds that are tendered for purchase at the option of the Holder thereof. Following the deposit of moneys, the Remarketing Agent shall not remarket any Bond tendered for purchase pursuant to the Indenture but instead shall surrender any such Bond to the Trustee for cancellation.

After all of the Outstanding Bonds shall be deemed to have been paid and all other amounts required to be paid under the Indenture shall have been paid, then upon the termination of the Indenture any amounts in the Project Fund, the Debt Service Reserve Fund and the Bond Fund shall be paid first to the Trustee and then to the Issuer to the extent necessary to repay any unpaid obligations owing to the Trustee and/or the Issuer under the Indenture or under the Loan Agreement, and then to the Insurer to the extent necessary to pay any

Reimbursement Amounts owing to the Insurer, and thereafter the remainder, if any, shall be paid to the Borrower.

### **Amendments and Modifications**

The Issuer and the Trustee may without consent of or notice to any of the Bondholders but only with the consent of the Insurer, unless the Insurer is in default under the Policy, enter into a Supplemental Indenture for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America;
- (e) to evidence the appointment of a separate or Co-Trustee or the succession of a new Trustee;
- (f) to correct any description of, or to reflect changes in, any of the properties comprising the Trust Estate;
- (g) to make any revisions of the Indenture that shall be required by Moody's or S&P in order to obtain or maintain an investment grade rating on the Bonds;
- (h) to make any revisions of the Indenture that shall be necessary in connection with the Borrower or the Issuer furnishing a Liquidity Facility or Policy, including but not limited to revising the Interest Payment Dates for Bank Bonds;
- (i) to provide for an uncertificated system of registering the Bonds or to provide for changes to or from the Book-Entry System;
- (j) to effect any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Bondholders; or
- (k) to make revisions to the Indenture that shall become effective only upon, and in connection with, the remarketing of all of the Bonds then Outstanding.

Otherwise, the Insurer (if the Insurer is not in default under the Policy) or the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, with the consent of the Insurer (unless the Insurer is in default under the Policy), shall have the right, from time to time to consent to and approve Supplemental Indentures as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture; provided, however, that nothing shall permit, without the consent of the Insurer (unless the Insurer is in default under the Policy) and the Owners of all Bonds Outstanding, (a) an extension of the maturity of the principal of, or the interest on, any Bonds, (b) a reduction in the principal amount of, or redemption premium on, any Bonds or the rate of interest thereon, (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indentures or any



modifications or waivers of the Indenture or the Loan Agreement, (e) the creation of any lien ranking prior to or on a parity with the lien of the Indenture on the Trust Estate or any part thereof, except as hereinbefore expressly permitted, (f) the deprivation of the Owner of any Outstanding Bonds of the lien created on the Trust Estate, or (g) an extension of the date for making any scheduled mandatory redemption.

The Issuer and the Trustee may, with the consent of the Insurer (so long as the Insurer is not in default under the Policy), and without the consent of or notice to the Bondholders, consent to any amendment, change or modification of the Loan Agreement or the 2007 Note as may be required or permitted (i) by the provisions of the Loan Agreement or the 2007 Note, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement or the 2007 Note, (iii) so as to more precisely identify the Project, or to substitute or add additional improvements or equipment to the Project or additional rights or interests in property acquired in accordance with the provisions of the Loan Agreement or the 2007 Note, (iv) to enter into a Supplemental Indenture to provide for the issuance of a substitute note or in connection with any supplement to the Master Indenture, (v) to make any revisions that shall be required by a Rating Agency in order to obtain or maintain an investment grade rating on the Bonds, (vi) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Bondholders or (vii) to make revisions thereto which shall be effective only upon, and in connection with, the remarketing of all of the Bonds then Outstanding.

Except for the amendments, changes or modifications as provided above, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Loan Agreement or the 2007 Note without mailing of notice and the written approval or consent of the Insurer (so long as the Insurer is not in default under the Policy) and the Holders of at least two-thirds in aggregate principal amount of the Outstanding Bonds, provided that the written consent of the Insurer (so long as the Insurer is not in default under the Policy) and the Holders of all Bonds Outstanding is required for any amendment, change or modification of the Loan Agreement or the 2007 Note that would permit the termination or cancellation of the Loan Agreement or the 2007 Note or a reduction in or postponement of the payments under the Loan Agreement or the 2007 Note or any change in the provisions relating to payment thereunder. If at any time the Issuer and the Borrower shall request the consent of the Trustee to any such proposed amendment, change or modification of the Loan Agreement or the 2007 Note, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given with respect to supplemental indentures; provided, that prior to the delivery of such notice or request, the Trustee or the Issuer may require that an opinion of Bond Counsel be furnished to the effect that such amendment, change or modification complies with the provisions of the Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by all Bondholders and the Insurer.

The Trustee, as the registered owner of the 2007 Note issued under the Master Indenture, shall be authorized to consent to any supplement to the Master Indenture as provided in the Master Indenture, without any notice to, or consent of, the Bondholders for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Obligated Issuers (as defined in the Master Indenture) contained therein, other covenants and agreements thereafter to be observed or to surrender, restrict or limit any right or power therein reserved to or conferred upon any Obligated Issuer;

(b) to make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision, contained in the Master Indenture, or consolidating or restating for purposes of clarity any terms, covenants and provisions contained therein or in regard to matters or questions arising under the Master Indenture, as the Obligated Issuers and the Master Trustee may deem necessary or desirable and not inconsistent therewith and which shall not materially and adversely affect the interest of the registered Bondholders; or

- (c) to grant additional rights and powers to the Master Trustee.

The Trustee, as the registered owner of the 2007 Note, shall be authorized to consent to any supplement to the Master Indenture as provided in the Master Indenture other than as described in the preceding sentence, only upon the consent of the Insurer; provided, however, that the Trustee shall not consent to any supplement to the Master Indenture which would extend the maturity of the 2007 Note or reduce the rate of interest thereon or extend the time for payment thereof or reduce the amount payable thereon unless corresponding changes are being made to the provisions of the Bonds pursuant to a Supplemental Indenture authorized under the Indenture.

The Trustee shall cause notice of the proposed execution of any such supplemental indenture together with a copy of the proposed supplemental indenture to be mailed to the Auction Agent and the Broker-Dealers at least 15 Business Days prior to the proposed date of execution and delivery of any such supplemental indenture. Anything in the Indenture to the contrary notwithstanding, no provision of a supplemental indenture under Article X which adversely affects the rights, duties, privileges, immunities and liabilities of the Auction Agent or the Broker-Dealers shall become effective unless and until the Auction Agent or the Broker-Dealers, as the case may be, shall have consented to the execution and delivery of such supplemental indenture.

#### **Trustee Authorized to Vote Master Indenture Obligations; Substitution of 2007 Note.**

Except as provided below, the Trustee, as assignee of the 2007 Note, shall be entitled to vote the 2007 Note or the indebtedness represented thereby in connection with any proposed amendment, change, modification, waiver or consent (hereinafter referred to as an “amendment”) to or in respect of the Master Indenture. The Trustee may agree to any such amendment, without obtaining the consent of or the provision of notice to the owners of the Bonds, if the Trustee receives the consent of the Insurer; provided that no such consent shall be given to an amendment which alters the time, amounts, currency or terms of any payment terms of the 2007 Note without the consent of the Holders of all Outstanding Bonds.

The Trustee is authorized and directed to accept a substitute promissory note (the “Substitute Promissory Note”) in substitution for the 2007 Note, which Substitute Promissory Note must provide for the full and timely repayment of the Bonds on substantially the same repayment terms of the existing 2007 Note and must be executed and delivered to the Trustee by an entity or a group of entities of which the Borrower is a part, upon receipt of

- (i) the written request of the Borrower;
- (ii) an opinion of Bond Counsel to the effect that the substitution of the Substitute Promissory Note for the 2007 Note complies with the terms of the Indenture and will not cause the interest on the Bonds to become includable in the gross income of the owners thereof for federal tax purposes;
- (iii) an opinion of counsel to the Borrower to the effect that the Substitute Promissory Note is a valid and binding obligation of the obligor or obligors thereunder, including the Borrower; and
- (iv) the prior written consent of the Insurer.

#### **Concerning the Insurer and Defaults and Remedies**

So long as the Policy is in effect and the Insurer is not in default thereunder, the Insurer shall be regarded as the sole holder of the Bonds for all purposes of the Indenture, including for purposes of exercising any voting right or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to the Indenture. The Insurer is included as a third party beneficiary to the Indenture.

Amounts paid by the Insurer under the Policy shall not be deemed paid for the purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for. The Insurer shall, to the extent it makes any payment of principal or of interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy. The obligations to the Insurer shall survive discharge or termination of the Related Documents.

## **THE LOAN AGREEMENT**

The following summarizes certain provisions of the Loan Agreement; however, it is not a comprehensive description, and reference is made to the full text of the Loan Agreement for a complete recital of its terms.

### **Term**

The Loan Agreement provides that the Issuer will lend to the Hospital the proceeds of the Bonds and make available such proceeds for application to the Costs of the Project. The Hospital agrees to borrow such proceeds from the Issuer and to cause such proceeds to be applied to pay the Costs of the Project, and to the extent that the Bond proceeds are not sufficient or the restrictions of the Code relating to tax-exempt bonds prevent their application, to pay such costs from other available funds.

### **Sums Payable by Hospital**

The Hospital is required to pay to the Issuer, at the times and in the manner stipulated in the Loan Agreement, amounts sufficient: (a) to pay principal and interest and other sums due on the Bonds; (b) if the Debt Service Reserve Fund contains less than the Required Reserve Amount, to pay, in not more than twelve (12) successive monthly installments in the case of withdrawals for payment of principal or interest on the Bonds, or four successive monthly installments in the case of a valuation of the Debt Service Reserve Fund showing the value of securities in the Debt Service Reserve Fund to be less than 90% of Required Reserve Amount, an amount sufficient to increase the amount in the Debt Service Reserve Fund to required levels or, if applicable, any amount required to reimburse the issuer of a Reserve Fund Surety Bond for draws made thereon; (c) to pay an amount equal to the budgeted administrative expenses of the Issuer for the succeeding fiscal year of the Issuer; (d) to pay amounts equal to costs and expenses of the Issuer, in addition to those provided above, in connection with the Project, the Bonds or the Hospital Premises; and (e) to pay the fees and expenses of the Bond Trustee, the Master Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer, if any, and any amounts owed to the Insurer or the Liquidity Facility Provider under the Bond Indenture for costs, expenses or indemnification.

The Hospital acknowledges that the sums payable under the Loan Agreement (except the administrative fees and rights to indemnification) will be transferred, assigned and set over unto the Trustee under the Indenture to secure the Bonds.

### **Operation, Maintenance and Repair**

The Hospital covenants to comply with the provisions of the Master Indenture governing operation, maintenance and repair of the Hospital Premises and to comply with all final and legally enforceable acts, rules and regulations, orders and directives of any legislative, executive, administrative or judicial body applicable to and having jurisdiction with respect to the Hospital Premises.

## **Records and Audits**

The Hospital shall cause a complete annual, certified audit of its operations for each Fiscal Year to be completed, in accordance with generally accepted accounting principles for nonprofit health care institutions, by an Independent Public Accountant. Such report shall be furnished to the Issuer, the Insurer and the Bond Trustee.

## **Insurance**

The Hospital shall provide or shall cause to be provided continuously from the effective date of the Loan Agreement, insurance covering such risks, in such amounts and with such deductibles as shall be in compliance with the Master Indenture.

In addition, the Hospital shall maintain, for the term of the Loan Agreement and so long as any Bond is Outstanding, medical liability, malpractice and other Hospital operations liability insurance, including coverage provided under Act No. 1975-111 of the Commonwealth of Pennsylvania, 40 Pa.C.S.A. §1301.701 et. seq. (or any similar legislation).

## **Destruction, Damage and Eminent Domain**

In the event that the Hospital Premises shall be wholly or partially destroyed or damaged by fire or other casualty covered by insurance, or shall be wholly or partially condemned, taken or injured by any Person, including any Person possessing the right to exercise the power of or a power in the nature of eminent domain or transferred to such a Person by way of a conveyance in lieu of the exercise of such power, the Hospital shall have the options provided to it under the Master Indenture.

## **Additional Indebtedness**

In addition to the Bonds, the Hospital and other Members of the Obligated Group may incur, assume or guarantee Indebtedness as provided in the Master Indenture. The Issuer may issue bonds under other trust indentures and the Loan Agreement may with the consent of the Insurer be amended and supplemented and the term thereof may be extended to provide for the payment and other obligations of the Hospital in respect of such bonds, to secure such bonds and to make available to the holders thereof the remedies therein provided. In such event, the Loan Agreement, as so amended and supplemented, and the obligations, security and remedies herein provided shall be for the equal and ratable benefit of the holders from time to time of such bonds as well as the Bonds.

## **Default and Remedies**

The following are events of default under the Loan Agreement:

- (a) the Hospital fails to make or fails to provide for any payment in respect of principal or interest on the Bonds, when the same shall become due and payable or an Event of Default occurs under the Indenture, whichever occurs first; or
- (b) the Hospital fails to pay or cause to be paid any other payment required by the Loan Agreement or the Bond Indenture or fails to comply with any other covenant or agreement contained in the Loan Agreement or the Bond Indenture and such failure continues for thirty (30) days thereafter;
- (c) the principal of all Master Notes and Master Guaranties issued under the Master Indenture shall be declared by the Master Trustee immediately due and payable or the principal of the Bonds shall have been accelerated under the Bond Indenture and such acceleration remains and is not rescinded; or

- (d) an Event of Default shall have occurred and be continuing under the Master Indenture.

Whenever any of the Events of Default shall have happened and be continuing and when the Trustee shall have received the prior written consent of the Insurer to the taking of any of the steps described below, the Trustee, on behalf of the Issuer may, and at the written direction of the Insurer shall, take any one or more of the following remedial steps:

- (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Issuer, and require the Hospital to carry out any agreements with or for the benefit of the holders of the Bonds and to perform its duties under the Act or the Loan Agreement; or

- (b) by action or suit in equity require the Hospital to account as if it were the trustee of an express trust for the Issuer; or

- (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Issuer; or

- (d) upon the filing of a suit or other commencement of judicial proceeding to enforce the rights of the Trustee and the holders of Bonds, have appointed a receiver or receivers with respect to the Hospital and the Hospital Premises, with such powers as the court making such appointment shall confer; or

- (e) withhold any payments, advances or reimbursement from any proceeds to which the Hospital may otherwise be entitled under the Loan Agreement and, in the Trustee's sole discretion, apply any such proceeds or money to the payment of any obligation of the Hospital thereunder; or

- (f) upon notice to the Hospital, accelerate the due dates of all sums due or to become due under the Loan Agreement, if and to the extent that the Bonds have been accelerated under the Bond Indenture and such acceleration has not been annulled; or

- (g) enforce all rights and remedies as the holder of the 2007 Note under the Master Indenture.

The remedies conferred or reserved in the Loan Agreement are not exclusive and the Trustee, with the prior written consent of the Master Trustee, shall be free to pursue any and all remedies at law or in equity.

### **Maintenance of Corporate Existence by Hospital**

The Hospital shall maintain and preserve its Articles of Incorporation, By-laws and its corporate existence as required by the Master Indenture, and shall maintain and preserve its authority to do business in the Commonwealth except as otherwise provided in the Master Indenture.

### **Indemnification**

The Hospital agrees to protect and indemnify the Issuer, its agents, attorneys and employees against and to hold them harmless and defend them from any loss, expense or liability of any nature whatsoever incurred by the Issuer's participation in the Project, among other things, and releases the Issuer from, agrees that the Issuer shall not be liable for, and agrees to defend and to hold the Issuer harmless against, any loss or damage to property or any injury to or death of a person that may be occasioned by any cause whatsoever pertaining to the Hospital Premises or the use thereof, other than those arising as a result of the gross negligence or willful misconduct of the Issuer or any of its agents, attorneys or employees.

## **Covenant to Preserve Tax-Free Status of Bonds**

The Hospital covenants that it shall not take any action or suffer or permit any action to be taken or any condition to exist (inclusive of the application, use or investment of the “proceeds” of any Bonds or revenues or funds held for payment of debt service on the Bonds), including the failure to preserve and maintain its tax-exempt status under Section 501(c)(3) of the Code, which causes or may cause the interest payable on the Bonds to be subject to federal income taxes, or which will cause the Issuer to be in violation of the Issuer’s covenants with respect to compliance with the provisions of the Code applicable to the Bonds, or which, if the Issuer were taking such action, would cause the Issuer to be in violation of such covenants. The Hospital covenants to take all action, to do all things and to cause all things to be done which may be necessary so that the interest payable on the Bonds shall be and shall continue to be exempt from federal income taxes to the same extent as on the date of original issuance thereof.

The Hospital specifically covenants to abide by the provisions of Section 148 of the Code, as the same may be amended from time to time, and regulations proposed or promulgated with respect thereto, as applicable, including the limitation on the amount of “proceeds” of the Bonds and other funds that may be invested at a yield higher than the yield on the Bonds. The Hospital covenants and agrees to maintain, and to cause the Trustee to maintain, the necessary records of investments, and the Hospital covenants to perform, or to engage a certified public accountant or other Person having knowledge and experience in matters relating to the “arbitrage regulations” to perform, at least every five years commencing in the fifth year following the date of issuance of the Bonds, the necessary calculations of the “Rebate”, as required by such Section 148 of the Code and such regulations, at the cost and expense of the Hospital. The Hospital further covenants that it shall, at the appropriate times, pay the “Rebate” to the United States of America, from funds under the Bond Indenture, and, to the extent funds available thereunder for such purpose are not sufficient, the Hospital covenants that it shall pay such “Rebate” on behalf of the Issuer from funds of the Hospital, as and for an additional amount under the Loan Agreement and not in diminution of any other sum payable by the Hospital under the Loan Agreement.

## **Debt Service Reserve Fund**

The Debt Service Reserve Fund established under the Bond Indenture will not be funded upon the issuance of the Bonds. For so long as the Bonds remain outstanding, if (i) the Obligated Group’s Debt Service Coverage Ratio is less than 1.50 for any Fiscal Year, or the Unrestricted Cash and Investments of the Obligated Group are less than 90 Days of Operating Expenses on any semi-annual test date (pursuant to the Master Indenture), the Obligated Group will immediately transfer to the Trustee an amount equal to the Required Reserve Amount for deposit to the Debt Service Reserve Fund. Such amount will thereafter be held in such Fund and applied in accordance with the Bond Indenture (including, if applicable, to pay debt service on the Bonds) until the Obligated Group delivers to the Trustee and the Insurer an Officer’s Certificate demonstrating that, based on audited financial statements for any two consecutive Fiscal Years subsequent to the funding of the Debt Service Reserve Fund, the Obligated Group’s Debt Service Coverage Ratio for such Fiscal Year was at least 2.00, and the Unrestricted Cash and Investments of the Obligated Group was equal to at least 90 Days of Operating Expenses on each semi-annual test date during such Fiscal Years. Upon delivery of such Officer’s Certificate, the Trustee shall release the amounts on deposit in the Debt Service Reserve Fund to the Hospital in accordance with the provisions of the Bond Indenture.

## **THE MASTER INDENTURE**

The following summarizes certain provisions of the Master Trust Indenture dated as of August 15, 1991, as previously supplemented and amended, as supplemented by the Eleventh Supplemental Master Trust Indenture dated as of October 1, 2007 and the Twelfth Supplemental Master Trust Indenture dated as of October 1, 2007, and as amended and restated by the Amended and Restated Master Trust Indenture dated as of October 1, 2007. However, the following is not a comprehensive description, and reference is made to the full text of the Master Indenture for a complete recital of its terms. **Under the terms of the Master Indenture, the Insurer,**

**acting together with the insurers for the 1999 Pool Loan, the 2001 Pool Loan, the 2004 Bonds, the 2005 Bonds and any future series of insured bonds secured by a Master Note or a Master Guaranty, have the right to waive compliance with, and agree to amendments of, the provisions of the Master Indenture without notice to or consent from the holders of such bonds, including the holders of the Bonds.**

### **The Obligated Group**

Members of the Obligated Group. If at any time Members of the Obligated Group shall determine that an Other Person should become a Member of the Obligated Group, an appropriate instrument shall be executed and delivered to the Master Trustee wherein the new Member agrees to comply with all provisions of the Master Indenture and assumes joint and several liability for the payment of all Master Notes and Master Guaranties issued under the Master Indenture.

Conditions precedent to becoming a Member of the Obligated Group are that immediately upon becoming a Member of the Obligated Group (i) the existing Members and the new Member would not be in default in the performance or observance of a covenant or condition under the Master Indenture; (ii) the Obligated Group, including the new Member, would be permitted to incur \$1.00 of Long-Term Indebtedness in accordance with the provisions of the Master Indenture, taking into account any adverse effect on the tax-exempt status of any Member of the Obligated Group; (iii) all outstanding Liens affecting any Property of the new Member are discharged except for Permitted Liens; (iv) the Master Trustee receives an Opinion of Bond Counsel to the effect that the consummation of such transaction would not adversely affect any applicable exemption from federal income taxation of the interest payable on any Bonds or any similar indebtedness of the new Member; and (v) after giving effect to the relevant act, the Debt Service Coverage Ratio for the most recent Fiscal Year, calculated as if the relevant act had occurred at the beginning of such Fiscal Year, would be at least 2.5:1 or 75% of the actual Debt Service Coverage Ratio for such Fiscal Year.

Withdrawal of Members of the Obligated Group and Additional Covenants. Any Member may withdraw from the Obligated Group and be released from its obligations under the Master Indenture if (i) such Member (or other Member or the Obligated Group) has (a) paid the principal of and premium, if any, and interest on all Master Notes and Master Guaranties issued by it, or (b) provided for such payment in accordance with the Master Indenture and paid or provided for the payment of all related costs and expenses of the Master Trustee; (ii) immediately after such withdrawal the conditions described in the Master Indenture could be met for the incurrence of \$1.00 of Long-Term Indebtedness; and (iii) immediately upon such withdrawal no Event of Default would have occurred and be continuing; and (iv) after giving effect to the relevant act, the Debt Service Coverage Ratio for the most recent Fiscal Year, calculated as if the relevant act had occurred at the beginning of such Fiscal Year, would be at least 2.5:1 or 75% of the actual Debt Service Coverage Ratio for such Fiscal Year.

Substitution for Obligated Group; Replacement of Master Indenture; Replacement of Outstanding Master Notes. The Master Trustee may, without Noteholder consent (notwithstanding any provision of Article VIII of the Master Indenture to the contrary), enter into one or more replacements of the Master Indenture, whether entered into by the Obligated Group or another person or persons replacing such Obligated Group, and may authenticate replacements for Outstanding Master Notes having the same payment terms as the Master Notes so replaced, so long as: (a) each Bond Insurer consents in writing to such replacement; and (b) such amendment, supplement or replacement does not adversely affect the exclusion from the gross income of the holders of any bonds secured thereby for purposes of federal or Pennsylvania income tax.

### **Master Notes and Master Guaranties Issued under the Master Indenture**

Members of the Obligated Group may issue Master Notes or Master Guaranties under the Master Indenture to evidence or secure Indebtedness or Derivative Transactions. All Master Notes and Master Guaranties created under the Master Indenture are on a parity each with the other and the Members shall be jointly and severally liable for payment of all Master Notes and Master Guaranties, without preference or

distinction of one Member over any other Member or of one Master Note or Master Guaranty over any other Master Note or Master Guaranty; except that amounts due under any Master Note or Master Guaranty with respect to Subordinate Swap Payments that are due shall be subordinate to other Master Note and Master Guaranty obligations and payable only if (x) full payment of all amounts then due and payable with respect to Master Notes and Master Guaranties issued under the Master Indenture, including but not limited to principal or interest payments then due and payable thereon, have been made or duly provided for in accordance with the terms of such Master Notes and Master Guaranties; and (y) no default exists with respect to the payment of the principal of, redemption premium, if any, or interest on or other amounts payable under any Master Notes and Master Guaranties.

At the time of issuance of the Bonds, the 2007 Note will be issued to the Issuer pursuant to the Master Indenture and will be assigned to the Bond Trustee to evidence the obligation of the Hospital to pay the principal of, premium, if any, and interest on the Bonds. Thereafter, additional Master Notes and Master Guaranties may, subject to the restrictions upon the incurrence of Indebtedness imposed upon the Obligated Group set forth below under the caption "Limitations on the Incurrence of Additional Indebtedness," be created under Supplemental Indentures.

### **Security for the Master Notes and Master Guaranties**

The 2007 Note (and any additional Master Notes or Master Guaranties) will be joint and several general obligations of each Member of the Obligated Group, and will be secured by a security interest in the Gross Revenues of the Members of the Obligated Group, subject to Permitted Liens. Upon the addition of Members to the Obligated Group a security interest shall also be created in the Gross Revenues of each new Member subject, however, to Permitted Liens.

### **Limitations on Creation of Liens**

Each Member agrees that it will not create or suffer to be created, or permit the existence of, any Lien upon Property now owned or hereafter acquired by such Member other than "Permitted Liens," which shall consist of the Liens on Gross Revenues created and permitted by the Master Indenture, and the following:

(i) Any Lien, provided that after giving effect to such Lien, the Book Value of all Property subject to Liens granted pursuant to the provision of the Master Indenture corresponding to this subparagraph is not more than either (A) 15% of the Book Value of Property, Plant and Equipment of the Obligated Group or (B) 10% of Total Revenues of the Obligated Group;

(ii) Liens arising (A) by reason of good faith deposits by other Persons with a Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), or (B) by reason of deposits by a Member with Other Persons 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;

(iii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or similar entity 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 a Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, employee benefit plans or pension or profit sharing plans or other retirement programs, or to share in the privileges or benefits required for companies participating in such arrangements;

(iv) Any judgment lien against a Member so long as (i) such judgment is being contested in good faith and execution thereon is stayed or (ii) in the absence of such contest or stay, neither the pledge and security



interest of the Master Indenture nor any Property of a Member will be materially impaired or subject to material loss or forfeiture;

(v) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or the existence of which will not materially impair the pledge and security interest of the Master Indenture or subject any material Property of a Member to loss or forfeiture; (C) easements, rights-of-way, servitude, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner; (E) to the extent that it affects title to any Property, the Master Indenture; and (F) landlord's liens;

(vi) The Mortgage, any Lien set forth on the Title Certificate delivered concurrently with the Mortgage and any Lien described in Exhibit A of the Master Indenture existing on the date of execution and delivery of the Master Indenture;

(vii) Any Lien on Property acquired by a Member if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than a Member acquiring such Property prior to acquisition of such Property by a Member, and (B) the Lien was created prior to the decision of a Member to acquire the Property and was not created for the purpose of enabling a Member of the Obligated Group to avoid the limitations of the Master Indenture on creation of Liens on Property of the Obligated Group;

(viii) Liens on moneys deposited by patients or others with a Member as security for, or as prepayment for, the cost of patient care;

(ix) Liens on Property received by a Member through gifts, grants or bequests, such Liens being due to restrictions imposed by the donor, grantor or testator on such gifts, grants or bequests of Property or the income therefrom;

(x) Liens on Property due to rights of third-party payors for recoupment of amounts paid to a Member for patient care;

(xi) Liens arising under law or by contract with respect to initial deposits made under life-care or continuing care contracts;

(xii) Liens resulting from governmental regulation on the use of Property, including but not limited to zoning laws or regulations;

(xiii) Statutory reverts under the Hill-Burton Act, 42 U.S.C. §291, et seq., and similar federal or state legislation;

(xiv) Any lease executed by a Member, as lessor, in favor of a governmental issuer (including a state, political subdivision, agency or instrumentality) of debt obligations, as lessee, in consideration of the use of the proceeds of such debt obligations or facilities acquired therewith for the benefit of the Member, provided that the term of such lease shall expire or terminate when the Member's payment obligations (described below) are satisfied, and that the leased premises are subleased back to the Member for rentals sufficient to pay or provide

for payment of the debt service on the governmental issuer's debt obligations (plus related fees, expenses and deposit requirements) under a sublease that entitles the Member to exclusive possession of the leased premises for so long as the Member is not in default thereunder;

(xv) Liens to secure Non-Recourse Indebtedness, provided that the Property subject to any such Lien shall be limited to (A) Property acquired with the proceeds of such Non-Recourse Indebtedness, any subsequent improvements thereto and any revenues derived from ownership and operation thereof or (B) pledges, donations, grants, gifts, bequests, contributions or other Property not subject to the security interests granted to secure Master Notes and Master Guaranties;

(xvi) Liens in the form of purchase money mortgages or purchase money security interests granted to secure Indebtedness incurred as permitted under the Master Indenture;

(xvii) Liens on Current Assets granted to secure Short-Term Indebtedness incurred as permitted under the Master Indenture;

(xviii) Liens in the form of leases that, in the judgment of the Member whose Property is subject thereto, are reasonably necessary or appropriate for, or incidental to, the proper and economical operation of such Property;

(xix) Liens securing Subordinated Indebtedness;

(xx) Liens to secure certain Short-Term Indebtedness upon (A) pledges, donations, gifts, grants, bequests or contributions, the principal of which has been designated or restricted by the donor or maker thereof for specific purposes inconsistent with the payment of debt service on Master Notes or Master Guaranties, or (B) not more than 10% of the accounts receivable of the Member incurring the Short-Term Indebtedness; and

(xxi) Liens not otherwise permissible securing Long-Term Indebtedness, if a lien of equal or superior rank and priority is granted to the Master Trustee for the benefit of Holders of all Master Notes and Master Guaranties issued under the Master Indenture.

In addition, Permitted Liens listed below shall not at any time secure Indebtedness or other obligations that in the aggregate exceed the lesser of 25% of net patient service revenues of the Members of the Obligated Group, or 25% of net Property, Plant and Equipment, and shall only be granted or incurred if, at the time such Lien is granted or incurred, the Obligated Group can meet the applicable Debt Service Coverage Ratio requirement for the issuance of \$1.00 of additional Long-Term Indebtedness. The foregoing limitations apply to Permitted Liens (including Liens securing Non-Recourse Indebtedness and Subordinated Indebtedness, but excluding Liens securing all Master Notes and all Master Guaranties) described in the following clauses of the paragraph above: clause (iv), subclause (ii); clause (v), subclauses (B) and (F); clauses (vi) and (vii), but each only on a going-forward basis; clause (ix), provided such Liens do not count upon acceptance of the gift but will be included in future calculations for purposes of the limitation; clause (xiv) for lease or bond financings in which there is an actual mortgage; and clauses (xv)(A), (xvi), (xvii), (xix) and (xx).

## **Transfers of Property**

Transfers of Property to Members. Members may freely transfer Property, including cash, to other Members.

Transfers of Unrestricted Cash and Investments. Unrestricted Cash and Investments may not be disposed of, transferred, loaned or invested in other than marketable or liquid securities (each a "disposition") unless after giving effect to the disposition, Unrestricted Cash and Investments would not decline by more than 20% of the lesser of (i) the Unrestricted Cash and Investments as of the end of the most recent Fiscal Year for

which audited Financial Statements of the Obligated Group are available and (ii) the Unrestricted Cash and Investments as of the date of the disposition. In addition, after giving effect to the disposition, Unrestricted Cash and Investments would be no less than the greater of (y) a dollar amount equal to 90 Days of Operating Expenses, calculated as of the end of the most recent Fiscal Year for which audited Financial Statements of the Obligated Group are available, and (z) a dollar amount equal to 90 Days of Operating Expenses, calculated as of the date of the disposition.

Transfers of Non-Cash Assets. There shall be no sale, lease or other disposition of real or personal property in excess of 5% of the net book value of Property, Plant and Equipment of the Obligated Group in any Fiscal Year and no sale, lease or other disposition of any programs or services of the Obligated Group that account for more than 3% of net patient service revenues of the Obligated Group unless (i) the asset, program or service is inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary and such sale, lease or other disposition will not impair the structural soundness, efficiency or economic value of the remaining assets, programs or services, or (ii) the Debt Service Coverage Ratio for the most recent Fiscal Year, calculated as if the lease, sale or other disposition had occurred at the beginning of such Fiscal Year, would be greater than the actual Debt Service Coverage Ratio for such Fiscal Year or would be at least 3.00:1, or (iii) giving effect to the sale, lease or disposition, the Debt Service Coverage Ratio for the most recent Fiscal Year would be at least 75% of the actual Debt Service Coverage Ratio for such Fiscal Year and immediately after such sale, lease or disposition, the conditions for the incurrence of one dollar of additional Long-Term Indebtedness would be met, or (iv) the proceeds realized or to be realized from the sale, lease or other disposition of such real or personal property represent the full market value thereof, or the fair market value of the property received in exchange therefor is at least equal to the fair market value of the property being sold, leased or disposed of.

#### **Limitation on the Incurrence of Additional Indebtedness**

The Master Indenture provides that Members of the Obligated Group may not incur any Indebtedness other than Guaranties made upon the terms and conditions summarized below under the heading “Restrictions on Guaranties,” and other Indebtedness incurred upon the following terms and conditions; provided that, as a condition of the incurrence of any Indebtedness authorized to be incurred under the Master Indenture, there shall be delivered to the Master Trustee an Officer’s Certificate which certifies that (i) the Obligated Group is in compliance with the provisions of the Master Indenture and (ii) the Indebtedness Ratio, taking into account all Indebtedness which will be Outstanding upon the incurrence of the proposed Indebtedness, together with the Indebtedness proposed to be incurred, for the most recent Fiscal Year for which Obligated Group Financial Statements are available, does not exceed 0.65:1.0.

General Rule for Long-Term Indebtedness. Long-Term Indebtedness, including capitalized leases, may be incurred if (i) the Master Trustee shall have received an Officer’s Certificate certifying that the Debt Service Coverage Ratio, calculated to include Outstanding Indebtedness and the Indebtedness to be incurred and to exclude any Indebtedness to be legally defeased with the proceeds of the Indebtedness to be incurred, in each of the two most recent Fiscal Years for which audited Financial Statements of the Obligated Group are available is at least 1.30x; or (ii) the Master Trustee shall have received (A) an Officer’s Certificate certifying that the Debt Service Coverage Ratio, calculated to include Outstanding Indebtedness and the Indebtedness to be incurred and to exclude any Indebtedness to be legally defeased with the proceeds of the Indebtedness to be incurred, in each of the two most recent Fiscal Years for which audited Financial Statements of the Obligated Group are available is at least 1.25x and (B) either (1) a report of a Consultant to the effect that the forecasted Debt Service Coverage Ratio, calculated to include Outstanding Indebtedness and the Indebtedness to be incurred and to exclude any Indebtedness to be legally defeased with the proceeds of the Indebtedness to be incurred, as forecasted in balance sheets, statements of revenue and expense and changes in financial position of the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such forecasts and pro forma balance sheets and statements are based, is projected to be at least 1.25x for each of the two Fiscal Years ending following the date of incurrence thereof or (2) an Officer’s Certificate certifying that the forecasted Debt Service Coverage Ratio, calculated to include Outstanding Indebtedness and the

Indebtedness to be incurred and to exclude any Indebtedness to be legally defeased with the proceeds of the Indebtedness to be incurred, is projected to be at least 1.50x for each of the two Fiscal Years ending following the date of incurrence thereof; or (iii) the Master Trustee shall have received an Officer's Certificate certifying that the amount to be incurred, when added to the amount of all such Long-Term Indebtedness then Outstanding incurred under this clause (iii) (but excluding (x) any such Long-Term Indebtedness to be legally defeased with the proceeds of the Indebtedness to be incurred incurred and (y) any Outstanding Long-Term Indebtedness previously issued under this clause (iii) and which has been re-characterized under clause (i) or clause (ii) above), does not exceed 10% of net patient service revenues of the Obligated Group for the most recent Fiscal Year for which audited Financial Statements of the Obligated Group are available, in which case such Long-Term Indebtedness may be incurred without meeting any tests for incurrence of Indebtedness except as described under "Overall Limitation on Certain Indebtedness" below.

Completion Indebtedness. The provisions described under "General Rule for Long-Term Indebtedness" notwithstanding, Completion Indebtedness of any kind may be incurred by any Member in a principal amount not exceeding 25% of the principal amount of the Indebtedness initially incurred to finance the project to be completed upon delivery to the Master Trustee of the required certificates meeting the requirements of the Master Indenture; provided that the incurrence of such Completion Indebtedness will not cause the existing Maximum Annual Debt Service to increase by more than 10%.

Refunding Indebtedness. The provisions described under "General Rule for Long-Term Indebtedness" notwithstanding, Refunding Indebtedness may be incurred by any Member if (i) the Maximum Annual Debt Service for any succeeding Fiscal Year on all Long-Term Indebtedness to be Outstanding will not exceed 120% of the Maximum Annual Debt Service on all Long-Term Indebtedness Outstanding immediately prior to the incurring of the proposed Refunding Indebtedness and (ii) the incurrence of such Refunding Indebtedness will not cause the existing Maximum Annual Debt Service to increase by more than 10%.

Short-Term Indebtedness. Short-Term Indebtedness may be incurred by any Member of the Obligated Group (except as described under "Overall Limitation on Certain Indebtedness" below) if the principal amount of such Short-Term Indebtedness to be incurred, when added to the then Outstanding principal amount of all Short-Term Indebtedness of the Obligated Group, shall not exceed 20% of the Total Operating Revenues of the Obligated Group for the most recent full Fiscal Year for which Financial Statements are available less an amount equal to certain Long-Term Indebtedness outstanding under provisions of the Master Indenture relating to certain guaranties); provided that the Short-Term Indebtedness of the Obligated Group shall be not greater than 5% of Total Operating Revenues of the Obligated Group for a period of not less than twenty (20) consecutive days in a period of 12 consecutive months. If Short-Term Indebtedness of the Obligated Group is not reduced to the amount and for the period required in the preceding sentence, the amount by which the average principal amount of Short-Term Indebtedness outstanding during such Fiscal Year exceeded the aforesaid limitations shall be treated as Long-Term Indebtedness for the purposes of any calculation of Long-Term Debt Service Requirements to be made during the following Fiscal Year. If any Short-Term Indebtedness is to be evidenced or secured by a Master Note or Master Guaranty, then the principal and interest to become due and payable on such Short-Term Indebtedness shall be included in the calculation of Long-Term Debt Service Requirements.

Non-Recourse Indebtedness. Non-Recourse Indebtedness may be incurred by any Member without limitation, except as described under "Overall Limitation on Certain Indebtedness" below.

Subordinated Indebtedness. Subordinated Indebtedness may be incurred by any Member without limitation, except as described under "Overall Limitation on Certain Indebtedness" below.

Commitment Indebtedness. Commitment Indebtedness may be incurred by any Member without limitation. The terms of any Commitment Indebtedness may require repayment by a Member of amounts advanced or disbursed thereunder upon terms as to dates and amounts, including repayment upon demand, that

would not otherwise meet the tests for incurrence of Indebtedness, and neither the incurring of such Commitment Indebtedness nor any advance or disbursement thereunder giving rise to a repayment obligation shall be an Event of Default or a breach of covenant under the Master Indenture so long as such Commitment Indebtedness is incurred in good faith and not for the purpose of, or in furtherance of, a circumvention of the restrictions of other provisions in the Master Indenture upon the incurrence of debt.

Balloon Indebtedness. Balloon Long-Term Indebtedness may be incurred by any Member upon satisfaction of the tests described under “General Rule for Long-Term Indebtedness,” “Completion Indebtedness” or “Refunding Indebtedness” above. For the purpose of meeting any of the conditions described under “General Rule for Long-Term Indebtedness” and for the purpose of any other required calculation of Long-Term Debt Service Requirements, the Long-Term Debt Service Requirements on Balloon Long-Term Indebtedness shall be determined as follows: (i) if an irrevocable commitment from a credit facility the provider of which is rated at least “P1” by Moody’s or “A1” by S&P is in effect to pay the Balloon Long-Term Indebtedness when it comes due, then the terms of the contractual obligation to repay the credit facility may be used; (ii) if Balloon Long-Term Indebtedness is subject to prior amortization payments and the verification of timely installment payments is contained in the last audited Financial Statements of the Obligated Group, then such amortization payments may be used; and (iii) amortization may be assumed on a level debt service basis over a twenty-year period at an interest rate based on the last published The Bond Buyer Revenue Bond Index. Notwithstanding the foregoing, the full amount of Balloon Long-Term Indebtedness shall be included in the calculation if the calculation is made within 12 months of the actual maturity of such Balloon Long-Term Indebtedness and no credit facility exists.

Indebtedness Resulting from Mergers, Transfers, etc. Members may assume or become liable for Indebtedness of any kind that was indebtedness of an entity that is consolidated with or merged into the Obligated Group or that purchased or otherwise received all or substantially all of the assets of any Member of the Obligated Group as permitted by the Master Trust Indenture; provided that such indebtedness otherwise qualifies under one of the tests described under “Limitation on the Incurrence of Additional Indebtedness” herein.

Indebtedness Secured by Letter of Credit. A Member may incur any Indebtedness secured by an irrevocable letter of credit issued by a bank or trust company whose own debt obligations are rated not less than “A” by an Acceptable Rating Agency, if the agreement governing the reimbursement by a Member of the Obligated Group for advances made under such letter of credit shall provide for a schedule of reimbursement such that if the available amount under such letter of credit was fully drawn down immediately following its issuance the Obligated Group would be in compliance with the requirements described under “General Rule for Long-Term Indebtedness” above. For purposes of determining such compliance, the Long-Term Debt Service Requirements with respect to the reimbursement obligations shall be calculated using the interest rate specified in the reimbursement agreement or, if no interest rate is specified, the then current “prime rate” announced by the issuer of such letter of credit for commercial borrowing.

Optional Tender Indebtedness - Rules of Special Application. If Optional Tender Indebtedness is incurred by a Member, the principal portion of the Long-Term Debt Service Requirements on Optional Tender Indebtedness shall be determined in the manner described above with respect to Balloon Indebtedness, but (i) it shall be assumed that the principal amount that is subject to repurchase or repayment upon demand shall be required to be repurchased or repaid on the earliest date on which such demand can be made; (ii) the principal amount subject to such demand shall be deemed to be a balloon payment; and (iii) the earliest year in which such demand can be made shall be deemed to be a balloon payment year.

Variable Rate Indebtedness - Rules of Special Application. If Variable Rate Indebtedness is incurred by a Member, the interest rate to be used in determining the Long-Term Debt Service Requirements thereon shall be the equivalent of the 30-Year Revenue Bond Index published by The Bond Buyer, or its successor, for the most recent week preceding the date of calculation. Notwithstanding the foregoing, any portion of any

Indebtedness of any Obligated Group Member for which an Interest Rate Hedge with a Qualified Provider has been obtained by such Obligated Group Member shall be deemed to bear interest for the period of time that such Interest Rate Hedge is in effect at a net rate which takes into account the interest payments made by such Obligated Group Member on such Indebtedness and the payments made or received by such member on such Interest Rate Hedge; provided that the conditions in the Master Indenture to be met in entering into any Interest Rate Swap Agreement have been satisfied. In addition, so long as any Indebtedness is deemed to bear interest at a rate taking into account an Interest Rate Hedge, any payments made by an Obligated Group Member on such Interest Rate Hedge shall be excluded from Expenses and any payments received by an Obligated Group Member on such Interest Rate Hedge shall be excluded from Revenues, in each case, for all purposes of the Master Indenture.

Joint Indebtedness - Rules of Special Application. If Joint Indebtedness is incurred by a Member, the Long-Term Debt Service Requirements thereon shall be determined as follows: (i) 100% of only that portion of the Long-Term Debt Service Requirements on the Joint Indebtedness that the Member has a primary responsibility to pay in accordance with the agreement among the joint obligors (assuming that no other obligor on the Joint Indebtedness is in default in the payment of that portion of such Long-Term Indebtedness that it is primarily responsible to pay) shall be treated as Long-Term Indebtedness; or (ii) if a Member makes any payment on the Joint Indebtedness other than as described in subparagraph (i) above, the Long-Term Debt Service Requirements thereon for so long as the default by any obligor (or obligors) continues shall be deemed to equal the amount specified in subparagraph (i) hereof, plus such portion (or those portions) of the Long-Term Debt Service Requirements on the Joint Indebtedness that the defaulting obligor (or obligors) has a primary responsibility to pay as the Member thereupon becomes primarily responsible to pay in accordance with the agreement among the joint obligors.

Derivative Transactions. The Members of the Obligated Group may not enter into Derivative Transactions without the consent of the Insurer unless the following conditions are met: (i) the Derivative Transaction does not contain any element of leverage or multiplier component in excess of 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component or the Derivative Transaction is an exchange of one floating rate for another; (ii) unless the Derivative Transaction is an Insured Swap, if an amount equal to the net settlement, breakage and other termination amount of Uninsured Swaps of the Members of the Obligated Group then in effect and the Derivative Transaction then to be executed, determined, in the case of the Derivative Transaction then to be executed, at the fair market value thereof (mid-market), at the time the Derivative Transaction is entered into were excluded from Unrestricted Cash and Investments, the liquidity requirement described in the first sentence under “Liquidity Covenant” below would be satisfied; (iii) the counterparty or its guarantor is a Qualified Provider at the time the Derivative Transaction is entered into; and (iv) the Derivative Transaction does not permit “early termination” for events relating to the provider without the consent or direction of the Member.

Overall Limitation on Certain Indebtedness. The aggregate amount of Parity Long-Term Indebtedness incurred under clause (iii) above under “Limitation on the Incurrence of Additional Indebtedness – General Rule for Long-Term Indebtedness”, Short-Term Indebtedness, Non-Recourse Indebtedness and Subordinated Indebtedness Outstanding at any time shall not exceed 25% of net patient service revenues of the Obligated Group for the most recent Fiscal Year for which audited Financial Statements of the Obligated Group are available.

### **Restrictions on Guaranties**

The Master Indenture restricts Guaranties which may be incurred by Members of the Obligated Group as follows:

(a) Guaranties may be incurred without limit, if the Guaranty is by a Member of the Obligated Group of the Indebtedness of another Member of the Obligated Group.

(b) Any Member may guarantee all or any portion of the annual debt service requirements of an Other Person without having to satisfy the requirements for the incurrence of Long-Term Indebtedness, provided that: (i) such guarantee is limited to the payment of annual debt service and is not a guarantee of the payment of the full principal amount of and interest on the obligation of another Person; (ii) the default by the Person whose debt is guaranteed will not result in an acceleration thereof if the guarantor makes timely debt service payments thereon; and (iii) the Obligated Group could have incurred Long-Term Indebtedness in an amount equal to the maximum annual debt service requirements on the indebtedness guaranteed.

(c) Any Member may guarantee the payment of the full principal amount and interest on indebtedness incurred by another Person upon satisfaction of the requirements of the Master Indenture for incurrence of Indebtedness, when it is assumed for purposes of the appropriate provisions that the Long-Term Debt Service Requirements on any Long-Term Indebtedness in the form of a Guaranty (but not including Joint Indebtedness) is equal to: (i) 100% of the debt service requirements for the two Fiscal Years following the Fiscal Year in which any Member of the Obligated Group made any payments for the beneficiary of the proposed Guaranty; or (ii) if no Member of the Obligated Group has made any payments for the beneficiary of the proposed Guaranty and clause (i) above is not applicable, then 100% if the beneficiary's debt service coverage ratio is equal to or less than 1.10x; 75% if the beneficiary's debt service coverage ratio is greater than 1.10x but less than or equal to 1.50x; 50% if the beneficiary's debt service coverage ratio is greater than 1.50x but less than or equal to 2.0x; and 20% if the beneficiary's debt service coverage ratio is greater than 2.0x.

For the purposes of the foregoing, the debt service requirements and maximum annual debt service requirements on any indebtedness to be guaranteed shall be calculated in the same manner as provided the Master Indenture with respect to Long-Term Debt Service Requirements and Maximum Annual Debt Service, respectively.

#### **Rate, Liquidity and Indebtedness Ratio Covenants**

Rate Covenant. Each Member of the Obligated Group covenants that it will, to the extent permitted by law, set and charge such rates, fees and charges for the use of its facilities and for services rendered that will be sufficient in each Fiscal Year to produce a Debt Service Coverage Ratio, calculated as of the end of the Fiscal Year, of not less than 1.10, provided, however, that if Governmental Restrictions are imposed that have the effect of preventing the attainment of such a Debt Service Coverage Ratio, then the maximum Debt Service Coverage Ratio attainable under such restrictions but not less than 1.00. If, in any such Fiscal Year, the Debt Service Coverage Ratio is less than the amount required by the preceding sentence, the Obligated Group, or one of its Members, shall engage a Consultant to make a study of the rates, charges and costs of the Members of the Obligated Group and to present a report and recommendation to the Obligated Group with respect to adjustments in rates and charges, or adjustments in costs, or both, necessary to achieve compliance with the foregoing rate covenant for the current and, if appropriate, subsequent Fiscal Years, within 150 days after the end of any such Fiscal Year. Each Member shall follow the recommendations of the Consultant, to the extent such recommendations apply to such Member. In the event the recommendations of the Consultant are implemented by each Member affected thereby and the Debt Service Coverage Ratio does not meet the requirements of the foregoing rate covenant, there shall be no Event of Default under the Master Indenture so long as the Debt Service Coverage Ratio is not less than 1.00, but the Obligated Group shall be under a continuing obligation to engage a Consultant for the purposes set forth above.

Liquidity Covenant. The Members of the Obligated Group shall maintain Unrestricted Cash and Investments in an amount equal to at least 75 Days of Operating Expenses as of the end of each Fiscal Year. If as of the end of any Fiscal Year, the Unrestricted Cash and Investments of the Members of the Obligated Group is less than the amount required by the preceding sentence, the Obligated Group, or one of its Members, shall engage a Consultant to make a study and a report and recommendation of adjustments necessary to achieve compliance with the foregoing liquidity covenant for the current and, if appropriate, subsequent Fiscal Years. Each Member shall follow the recommendations of the Consultant, to the extent such recommendations apply to

such Member. In the event the recommendations of the Consultant are implemented by each Member affected thereby and the amount of the Unrestricted Cash and Investments of the Members of the Obligated Group does not meet the requirements of the foregoing liquidity covenant, such failure shall not be an Event of Default under the Master Indenture so long as the Unrestricted Cash and Investments of the Members of the Obligated Group is not less than 55 Days of Operating Expenses. Failure to maintain Unrestricted Cash and Investments in an amount equal to at least 55 Days of Operating Expenses shall constitute an Event of Default under the Master Indenture.

**Indebtedness Ratio Covenant.** The Members of the Obligated Group covenant to maintain an Indebtedness Ratio not greater than 0.70:1.0 as of the end of each Fiscal Year. If as of the end of any Fiscal Year the Indebtedness Ratio is greater than .70:1.0, the Obligated Group, or one of its Members, shall engage a Consultant to make a study and a report and recommendation of adjustments necessary to achieve compliance with the foregoing covenant for the current and, if appropriate, subsequent Fiscal Years. Each Member shall follow the recommendations of the Consultant, to the extent such recommendations apply to such Member. In the event the recommendations of the Consultant are implemented by each Member affected thereby and the Indebtedness Ratio does not meet the requirements of the foregoing covenant, such failure shall not be an Event of Default under the Master Trust Indenture so long as the Indebtedness Ratio is not greater than 0.75:1.0. Failure to maintain an Indebtedness Ratio of less than 0.75:1.0 shall constitute an Event of Default under the Master Indenture.

For purposes of the covenants described above, the Debt Service Coverage Ratio, Unrestricted Cash and Investments and the Indebtedness Ratio shall be calculated upon the basis of audited Financial Statements of the Obligated Group when available (but no later than 150 days following the end of each Fiscal Year).

### **Consolidation, Merger, Sale or Conveyance**

Any Member may merge or consolidate with or sell or convey all or substantially all of its assets to any other Member without limitation.

No Member may merge or consolidate with any Other Person or sell or convey all or substantially all of its assets to any Other Person, unless (i) such successor or transferee assumes the due and punctual payment of all Master Notes and Master Guaranties and agrees to observe and be bound by all the covenants of the Master Indenture; (ii) immediately after such merger or consolidation, or such sale or conveyance, the Obligated Group will not be in default under any covenant or condition of the Master Indenture; (iii) such merger, consolidation, sale or conveyance will not adversely affect the exemption from federal income taxation of interest payable on any debt secured by a Master Note or Master Guaranty; (iv) the Obligated Group could meet one of the tests of the Master Indenture for the incurrence of \$1.00 of Long-Term Indebtedness immediately after such merger, consolidation, sale or conveyance; (v) the unrestricted fund balance of the Obligated Group, calculated in accordance with generally accepted accounting principles consistently applied, immediately following such merger, consolidation or conveyance will not be less than 90% of the unrestricted fund balance of the Obligated Group immediately preceding such merger, consolidation or conveyance; and (vi) after giving effect to the relevant act, the Debt Service Coverage Ratio for the most recent Fiscal Year, calculated as if the relevant act had occurred at the beginning of such Fiscal Year, would be at least 2.5:1 or 75% of the actual Debt Service Coverage Ratio for such Fiscal Year.

### **Insurance and Condemnation Proceeds**

Insurance, condemnation and casualty proceeds must be used either to repair the damaged or taken property or to redeem or retire Indebtedness incurred to finance such damaged or taken property if the replacement value of the damaged or taken property exceeds 3% of the market value of the Obligated Group's net Property, Plant and Equipment. The selection of any bonds insured by a Bond Insurer for such redemption shall be subject to the approval of that Bond Insurer.



## Events of Defaults and Remedies

Events of Default, as used in connection the Master Indenture, shall mean any of the following events:

(a) Any Member shall fail to make any payment required by any Master Note or Master Guaranty issued and Outstanding under the Master Indenture when and as the same shall become due and payable, after the expiration of any applicable grace period, whether at maturity, by proceedings for redemption, by acceleration or otherwise;

(b) Any Member shall fail duly to observe or perform any covenant or agreement on its part under the Master Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members by the Master Trustee, or to such Member and the Master Trustee by the holders of at least 35% in aggregate principal amount of Master Notes and Master Guaranties then Outstanding; except that, if such failure may be remedied, but not within such 30 day period, and if such Member of the Obligated Group has taken all action reasonably possible to remedy such failure or breach within such 30 day period, such failure shall not become an Event of Default for so long as such Member of the Obligated Group shall diligently proceed to remedy the same to completion;

(c) Any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness not evidenced by a Master Note or Master Guaranty issued and Outstanding under the Master Indenture (other than Non-Recourse Indebtedness), whether such Indebtedness exists at the date of the Master Agreement or is thereafter created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any Related Financing Documents, under which there may be issued, or by which there may be secured or evidenced any Indebtedness, shall occur; provided, however, that such default shall not constitute an Event of Default if (i) within 30 days, or within the time allowed for service of a responsive pleading, the Member or Members of the Obligated Group, in good faith proceed to contest or defend the existence or payment of such Indebtedness and sufficient moneys are escrowed with a bank or a trust company for the payment of such Indebtedness, or (ii) the Indebtedness in question is not subject to acceleration, or (iii) the principal amount subject to acceleration is less than 2% of the Total Revenues for the immediately preceding Fiscal Year;

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging any Member of the Obligated Group a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of any Member of the Obligated Group under the Federal Bankruptcy Code or any other applicable federal or state law or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of any Member of the Obligated Group or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed or in effect for a period 90 consecutive days;

(e) The institution by any Member of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition, answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable Federal or state law, or the consent by it to the filing of such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of any Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors or the admission by it in writing of its inability to pay its debts generally as they become due.

## Remedies

Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may declare all Master Notes and Master Guaranties Outstanding immediately due and payable. The Master Trustee shall be required to make such a declaration only (i) if an Event of Default has occurred as described in section

(a) under “Events Of Default” above, (ii) if an Event of Default has occurred as described in section (c) under “Events of Default” above, as a result of a default under the Related Financing Documents for any Master Notes or Master Guaranties, if the Related Financing Documents permit the Holders of such obligations to declare (or to request the Master Trustee to declare) such obligations to be immediately due and payable and if the Master Trustee is requested to make such a declaration by the Holders of not less than 35% in aggregate principal amount of such obligations then Outstanding or such greater percentage as may be required under the Related Financing Documents, or (iii) if the Master Trustee is requested to do so by the Holders of not less than 35% in aggregate principal amount of all Outstanding Master Notes and Master Guaranties.

Upon the occurrence of any Event of Default under the Master Indenture, any and all Gross Revenues of the Obligated Group shall be deposited in the Gross Revenue Fund established under the Master Indenture. The System, the Hospital and Services covenant to take all action necessary to insure that all such Gross Revenues are deposited into the Gross Revenue Fund including, but not limited to, depositing directly all payments received and directing all debtors and payors of the Obligated Group to make all payments due to the Obligated Group Members to the Gross Revenue Fund. The Gross Revenue Fund and all amounts contained therein shall be subject to the pledge of the Master Indenture in favor of the Holders of all Master Notes and Master Guaranties.

At any time after a declaration that all Master Notes and Master Guaranties are immediately due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Members have paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured interest and principal and other payments then due on all Master Notes and Master Guaranties; (ii) the Members of the Obligated Group have paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents; (iii) all other amounts then payable by the Members of the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Master Notes and Master Guaranties then due only because of such declaration) shall have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Master Notes and Master Guaranties or portions thereof not then due by their terms.

Upon the occurrence and during the continuation of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 35% in aggregate principal amount of the Master Notes and Master Guaranties issued and Outstanding and upon receipt of indemnity of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders of Master Notes and Master Guaranties by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including by foreclosure upon any mortgage securing the Master Notes and Master Guaranties, but only in the event that the Master Trustee has received a Phase I environmental report satisfactory to the Master Trustee in its sole discretion with respect to each property subject to any such mortgage, or the Master Trustee is provided indemnification to its satisfaction against any liability for an environmental event.

#### **Application of Revenues and Other Moneys After Default**

During the continuation of an Event of Default all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture, shall be applied as follows:

- (a) Unless the principal of all Outstanding Master Notes and Master Guaranties shall have become or have been declared due and payable:

First: To the payment, to the Persons entitled thereto, of all installments of interest and Senior Swap Payments then due on or secured by the Master Notes and Master Guaranties in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment, to the Persons entitled thereto, of the unpaid principal installments of any Master Notes and Master Guaranties which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Master Notes and Master Guaranties due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference; and

Third: To the payment, to the Persons entitled thereto, of the unpaid installments of Subordinate Swap Payments secured by any Master Notes or Master Guaranties.

(b) If the principal of all Outstanding Master Notes and Master Guaranties shall have become or have been declared due and payable, first to the payment of the principal and interest and Senior Swap Payments then due and unpaid upon the Master Notes and Master Guaranties without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Master Note or Master Guaranty over any other Master Note or Master Guaranty issued hereunder, ratably, according to the amounts due respectively for principal and interest and Senior Swap Payments, to the Persons entitled thereto without any discrimination or preference and second to the payment, to the Persons entitled thereto, of the unpaid installments of Subordinate Swap Payments secured by any Master Notes or Master Guaranties ratably, according to the amounts due respectively for such Subordinate Swap Payments.

## **Supplements and Amendments to the Master Trust Indenture**

The Master Indenture may be supplemented or amended, without the consent of any Holder of any Master Note or Master Guaranty, to cure any ambiguity or formal defect or omission in the Master Indenture; to correct or supplement any provision in the Master Indenture that may be inconsistent with any other provision or to make any other provisions with respect to matters or questions arising under the Master Indenture that shall not materially and adversely affect the interests of the Holders; to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may be lawfully granted or conferred upon them; to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; to create and provide for the issuance or defeasance of a series of Master Notes or a Master Guaranty as permitted under the Master Indenture; to obligate a successor to any Member; to amend (with certain specified limitations) the covenants or the provisions of the Master Indenture in the event there is a material change in the method or the practices of third party health-care cost reimbursement or payment; to add or remove a Member of the Obligated Group; or, to provide (with certain specified limitations) an additional method of removal of the Master Trustee and appointment of a successor trustee.

With the consent of each Bond Insurer and not less than 60% in aggregate principal amount of Master Notes and Master Guaranties then Outstanding under the Master Indenture, the Master Indenture may be changed in any manner; provided, however, that no supplemental indenture shall: (a) without the consent of the Holder affected, extend the stated maturity of, or time for paying interest on, any Master Note, or reduce the principal amount of, or the redemption premium or rate of interest payable on, any Master Note; change the method of calculating interest; extend the stated time for paying any amount due on a Master Guaranty; or reduce the amount due on a Master Guaranty; (b) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture in any manner which would materially and adversely affect the interest of the Holders of Master Notes and Master Guaranties without the consent of all Holders; or (c) reduce

the aggregate principal amount of Master Notes and Master Guaranties then Outstanding the consent of the Holders of which is required to amend the Master Indenture, without the consent of all Holders.

The Master Trustee may, without Noteholder consent (notwithstanding any provision of Article VIII of the Master Indenture to the contrary), enter into one or more replacements of the Master Indenture, whether entered into by the Obligated Group or another person or persons replacing such Obligated Group, and may authenticate replacements for Outstanding Master Notes having the same payment terms as the Master Notes so replaced, so long as each Bond Insurer consents in writing to such replacement; and such replacement does not adversely effect the exclusion from the gross income of the holders of any bonds secured thereby for purposes of federal or Pennsylvania income tax.

### **2007 NOTE**

The 2007 Note, issued pursuant to the Master Indenture, secures the obligations of the Hospital under the Loan Agreement. The principal amount and redemption provisions of the 2007 Note shall coincide with the aggregate principal amount and redemption provisions of the Bonds. The Bond Trustee shall identify payments of principal of and interest on the 2007 Note as retiring the principal of and interest on the Bonds, and when the Bonds are paid or provision for payment thereof has been made in accordance with the Bond Indenture, the 2007 Note may be canceled and returned to the Hospital.

### **MORTGAGE**

In connection with the issuance of the 2004 Bonds, the Hospital executed a "springing" mortgage (the "Mortgage") with respect to certain real estate of the Hospital located in Dauphin and Cumberland Counties, which includes those health care facilities of the Hospital that as of May 2004 together generated ninety percent (90%) of the Hospital's revenues. The Mortgage has been delivered in escrow to the Master Trustee, and will become effective in the event that the Members of the Obligated Group fail to meet certain financial ratio requirements set forth in the Master Indenture. If such failure occurs, unless each Bond Insurer directs otherwise, the Mortgage would be recorded by the Master Trustee. Upon the date of recordation, the Hospital is required to deliver to the Trustee a title policy in the amount of \$1,000,000, showing no liens other than those permitted under the Master Indenture.

The Mortgage covers premises, improvements on the premises, buildings, fixtures, machinery and other articles of property necessary for the operation of the System and the Hospital. In the event the Mortgage becomes effective, it will act as a lien against the Mortgaged Premises and will secure the payment of all Master Notes and Master Guaranties issued under the Master Indenture which may be Outstanding prior to the satisfaction of the Mortgage.

## **APPENDIX D**

### **AUCTION PROCEDURES**

**AUCTION PROCEDURES**  
**AND OTHER PROVISIONS RELATING TO AUCTION RATE SECURITIES**

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## ARTICLE I

### Definitions

The following words and terms as used in this Exhibit A (hereinafter “this Exhibit”) and elsewhere in the Indenture have the following meanings with respect to the Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent:

“**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, the interest rate per annum equal to 60% for tax-exempt bonds; 85% for taxable bonds of the Index in effect on such Auction Date.

“**ARS Conversion Date**” means the date on which the Bonds 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 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 the 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 US Bank National Association.

“**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 this Exhibit with respect to the Bonds while the 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 the 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 the Bonds is November 6, 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 Period**” means with respect to the Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to the 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 the 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



(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Period Generally Ends this day
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to the 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 the 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 the Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or the ARS Conversion Date 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 the Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or the ARS Conversion Date and ending on the next succeeding May 14 and November 14.

Provided, however, that if there is a conversion of the 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 of 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.

The Auction Period for the Bonds initially shall be a seven-day Auction 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 Section 2.04 of this Exhibit; 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 this Exhibit.

**“Auction Rate”** means for the 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 the Bonds, and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for the Bonds.

**“Authorized Denominations”** means \$25,000 and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Indenture to the contrary.

**“Available Bonds”** means, 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 subsection (a) of Section 2.01 of this Exhibit.

**“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 this Exhibit, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Borrower and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Borrower. 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. The initial Broker-Dealer shall be Citigroup Global Markets Inc.

**“Broker-Dealer Agreement”** means an agreement among the Auction Agent, the Borrower and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Exhibit, 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 herein. 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”** in addition to any other definition of “Business Day” included in the Indenture, while the Bonds bear interest at the Auction Period Rate, the term Business Day 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, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

**“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 the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

**“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 the 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 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 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 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 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 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 the Bonds.

**“Hold Order”** means an Order to hold the Bonds as provided in Section 2.01(a) of this Exhibit or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Exhibit.

**“Indenture”** means the Trust Indenture, dated as of October 1, 2007, between the Issuer and the Trustee, as supplemented from time to time in accordance with its terms.

**“Index”** means, on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, the One Month LIBOR Rate on such date and, with respect to Bonds in any Auction Period of more than 35 days, 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 Borrower and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Borrower. 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.

**“Initial Period”** means the period from the Closing Date to but not including November 7, 2007, and each period specified to be an “Initial Period” in a direction of the Borrower to convert to the Auction Period Rate.

**“Initial Period Rate”** means, for each Initial Period, the interest rate per annum determined the Underwriter or the Broker-Dealer.

**“Interest Payment Date”** with respect to the Bonds while bearing interest at Auction Period Rates, means, notwithstanding anything else in the Indenture to the contrary, (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 the first day of 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 May 15 and November 15 and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise). The first Interest Payment Date for the Bonds shall be November 7, 2007. The first Interest Payment Date after each ARS Conversion Date shall be the date specified in a direction of the Borrower to convert to the Auction Period Rate.

**“Maximum Rate”** means the lesser of 15% per annum and the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on the Bonds.

**“One Month LIBOR Rate”** means, as of any date of determination, the offered rate (rounded up to the next highest 0.001%) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

**“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 Indenture, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

**“Securities Depository”** means, notwithstanding anything else in the Indenture to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Borrower.

**“Sell Order”** has the meaning specified in subsection (a) of Section 2.01 of this Exhibit.

**“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 Borrower 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 Borrower. 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 subsection (b) of Section 2.04 of this Exhibit.

**“Submitted Hold Order”** has the meaning specified in subsection (b) of Section 2.04 of this Exhibit.

**“Submitted Order”** has the meaning specified in subsection (b) of Section 2.04 of this Exhibit.

**“Submitted Sell Order”** has the meaning specified in subsection (b) of Section 2.04 of this Exhibit.

**“Sufficient Clearing Bids”** means for the Bonds, an Auction for which the number of Units of the 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 the 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 Section 2.02(a)(iii) of this Exhibit.

**“Winning Bid Rate”** means for the Bonds, the lowest rate specified in any Submitted Bid of the Bonds which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of the 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 the Bonds.

## **ARTICLE II**

### **Auction Procedures**

*Section 2.01 Orders by Existing Owners and Potential Owners.* (a) Prior to the Broker-Dealer Deadline for the 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 Section 2.05 hereof 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 Section 2.05 hereof 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 Section 2.05 hereof 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 Section 2.05 hereof 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 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 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 Sections 2.02(e)(ii) and 2.02(f); and

(iii) 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.

*Section 2.02 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 the Bonds, all Orders with respect to the Bonds accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(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, 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, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Bonds, 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, 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 Issuer, the Borrower, 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 on the part of the Broker-Dealer 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 2.02(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 2.02(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.

*Section 2.03 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 2.03 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 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 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 for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds 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 for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds 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 for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds 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 Bonds 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 equal to the excess of the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of Bonds considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds 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, Issuer or Borrower 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, Issuer or Borrower 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 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 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.

*Section 2.04 Determination of Auction Period 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 the 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 85% of the Index if the 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 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 85% of the Index if the 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 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.

*Section 2.05 Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids for the Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for the 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 the Bonds, Submitted Orders for the 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.

(c) If, as a result of the undertakings described in Section 2.05(a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.



(d) If, as a result of the undertakings described in Section 2.05(a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of the Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

*Section 2.06 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:

(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;

(vi) the amount of dividend or interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each 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.

(c) The Auction Agent shall give notice of the Auction Rate to the Borrower, Issuer and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

#### *Section 2.07 Index.*

(a) If for any reason on any Auction Date the Index shall not be determined, the Index shall be the Index for the prior Business Day.

(b) The determination of the Index as provided herein shall be conclusive and binding upon the Issuer, the Borrower, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

#### *Section 2.08 Miscellaneous Provisions Regarding Auctions.*

(a) In this Exhibit, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to the Bonds, the provisions of the Indenture and the definitions contained herein and described in this Exhibit, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Indenture 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 Indenture, (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 Borrower 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 Issuer 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 Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer 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 Issuer 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 Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such 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.

(d) The Auction Agent shall continue to implement the Auction Procedures notwithstanding the occurrence of an Event of Default under the Indenture.

*Section 2.09 Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Borrower, 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 of the Bonds 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 the Bonds. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, 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 10 Business Days 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 and shall be for all of the Bonds.

(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 any Bonds, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds 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 Borrower, 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 Borrower’s direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Borrower and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period begins and ends and the Interest Payment Dates relating to any 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-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealers for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

### **ARTICLE III**

#### **Other Provisions Relating To Auction Rate Securities**

##### *Section 3.01 ARS Interest Accrual and Payments.*

(a) Interest with respect to ARS shall accrue from and including, as applicable, the Closing Date, the ARS Conversion Date or an Interest Payment Date to but not including the next Interest Payment Date.

(b) The Trustee shall compute the amount of interest payable with respect to ARS on each Interest Payment Date.

Interest due on the first Interest Payment Date after the Closing Date and each ARS Conversion Date with respect to each \$25,000 in principal amount of ARS shall equal (i) the

Initial Period Rate multiplied by (ii) the principal amount of \$25,000 multiplied by (iii) if the number of days in the Initial Period is less than 180, the number of days in the Initial Period, and, if the number of days in the Initial Period is 180 or greater, the number of days in the Initial Period, or part thereof, assuming twelve 30-day months, divided by (iv) 360, and rounding the resultant figure to the nearest cent (a half cent being rounded upward).

Interest due on each subsequent Interest Payment Date with respect to each \$25,000 in principal amount of ARS shall equal (i) the Auction Period Rate multiplied by (ii) the principal amount of \$25,000 multiplied by (iii) if the number of days in the Auction Period is less than 180, the number of days in the Auction Period, and, if the number of days in the Auction Period is 180 or greater, the number of days in the Auction Period, or part thereof, assuming twelve 30-day months, divided by (iv) 360, and rounding the resultant figure to the nearest cent (a half cent being rounded upward).

The Trustee shall notify the Securities Depository of its calculations, as provided in Section 3.02(b) of this Exhibit.

*Section 3.02 Notification of Rates, Amounts and Payment Dates.*

(a) So long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, the Trustee shall advise the Securities Depository (i) of each Record Date for the ARS at least two Business Days prior thereto and (ii) of each succeeding Interest Payment Date on each Interest Payment Date.

(b) On the Closing Date and each ARS Conversion Date, or as soon as practicable thereafter, and on the Business Day preceding each Interest Payment Date with respect to the ARS, the Trustee shall advise the Securities Depository, so long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, of the amount of interest distributable in respect of each \$25,000 in principal amount of ARS for any ARS Rate Period or part thereof, calculated in accordance with Section 3.01(b) of this Exhibit.

If any day scheduled to be an Interest Payment Date shall be changed after the Trustee shall have given notice, the Trustee shall, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent, so long as no ARS Payment Default has occurred and is continuing and the ownership of the ARS is maintained in book-entry form by the Securities Depository.

*Section 3.03 Conversions to and from Auction Period Rate.*

(a) Conversion to Auction Period Rate. Subject to Section 309 of the Indenture, the Borrower on behalf of the Issuer may, from time to time, by written direction to the Issuer, the Trustee, the Tender Agent (if any), the Liquidity Facility Provider (if any), the Remarketing Agent (if any), the Auction Agent (if any) and each Broker-Dealer (if any), elect that the Bonds shall bear interest at the Auction Period Rate. The direction of the Borrower shall specify (A) the proposed effective date of the Conversion to the Auction Period Rate, which shall be (1) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Trustee of such direction, (2) in the case of a Conversion from a Long-Term

Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to Section 401(a) if such Conversion did not occur, and (3) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, (B) the Tender Date for the Bonds to be purchased, which shall be the proposed effective date of the adjustment to the Auction Period Rate and (C) the Initial Period, the initial Auction Period, the first Auction Date and the first Interest Payment Date after the Conversion. In addition, the direction of the Borrower shall be accompanied by a form of notice to be mailed to the Holders of the Bonds by the Trustee as provided in subsection (b). During each ARS Rate Period for the Bonds commencing on the day following the Initial Period specified in the direction of the Borrower and ending on the day immediately preceding the Conversion Date to the next succeeding Interest Rate Period, the interest rate borne by the Bonds shall be the Auction Period Rate.

(b) Notice of Conversion to Auction Period Rate. The Trustee shall give notice by first-class mail of a Conversion to an ARS Rate Period to the Holders of the Bonds not less than 30 days prior to the proposed effective date of such ARS Rate Period. Such notice shall state (A) that the interest rate shall be adjusted to the Auction Period Rate unless the Borrower rescinds its election to adjust the interest rate to the Auction Period Rate as provided in Section 309 of the Indenture; (B) the proposed effective date of the ARS Rate Period; (C) that the Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Tender Price and the place of delivery for purchase of the Bonds; and (D) the information set forth in Section 405(g).

(c) Initial Period Rate. The Initial Period Rate for an Initial Period commencing on an ARS Conversion Date shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof on the ARS Conversion Date. Such determination shall be conclusive and binding upon the Borrower, the Issuer, the Trustee, the Auction Agent, the Insurer and the Bondholders. Not later than 5:00 p.m., New York City time, on the date of determination of the Initial Period Rate, the Broker-Dealer shall notify the Trustee, the Borrower and the Auction Agent of the Initial Period Rate by Electronic Means.

(d) Conversion from Auction Period Rate. Subject to Section 309 of the Indenture, at any time during an ARS Rate Period, the Borrower on behalf of the Issuer may elect, pursuant to Section 308(d)(ii), 308(e)(ii), 308(f)(ii) or 308(g)(ii) that the Bonds no longer shall bear interest at Auction Period Rates and shall bear interest at a Weekly Interest Rate, a Daily Interest Rate, a Long-Term Interest Rate or Bond Interest Term Rates, as specified in such election. The proposed effective date of the new Interest Rate Period shall be an Interest Payment Date immediately following an Auction Period.

(e) Conversion at Direction of Insurer. The Borrower shall, at the direction of the Insurer, cause the Bonds to be converted from an ARS Rate Period to a Long-Term Interest Rate Period ending on the day before the final maturity date of the Bonds, in the event that the ARS bear interest at the Maximum Rate for seventy (70) consecutive days. Such conversion shall be effected pursuant to the procedures for conversion to a Long-Term Interest Rate Period set forth in Section 308(f) of this Indenture.

#### *Section 3.04 Auction Agent.*

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the Borrower, to perform the functions specified in the Indenture (including this Exhibit). The Auction Agent shall signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Borrower, the Trustee, the Issuer, the 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 Borrower, the Trustee, the Issuer and the Insurer.

(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.

#### *Section 3.05 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, authorized by law to perform all the duties imposed upon it by the Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may resign upon written notice to the Trustee, the Borrower, the Insurer and the Issuer on the date specified in such notice, which date shall be no earlier than 60 days after the date of delivery of such notice. Notwithstanding the foregoing, the Auction Agent may resign upon 30 days' prior written notice to the Trustee, the Borrower, the Insurer and the Issuer if it has not received payment of any fee due in accordance with the Auction Agreement for more than 30 days. The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the written direction of the (i) Borrower or (ii) the Insurer or the Holders of a majority of the aggregate principal amount of the Bonds by an instrument signed by the Trustee and filed with the Auction Agent and the Borrower upon at least 90 days notice; provided that an agreement in substantially the form of the Auction Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Borrower acting in lieu of the Trustee.

#### *Section 3.06 Broker-Dealers.*

(a) The Borrower may, from time to time, appoint one or more Persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the Auction Agent. No such party shall constitute a Broker Dealer until a fully executed Broker Dealer Agreement is delivered to the Trustee and the Auction Agent. On the Closing Date, the Auction Agent shall enter into a Broker-Dealer Agreement with Citigroup Global Markets Inc.

(b) Any Broker-Dealer may be removed at any time by the Borrower by written notice, delivered to such Broker-Dealer, the Auction Agent, the Trustee, the Issuer and the Insurer.

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**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

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**APPENDIX E**  
**FORM OF OPINION OF BOND COUNSEL**

October 25, 2007

Dauphin County General Authority  
530 South Harrisburg Street  
Harrisburg, Pennsylvania 17113

Manufacturers and Traders Trust Company  
213 Market Street  
Harrisburg, Pennsylvania 17101

Financial Security Assurance Inc.  
31 West 52<sup>nd</sup> Street  
New York, New York 10019

Citigroup Global Markets Inc.  
1650 Market Street  
Philadelphia, Pennsylvania 19103

Re: \$64,625,000 Dauphin County General Authority Health System  
Revenue Bonds, Series of 2007 (Pinnacle Health System Project)

Ladies and Gentlemen:

We have acted as bond counsel to the Dauphin County General Authority (the “Authority”) in connection with the issuance by the Authority of \$64,625,000 aggregate principal amount of its Health System Revenue Bonds, Series of 2007 (Pinnacle Health System Project) (the “Bonds”), issued as fully registered bonds. The Bonds are issued under and pursuant to the laws of the Commonwealth of Pennsylvania, including particularly the Pennsylvania Municipality Authorities Act, 53 Pa. Cons. Stat. §§5601-5622 (2005) (which represents the codification of the Municipality Authorities Act of 1945) (the “Act”), and a Trust Indenture dated as of October 1, 2007 (the “Bond Indenture”) between the Authority and Manufacturers and Traders Trust Company, as trustee (the “Bond Trustee”). The Bonds have been authorized by a resolution of the Authority duly adopted on September 24, 2007.

The Authority is issuing the Bonds at the request of Pinnacle Health Hospitals (the “Hospital”) (i) to current refund the Authority’s outstanding Health System Revenue Bonds, Series of 1997 (Pinnacle Health System Project) (the “1997 Bonds”) and a portion of the Authority’s outstanding Health System Revenue Bonds, Series of 2004 (Pinnacle Health System Project); (ii) to finance or reimburse the Hospital for various capital improvements to facilities of the Hospital; and (iii) to pay all or a portion of the costs of issuing and insuring the Bonds (collectively, the “Project”).

The Bonds are secured by the Bond Indenture, by an assignment to the Bond Trustee of certain rights of the Authority under a Loan Agreement dated as of October 1, 2007 (the “Loan Agreement”) between the Authority and the Hospital, and by a promissory note (the “Master Note”) of the Hospital, Pinnacle Health System (the “System”) and Pinnacle Health Medical Services (“Services”), issued in favor of the Authority and assigned to the Bond Trustee.

The Master Note is being issued under a Master Trust Indenture dated as of August 15, 1991, as supplemented most recently by an Eleventh Supplemental Master Trust Indenture and a Twelfth Supplemental Master Trust Indenture each dated as of October 1, 2007 (as so supplemented, and as amended and restated by the Amended and Restated Master Trust Indenture dated as of October 1, 2007, the "Master Indenture"), among the Hospital, the System, Services and Manufacturers and Traders Trust Company, as Master Trustee. Payments by the Hospital, the System and Services under the Master Note will be credited against the obligations of the Hospital under the Loan Agreement and applied to the principal or redemption price of and interest on the Bonds.

The Hospital has represented in the Loan Agreement that it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), is not a "private foundation" within the meaning of Section 509(a) of the Code and is exempt from federal income tax under Section 501(a) of the Code, except for unrelated business income subject to taxation under Section 511 of the Code. The Hospital has covenanted that, throughout the term of the Loan Agreement, it will not carry on or permit to be carried on in any property now or hereafter owned by it any trade or business if the conduct of such trade or business would adversely affect the validity of the Bonds or cause the interest paid by the Authority on the Bonds to be includible in gross income for purposes of federal income tax.

The Code sets forth certain other requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to remain excludable from the gross income of the owners of the Bonds for federal income tax purposes. The Authority and the Hospital have covenanted to comply with such requirements in the Bond Indenture and the Loan Agreement. Noncompliance with such requirements may cause the interest on the Bonds to be includable in the gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issue of the Bonds or as of some later date. The Hospital has also covenanted in the Loan Agreement that it will comply with the requirements of Section 148(f) of the Code which provides for the rebate of certain arbitrage profits to the United States. For the purposes of the opinions set forth below, we have assumed that the Authority and the Hospital will comply with the covenants set forth in the Bond Indenture and the Loan Agreement relating to the tax-exempt status of the Bonds.

An officer of the Authority responsible for issuing the Bonds has executed a certificate stating the reasonable expectations of the Authority on the date of issue of the Bonds as to future events that are material for the purposes of Section 148 of the Code pertaining to arbitrage bonds. We have reviewed such certificate and, in our opinion, the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code.

In our capacity as bond counsel we have examined such documents, records of the Authority and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Bond Indenture, the Loan

Agreement, the Master Indenture, the Master Note and the other documents listed in the closing memorandum in respect of the Bonds filed with the Bond Trustee. We also have examined an executed Bond, and assume that all other Bonds have been similarly executed and have been authenticated by the Bond Trustee.

Based on the foregoing, it is our opinion that:

The Authority is a body corporate and politic validly existing under the laws of the Commonwealth of Pennsylvania, with full power and authority to undertake the Project, to execute and deliver the Bond Indenture and the Loan Agreement and to issue and sell the Bonds.

The Bond Indenture and the Loan Agreement have been duly authorized, executed and delivered by the Authority and the covenants of the Authority therein are valid and binding obligations of the Authority enforceable in accordance with their terms, except as the rights created thereunder and the enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

The issuance and sale of the Bonds have been duly authorized by the Authority and, on the assumption as to execution and authentication stated above, such Bonds have been duly executed and delivered by the Authority and authenticated by the Bond Trustee, are valid and binding obligations of the Authority and are entitled to the benefit and security of the Bond Indenture, except as the rights created thereunder and the enforcement thereof may be limited as described in paragraph 2.

Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

Under existing law as presently enacted and construed, interest on the Bonds will be excluded from gross income for purposes of federal income tax, assuming the accuracy of certifications of the Authority and the Hospital and continuing compliance by the Authority and the Hospital with the requirements of the Code. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax, but interest on Bonds held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Interest on Bonds held by foreign corporations may be subject to the branch profits tax imposed by the Code.

Ownership of Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain S corporations, individual recipients of Social Security or Railroad

Dauphin County General Authority  
Manufacturers and Traders Trust Company  
Financial Security Assurance Inc.  
Citibank Global Markets Inc.  
October 25, 2007  
Page 4

Retirement benefits and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Bonds. No opinion is expressed as to these matters.

We express no opinion herein with respect to the adequacy of the security for the Bonds or the sources of payment for the Bonds or with respect to the accuracy or completeness of the Official Statement prepared in respect of the Bonds or as to any other matter not set forth herein.

We call your attention to the fact that the Bonds are limited obligations of the Authority, payable only out of certain revenues of the Authority and certain other moneys available therefor as provided in the Bond Indenture, and that the Bonds do not pledge the credit or taxing power of the Authority, the Commonwealth of Pennsylvania or any political subdivision, agency or instrumentality thereof. The Authority has no taxing power.

Very truly yours,

**APPENDIX F**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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**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)

**APPENDIX G**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Agreement”), dated as of October 1, 2007 among Pinnacle Health System (the “System”), Pinnacle Health Hospitals (the “Corporation”), Health System Medical Services (the “Services”) and Manufacturers and Traders Trust Company, as bond trustee (the “Bond Trustee”), is executed and delivered in connection with the issuance of \$\_\_\_\_\_ aggregate principal amount of Dauphin County General Authority Health System Revenue Bonds, Series of 2007 (Pinnacle Health System Project) (the “2007 Bonds”). The 2007 Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 2007 (the “Bond Indenture”) between Dauphin County General Authority (the “Authority”) and the Bond Trustee. The System, Services and the Corporation each covenant and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Bond Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the meanings indicated below.

“Annual Report” shall mean any Annual Report provided by the System, Services and the Corporation pursuant to Section 4(a) of this Agreement.

“Bondholder” or “Holder” of the 2007 Bonds shall mean any Registered Owner of the 2007 Bonds or any Person which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the 2007 Bonds (including Persons holding through any nominee, securities depository or other intermediary, including any beneficial owner, or (ii) is treated as the holder of any of the 2007 Bonds for federal income tax purposes.

“Listed Events” shall mean any of the events listed in Section 4(c) of this Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository, recognized by the Securities and Exchange Commission pursuant to the Rule. The name and address of each National Repository on the date of this Agreement are as follows:

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, NJ 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
Email: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)

Interactive Data Pricing and Reference  
Data Inc.  
Attn: NRMSIR  
100 Williams Street  
New York, NY 10038  
Phone: (212) 771-6999  
Fax: (212) 771-7390  
(Secondary Market Information)  
(212) 771-7391  
(Primary Market Information)  
Email: [NRMSIR@FTID.com](mailto:NRMSIR@FTID.com)

DPC Data, Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
Email: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)

Standard & Poor's Securities Evaluations,  
Inc.  
55 Water Street - 45<sup>th</sup> Floor  
New York, NY 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
Email: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

"Obligated Group" means all members of the "Obligated Group" as defined in the Master Trust Indenture, dated as of August 15, 1991, as supplemented, restated and amended from time to time by and between Polyclinic Medical Center of Harrisburg and Dauphin Deposit Bank and Trust Company, to which Manufacturers and Traders Trust Company is the successor. The Obligated Group as of the date of this Agreement consists of the System, Services and the Corporation.

"Official Statement" shall mean the Official Statement dated October 22, 2007 used in connection with the sale of the 2007 Bonds.

"Quarterly Report" shall mean any Quarterly Report provided by the System, Services and the Corporation pursuant to Section 4(b) of the Agreement.

"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 Pennsylvania as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

"Underwriter" shall mean Citigroup Global Markets Inc.

Section 2. Purpose of Agreement. This Agreement is being executed and delivered by the System, Services and the Corporation for the benefit of the Bondholders and in order to assist the Underwriter in complying with the Rule. The System, Services and the Corporation each acknowledge that the Authority and the Bond Trustee have undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Agreement, including their accuracy and completeness, and have no liability to any person, including any Bondholder and the Underwriter, with respect to any such reports, notices or disclosures.

### Section 3. Content of Annual Reports and Quarterly Reports.

A. Each Annual Report shall contain:

1. a copy of the consolidated audited annual financial statements of the System, together with their affiliates, which includes the supplemental data of the Obligated

Group prepared in accordance with generally accepted accounting principles (except for the exclusion of the financial position and results of operations of affiliates of the System that are not members of the Obligated Group), audited by an independent accountant (the “Financial Statements”); and

2. an update of the information of the type set forth in “Medical Staff,” “Utilization,” “Financial Information – Summary Statement of Operations,” and the chart under “Sources of Patient Service Revenue,” each in Appendix A to the Official Statement

B. Each Quarterly Report shall contain:

1. for the applicable quarterly fiscal period of each Fiscal Year, unaudited financial statements of the Obligated Group as of the end of each such quarterly fiscal period, shown in each case in comparative form with the same period of the preceding Fiscal Year in reasonable detail; and

2. for the applicable quarterly fiscal period of each Fiscal Year, an update of the information of the type set forth in “Utilization” in Appendix A to the Official Statement.

#### Section 4. Provision of Annual Reports, Quarterly Reports and Notices of Listed Events.

A. Within 120 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2008, the System, Services and the Corporation shall provide to the Bond Trustee copies of the Annual Report and written direction to file with each Repository and the Authority an Annual Report. In each case, the Annual Report may be submitted by the System, Services and the Corporation as a single document or as separate documents comprising a package, and may cross-reference other information to the extent permitted by the Rule. Notwithstanding the foregoing, the audited financial statements of the System, Services and the Corporation may be submitted separately from the balance of the Annual Report when such audited financial statements are available.

B. Within 45 days after the end of the first, second and third quarterly fiscal periods of each Fiscal Year, commencing with the fiscal quarter ending December 31, 2007, the System, Services and the Corporation shall provide to the Bond Trustee copies of the Quarterly Report and written direction to file with each Repository and the Authority a Quarterly Report. In each case, the Quarterly Report may be submitted by the System, Services and the Corporation as a single document or as separate documents comprising a package, and may cross-reference other information to the extent permitted by the Rule.

C. In a timely manner, the System, Services and the Corporation shall deliver to the Bond Trustee written direction to file with each Repository and the Authority notice (the form of which accompany such written direction) of any of the following events with respect to the 2007 Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;

- difficulties;
- difficulties;
- perform;
- the 2007 Bonds;
- 2007 Bonds; or
3.       Unscheduled draws on debt service reserves reflecting financial
  4.       Unscheduled draws on credit enhancements reflecting financial
  5.       Substitution of credit or liquidity providers, or their failure to
  6.       Adverse tax opinions or events affecting the tax-exempt status of
  7.       Modifications to rights of the Holders of the 2007 Bonds;
  8.       Bond calls (except for mandatory sinking fund redemptions);
  9.       Defeasances;
  10.      Release, substitution or sale of property securing repayment of the
  11.      Rating changes.

D.       In a timely manner, the System, Services and the Corporation shall give to the Bond Trustee, with written direction to file with each Repository and the Authority, written notice of any failure by the System, Services and the Corporation to provide any information required pursuant to subsection (a), (b) or (c) above within the time limit specified therein.

Section 5. Report by Bond Trustee. Concurrently with the delivery to each Repository of any information required pursuant to Section 4(A), 4(B) or 4(C) above, the Bond Trustee shall file a certificate with the System, Services and the Corporation and the Authority stating that it has filed such information with each Repository.

Section 6. Termination of Agreement. The obligations of the System, Services and the Corporation under this Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the 2007 Bonds. The System, Services and the Corporation shall provide the Bond Trustee with written notice that the obligations of the System, Services and the Corporation under this Agreement have terminated and a written request that the Bond Trustee file a copy of such notice with each Repository. If the obligations of the System, Services and the Corporation under the Bond Indenture are assumed in full by another obligated person, such person shall be responsible for compliance with this Agreement in the same manner as if it were the System, Services and the Corporation, and the System, Services and the Corporation shall have no further responsibility hereunder.

Section 7. Amendment. The obligations of the System, Services and the Corporation under this Agreement may be amended, without notice to or consent of the Holders of the 2007 Bonds, to the extent required or permitted as a result of a change in the legal requirements, or in connection with a change in the identity, nature, corporate organization, or status of the System,



Services and the Corporation, or the type of business conducted by any of them, or in connection with a corporate reorganization of the System, Services and the Corporation and any of their affiliates; provided that any such modification shall be done in a manner consistent with the Rule and shall not materially impair the interest of the Holders of the 2007 Bonds.

Section 8. Additional Information. Nothing in this Agreement shall be deemed to prevent the System, Services and the Corporation from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or Quarterly Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the System, Services and the Corporation choose to include any information in any Annual Report or Quarterly Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Agreement, the System, Services and the Corporation shall have no obligation under this Agreement to update such information or include it in any future Annual Report or Quarterly Report or notice of occurrence of a Listed Event.

Section 9. Default. Any Bondholder may enforce the obligations of the System, Services and the Corporation and the Bond Trustee under this the Agreement; provided however that (i) any breach of such obligations shall not constitute or give rise to a default or an Event of Default under the Bond Indenture, the Master Indenture or the 2007 Bonds, and (ii) the sole remedy for any such breach shall be to compel specific performance of the obligations of the System, Services and the Corporation under this Agreement.

Section 10. Beneficiaries. This Agreement shall inure solely to the benefit of the Authority, the Bond Trustee, the Underwriter, and Bondholders, and shall create no rights in any other Person.

Section 11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

Section 12. Severability. In case any one or more of the provisions of this Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Agreement, but this Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

Section 13. Bond Trustee's Rights and Duties. The Bond Trustee shall have only such duties as are specifically set forth herein. The Bond Trustee (i) shall not be liable for any error in judgment or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection therewith, except for its own gross negligence or willful misconduct, (ii) shall not be obligated to take any legal action or other action hereunder, which might in its judgment involve any expense or liability unless it has been furnished with indemnification satisfactory to it, and (iii) shall be entitled to consult with counsel satisfactory to it, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the opinion of such counsel. The duties and responsibilities of the Bond Trustee hereunder shall be determined solely by the express provisions of this Agreement, and no further duties or responsibilities shall be implied. The

Bond Trustee shall not have any liability under, or duty to inquire into the terms and provisions of any agreement or instructions, other than as outlined in this Agreement. The Bond Trustee may rely and shall be protected in acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties. The Bond Trustee shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. The Bond Trustee shall not incur any liability for following the instructions herein contained or expressly provided for, or written instructions given by the other parties hereto. In the administration of this Agreement, the Bond Trustee may execute any of its powers and perform its duties hereunder directly or through agents or attorneys and may, consult with counsel, accountants and other skilled persons to be selected and retained by it. The Bond Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons. The Bond Trustee may resign and be discharged of its duties and obligations hereunder by giving notice in writing of such resignation specifying a date when such resignation shall take effect. Any corporation or association into which the Bond Trustee in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Bond Trustee in its individual capacity shall be a party, or any corporation or association to which all or substantially all the corporate trust business of the Bond Trustee in its individual capacity may be sold or otherwise transferred, shall be the Bond Trustee under this Agreement without further act. The System, Services and the Corporation, jointly and severally, covenant and agree to indemnify and hold the Bond Trustee and its directors, officers, agents and employees (collectively, the "Indemnitees") harmless from and against any and all liabilities, losses, damages, fines, suits, actions, demands, penalties, costs and expenses, including out-of-pocket, incidental expenses, reasonable legal fees and expenses and the costs and expenses of defending or preparing to defend against any claim ("Losses") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction given by the System or the Corporation upon which the Bond Trustee is authorized to rely pursuant to the terms of this Agreement. In addition to and not in limitation of the immediately preceding sentence, the System, Services and the Corporation, jointly and severally, also covenant and agree to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Bond Trustee's performance under this Agreement provided the Bond Trustee has not acted with gross negligence or engaged in willful misconduct. Anything in this Agreement to the contrary notwithstanding, in no event shall the Bond Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Bond Trustee has been advised of such loss or damage and regardless of the form of action. This Section 13 shall survive termination of this Agreement and the resignation or removal of the Bond Trustee for any reason.

Section 14. Execution. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. Notices. Unless otherwise provided herein, all notices, certificates, requests or other communications hereunder shall be given by telephone and promptly confirmed in writing and shall be deemed given when given by telephone or addressed as follows:

The System or the Corporation:

Pinnacle Health System  
409 South Second Street  
Suite 2B  
Harrisburg, PA 17104  
Attn: Frederick Fetters  
Telephone: (717) 231-8245  
Facsimile: (717) 231-8240

Bond Trustee:

Manufacturers and Traders Trust Company  
213 Market Street  
Harrisburg, PA 17101  
Attn: Bernard V. Kelly, Jr.  
Telephone: (717) 255-2213  
Facsimile: (717) 231-2615

Each of the above parties may, by written notice given hereunder to the others, designate any further or different addresses to which subsequent notices, certificates, requests, or other communications shall be sent. In addition, the parties hereto may agree to any other means by which subsequent notices, certificates, requests or other communications may be sent.

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be duly executed and delivered under seal by their proper and duly authorized officers as of the date first above written.

PINNACLE HEALTH SYSTEM

By: \_\_\_\_\_  
Treasurer

PINNACLE HEALTH HOSPITALS

By: \_\_\_\_\_  
Treasurer

PINNACLE HEALTH MEDICAL SERVICES

By: \_\_\_\_\_  
Treasurer

MANUFACTURERS AND TRADERS TRUST  
COMPANY, as Bond Trustee

By: \_\_\_\_\_  
Authorized Officer

**APPENDIX H**  
**BOOK-ENTRY ONLY SYSTEM**

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## **Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2007 Bonds. The 2007 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 2007 Bond certificate will be issued for each maturity of the 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities 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. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its 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 the 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2007 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 2007 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 2007 Bonds, except in the event that use of the book-entry system for the 2007 Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 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 2007 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2007 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 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal or redemption price of and interest on the 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal or redemption price of and interest on the 2007 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2007 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 2007 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2007 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2007 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the



ownership rights in the 2007 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2007 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2007 Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2007 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2007 Bond certificates will be printed and delivered to DTC.

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.

THE AUTHORITY, THE BOND TRUSTEE AND THE OBLIGATED GROUP CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2007 BONDS (1) PAYMENTS OF PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2007 BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE 2007 BONDS, OR (3) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE 2007 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE AUTHORITY, THE BOND TRUSTEE, NOR THE OBLIGATED GROUP SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND TRUSTEE AS BEING A BONDHOLDER WITH RESPECT TO (1) THE 2007 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2007 BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND INDENTURE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2007 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2007 BONDS.

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# PINNACLEHEALTH

## System



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